

IMPROVING NATIONAL PRODUCTIVITY

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 JOINT ECONOMIC CTE.
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HEARINGS

BEFORE THE
 SUBCOMMITTEE ON
 PRIORITIES AND ECONOMY IN GOVERNMENT
 OF THE
 JOINT ECONOMIC COMMITTEE
 CONGRESS OF THE UNITED STATES
 NINETY-SECOND CONGRESS
 SECOND SESSION

APRIL 25, 26, AND 27, 1972

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IMPROVING NATIONAL PRODUCTIVITY

TUESDAY, APRIL 25, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representative Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

I should be replaced this morning as chairman by Chuck Percy, because he has been much more responsible for these hearings than I have been, and I am delighted to cooperate with Senator Percy in scheduling these hearings. He graciously accommodated us to postpone them a week; they were scheduled to take place last week, but we postponed them until this week, because we did not want to have the hearings on the anti-inflation program.

I am going to do something that I have not done. The staff prepared an opening statement for me and I will use part of it, but this morning when I came in, I decided to write my own opening statement and I didn't start until so late that I didn't get a chance to reread it, so I may have to interrupt and edit it as I go along.

In my judgment, we are as far from solving the inflation problem as we have ever been. A planned, premeditated slowdown of the economy to squeeze inflation out of it beginning in January of 1969 was about as counterproductive as any economic program that I have seen since I have been here as a Senator.

Did the rise in prices slow down? On the contrary, in 1969-70, inflation speeded up. What was worse, the slowdown almost doubled unemployment. It shoved 2½ million more Americans out of work. It took all of us, the Congress, the President, Democrats, Republicans, too long to recognize this failure.

To President Nixon's great credit, he did so. He recognized the failure on August 15. He wisely froze prices, and for 3 months the rise in prices stopped.

Then he put into effect a poorly conceived and poorly executed anti-inflation program. The brave testimony of administration witnesses claimed a victory before this committee last month were about as convincing as the battle reports we get from Saigon these days saying they have stopped the North Vietnamese.

These are the wrong kind of controls, at the wrong time, for the wrong kind of reasons. They're doing more harm than good.

But even if they were perfectly conceived and perfectly administered, they would not solve the basic inflation program.

The guts of our problem is that working men and their representatives want higher wages and no higher prices. I have been to meetings in Milwaukee where they have signs saying that: freeze prices, not wages.

Well, it cannot be done.

Well, no, I can't quite say that, and that is why we come to our hearings this morning. It cannot be done unless we can improve the production of each of these workers.

If the worker produces more, his employer can pay him more and the cost to the employer does not go up. A worker who earns \$3 per hour and produces 100 units of a product can be paid 3 cents per unit. If he improves his productivity and produces not 100 units per hour, but 120, he can get a whopping 60 cents per hour or 20-percent pay increase.

Is that pay increase inflationary?

No, indeed.

Why?

Because the unit labor cost of what the worker produces remains at 3 cents per unit. The employer can pay more, the wage earner can earn more. There is no inflationary effect.

The solution to our inflation problem is to improve productivity. The principle is as simple as the little description I have given, but making it become a reality is going to become anything but simple.

Why wouldn't everyone favor productivity as much as baseball, the flag, motherhood and apple pie? The answer, productivity improvement through automation develops difficulties. Fewer workers producing more products make it possible to increase production without increasing employment, or to maintain production while laying workers off.

Let me stress as strongly as I can that I do believe that increased productivity is the answer to growth and a higher standard of living as well as to inflation. We should encourage it. But let's be honest about this. Unless we increase the demand in our economy; unless we greatly expand our health services, our efforts to combat pollution, our housing, the capacity of our citizens to buy all of the things that they need for the good life, unless we do these things, increased productivity will not be accompanied by reduced unemployment, and if there is one economic political truth in this country, it is that the acceptance of improved productivity—that is, the antifeatherbedding and a painful change over to automation, and new ways of doing things just is not going to come about unless we can sharply reduce unemployment.

Working men and organizations are going to fight like tigers for their jobs. They're going to oppose and refuse to permit productivity improvements in an atmosphere of unemployment and with the stark threat that productivity improvement may be a great theory, it may

be wonderful for executives and Congressmen, but that productivity improvement offers little comfort for the many who don't have a job or who may be losing a job because of it.

So I hope, Mr. Peterson, that you and other witnesses will consider the overall problem before this committee; that is, how we can adopt economic policies that will make it possible for us to use productivity improvement to reduce this nagging inflation problem, and to give this Nation the competitive strength it needs; but also, how we can make that productivity improvement a political reality by sharply increasing employment and reducing unemployment.

Just one more note before I yield in this much-too-long statement to Senator Percy who is far more responsible for this than I am.

At the very heart of improving productivity is what Plato and Socrates and Aristotle kicked around more than 2,000 years ago, and that was the ancient truth of the division of labor. And of course, the essence of the division of labor in a diverse world such as ours is in expanding and growing world trade, so we have those people who are the most skilled and for whom it is the easiest and most natural to produce and to produce what they can.

No two men in my experience have more vividly exemplified the practical payoff of using this worldwide division of labor than the Bell & Howell team of Percy and Peterson. I like the fact that both of your names begin with P, as does Proxmire.

Senator PERCY. You put them in the proper sequence.

Chairman PROXMIRE. Well, I would have said Proxmire, Percy, and Peterson.

Senator Percy as the head of Bell & Howell, is nationally known as their walking, talking example of how trading with the world is good business. Mr. Peterson has come on like gangbusters out of the Percy Bell & Howell tradition to provide the Congress and the country with the clearest exposition of the advantages of the division of labor in world trade since Socrates.

Well, that may be a little exaggeration, but I think maybe we need a little of that because maybe we will give you the Meany treatment a little later on this morning, and you will feel better if you have had that pat on the back.

Secretary PETERSON. I understand you have a fine tradition in that regard.

Chairman PROXMIRE. We will do our best to maintain it.

Now, as I said, I have spoken too long, but I do want to yield to Senator Percy, who has done so much to bring these about.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. Mr. Chairman, I commend you on your own opening statement. They are always provocative, and, I think, bring out the best in our witnesses. There is no question that we both agree on the importance of these hearings, and I am most grateful to you for moving forward with them as rapidly as you have.

I would like to state just a few of my fundamental beliefs as to the importance of the hearings, and to point out that Secretary Connally, before the Joint Economic Committee in his own testimony, reiterated that increasing productivity was one of the four major priorities of the

Nixon administration with respect to the domestic picture. In dealing with one of the four most important undertakings of this administration, certainly these 3 days of hearings will be important.

And secondly, Secretary Peterson himself has announced that increased productivity is going to be a hallmark in his administration in the Commerce Department. The Commerce Department has too frequently been looked upon as a statistical agency without an activist role, and I feel quite confident that Secretary Peterson would never have considered taking his position merely to be a statistician or a recorder of facts. He is going to be a mover, and his mark will be made, I think, in the area of convincing labor and management in this country of how many things they have in common and not emphasizing the differences. And I think that no one has articulated more clearly the problems of American in a competitive world economy than Mr. Peterson when he was assistant to the President and Executive Director of the Council on International Economic Policy in the White House.

For the first time, diverse opinions of State, Commerce, Treasury, and other agencies were brought together, and we were able to develop a national strategy as to how we were to operate in the future. The fact that he made available directly to every Member of Congress a personal copy of his report to the President and the Cabinet, emphasized the fact that he recognized and appreciated the cooperation and support of Congress as essential in this activity. Many of our actions in Congress here have a direct effect upon the discouragement or incentives provided to industry or labor to cooperate and work together.

The points that Secretary Peterson made over the past year or more are important to recall at the outset of these hearings.

First, it is essential to strengthen U.S. international competitiveness which has been weakened by chronically low productivity rates. In the late 1960's, while Western European industrial nations increased manufacturing output by 40 percent to 50 percent, and Japan by 90 percent, U.S. manufacturing output increased by only 10 percent.

Second, after a short-term spurt in productivity growth as the economy recovers, we can expect a continued long-term drag on productivity growth as a result of the trend from manufacturing to service industry and Government jobs where productivity is usually low.

Third, though we can expect business to increase its investment in plant and equipment as a result of the 7 percent investment tax credit and new depreciation rules, the job of increasing productivity has become complicated by changes in the nature of the American work force.

As workers have become younger and better educated they are less and less and less interested in the traditional types of industrial jobs. This is a very serious problem, one that has been too little understood by traditional economists, and by labor and management, who still tend to think of the worker as motivated mainly by increased pay.

There is increasing evidence that this is no longer a valid assumption. A recent study by the Institute of Social Research at the University of Michigan showed that workers valued "interesting work" more highly than they did pay in a list of 25 job factors; and this was corroborated to me as recently as last night by Curtis Tarr, Director of the

Selective Service, who indicated that the pay incentives offered have not been preeminent in attracting new men into the services. In fact, it's been very disappointing as an incentive; high pay is not at all the most important aspect of a job to young people today.

Many American feels that they are not performing their jobs adequately, or that they could do better. A poll by the Gallup organization, published on April 10, showed that 57 percent of all the men responding felt they could accomplish more each day if they tried. Seventy-two percent of the men in the 18-29 year old group felt they could do more.

Feelings of dissatisfaction, which now increasingly affect white collar, as well as blue collar employees, have an immediate adverse impact on national productivity. High absenteeism and turnover rates, high rework and scrap costs, rebellion against supervisory personnel, proneness to strikes, and unwillingness to accept new work methods all increase costs directly.

Absenteeism among the big three auto companies has doubled from 2 percent to 3 percent in 1965 to 5 percent to 6 percent this year. On Fridays and Mondays, up to 15 percent of workers do not report for work. Turnover rates are astronomical.

In one Detroit auto plant, a turnover rate of 8 percent a month meant 4,800 workers had to be hired each year to maintain a work force of 5,000. At the new Chrysler plant at Belvedere, Ill., the very young work force has turned over every 13 months.

I went up to talk to the plant manager at the Chrysler plant just 2 weeks ago. He showed me on his organization chart the most important job that they had described there. It is a new job; it is the job enrichment manager. He said, "We simply have to cut this turnover rate, which means we are hiring 100 percent of our whole plant every 13 months." With the job enrichment program, for the first time they began cutting this down.

These problems all need top-level national attention. How can we encourage labor and management to take new approaches to the bargaining process, to move away from increasingly adversary relationships to cooperate in order to achieve common goals that benefit both?

How can Government encourage the use of more meaningful profit-sharing plans and other means of encouraging employees to develop a personal interest in the productivity of their companies and quality of their products?

How can automated, assembly-line jobs be made interesting?

How can Government encourage higher levels of spending for research and development?

These are some of the questions that must be addressed creatively and with a determination to find answers. In these hearings, I hope that we can both find out more about the many aspects of the problem of increasing productivity and that we can elicit new ideas for solutions.

The stakes are very great. By increasing productivity, we can increase our national wealth and our ability to afford needed social and environmental programs. We can increase the quality and safety of consumer products. We can increase our international competitiveness. We can increase job satisfaction and personal income, and become a healthier society.

Chairman PROXMIRE. Before I call on you, Mr. Peterson, I apologize because we have taken too long. I, especially, have taken much more time than I should have, but I can't resist saying one thing about Senator Percy's very fine opening remarks.

He talks about productivity as a top priority, or one of the top priorities, in the Nixon administration. Now, this is the trouble with this administration—I hope you can disabuse me in the course of this, but, they don't seem to put their money where their mouth is. They not only fail to push programs where we question what they like, but even when they believe in a program as I am sure they sincerely believe in productivity, they show tired blood.

I think the President undoubtedly spends more personnel and I'm sure more money in having janitors sweep up at Camp David than the administration put on productivity.

Now, for 2 years we've had a Productivity Commission. During most of that time, there was one or two people operating in it. Now I understand they've got the great number of three.

Now, here we meet this morning on something that we think—and I am sure many economists feel—can do a great deal to help us meet the inflation problem and the foreign trade problem, and the administration has done a pitifully inadequate job here. And I am sure, as I say, there is no conflict. This is in their philosophy; this is something they believe in.

But why in the world can't they find a way to put resources into this thing?

I hope that you will address yourself to that, as well as to the importance of productivity, and indicate how we are really going to do something about this and not just talk about it.

One more note, and this is most embarrassing for me to announce, because I've taken so much time, but we have put a time limit on our witnesses, and that time is going to be 10 minutes.

Senator PERCY. On the witnesses, you say?

Chairman PROXMIRE. And on the members when they are asking questions. But that's why we're taking so long now, because we're not asking questions. But we'll have the timer up there, and when you have 2 minutes to go, it will go off. But don't let that stop you: you can go for another 2 minutes, and at that point, the hook will come out and Major Bowes will take you right off the stage.

Mr. Peterson, it's yours, take it away. We give you 10 minutes.

Senator PERCY. Did you say 10 minutes?

Chairman PROXMIRE. Well, if you want to take a little more, maybe we can fudge it a little bit, but we don't want to treat you any better than we treated the other witnesses, Mr. Meany and Mr. Bolt and the others, or any worse.

Senator PERCY. Did anyone clock Mr. Meany?

Chairman PROXMIRE. Yes. We didn't run the time until he replied to me. That took him about 15 minutes.

Secretary PETERSON. I was going to say something about productivity at Camp David. Does that count against my 10 minutes? [General laughter.]

Chairman PROXMIRE. Camp David is exempt.

Secretary PETERSON. Well, the last weekend I spent up there was August 13 through 15, and if you can measure productivity by the

hours spent, Senator, it is possible even you might have been impressed by what went on up there.

Chairman PROXMIRE. Well, I am sure that there are thinkers up there. I am not talking about that. I am talking about how little work we put into productivity.

Please proceed, Mr. Peterson.

STATEMENT OF HON. PETER G. PETERSON, SECRETARY OF COMMERCE, AND CHAIRMAN, NATIONAL COMMISSION ON PRODUCTIVITY

Secretary PETERSON. Thank you very much for your thoughtful and generous comments. [General laughter.]

After viewing that portion of your exchange between the chairman and Mr. Meany, I am not sure how delighted I am to be here, but I should like to address this baffling subject of productivity.

You know that I have only been on the job for 6 weeks, and you will remind me of that, if I don't, so I want to address it with appropriate humility.

Mr. Chairman, I think you and your colleagues have emphasized the point that some of the major problems we face are human problems, and unless we begin to seriously tackle those human concerns, all of the technological advancements in the world will do too little to speed U.S. productivity.

It is, however, something I'm sure we can do.

Part of the difficulty is with the concept—even the word itself. We are using what communicologists call cold words in trying to awaken public concern in our need to increase productivity in the United States. The image conjured up is straight out of Charlie Chaplin and "Modern Times," a film which portrayed modern society as an endless repetitive series of conveyor belts and thumping machines doing ridiculously simple tasks.

Yet, you and I know that we are faced with a problem of not only national but international dimensions, and a problem that only a truly comprehensive approach will solve. But we must first get ourselves motivated to understand the urgency of the problem.

What we need is to mount a comprehensive national crusade to boost U.S. productivity.

To be successful, such a crusade must unite management and labor, private citizens, and Government.

Mr. Chairman, I consider myself a nonfamous, noneconomist although I've spent so much time in the field lately that I sometimes catch myself thinking I've become one.

Too few economists are, in my view, sufficiently understandable—understandable at least in communicating their particular point of view in simple, human terms that the noneconomist, a group which thankfully includes virtually all of our citizens, can understand.

It is clear that in identifying productivity problems, and in discussing solutions to those problems, we all too often fail to communicate with the American public.

You know this.

You practice communication.

But productivity economists—and here I use the term loosely—sometimes get too bogged down in their own brand of semantics. I've often thought we might get a lot more done—with more positive results—if we spoke English.

For example, if we're going to solve our productivity problems, we are going to have to engage in the most comprehensive education and communications program we "economists" have ever launched.

I believe we have a message which can be a meaningful one to every segment of society.

To those who understandably seek increases in Federal funds earmarked for so-called quality of life programs we cannot only point to additional funds already set aside for that area—some \$26 billion more by 1975—but we can note the dramatic impact increases in productivity have on our gross national product.

A 0.1-percent increase in the rate of growth of output per man-hour translates to about \$1 billion of GNP in 1970. By 1980, with normal economic growth that 0.1 percent would produce about \$15 billion. So a 0.1-percent difference in the annual rate of increase of productivity could provide about \$60 billion of GNP during the decade of the 1970's.

The productivity growth rate has averaged 3.1 percent since 1950. If it could be accelerated to a 3.5-percent rate for the decade of the 1970's, it could provide about \$250 billion additional GNP during the next 10 years.

To those who want the United States to play a major role in the world—and some are already asking whether we will be in a position to compete and at the same time help developing nations—we can point to the economic impact productivity growth has in creating those resources.

And to our senior citizens who want to retire to a decent life, free from the ravages of inflation, we can cite productivity's crucial impact on the ordinary, so-called little people.

But even more importantly, to the great majority of Americans who seek merely to improve their standard of living, we can point to productivity's impact on "real" wages and the tremendous positive impact it will have on product quality.

To those yet in the job market—those who will provide tomorrow's demand for up to 20 million new jobs in this decade—we can cite the necessity of increased productivity to fuel the increased capital investments to provide those jobs.

To those who want to get rid of long-term controls in our economy, increased productivity is a major answer.

Mr. Chairman, we have a message that can be understood by all. And it comes down to the basic fact that unless we increase productivity, we will not only lose our position as a world leader, but we won't even be in a position to answer the basic hopes and dreams of our citizens for a decent life. If we try to communicate in terms of gross national product, balance of payments, deficits, and unit labor costs, I'm afraid our message will be lost.

To get this message across, we're going to have to boil our "economics" into clear, concise language, and we are going to have to seek the aid of all who are involved in the business of communications—whether it be the Advertising Council, whom I have already

asked for help, or broadcasters, newspapermen, political candidates, Governors, mayors, businessmen, union leaders, and so forth.

It took only a matter of weeks for every one of us to slip "Try It, You'll Like It," and "I can't believe I ate the whole thing" into our daily communications. With the proper commitment I think we can spread the word about what increased productivity will mean.

I know you share my concern for the seriousness of the end result of this complex chain of our declining growth in productivity.

In the interest of time, I will not read the numbers that Senator Percy summarized anyway. In the remaining minutes, I would like to summarize the problem from the standpoint of what we might call attitudinal problems and the kinds of solutions we might have to explore.

At the outset, I said I agreed with you that one key to the understanding of our productivity problem is human concern. Productivity does not have much of a human ring to it; it is one of those cold words that we use too often.

But what we're talking about here when we talk about productivity problems are human concerns.

And I believe that what this all boils down to is that the worker of today, the manager, the plant—the society of today is different. And the values and goals of yesterday are not shared by all.

Some charge that we are not reaching our full productivity potential because of a deterioration of "traditional values of work, craftsmanship, and technology."

They point to a sometimes alarmingly high absenteeism rate in many industries—particularly among the young—drug abuse, widespread pilferage, poor quality workmanship, and excessive spoilage as symptoms of a rejection of the so-called achievement ethic as we've known it.

Many cite the "work ethic" upon which this country was built and then condemn today's worker for failing to continue those ideals.

Well, Mr. Chairman, I believe the problem is to understand why workers may feel that way—and that may be the first step in coming up with possible answers.

Let's ask some questions, and let's start with management.

How many managers, for example, have a clear picture of productivity in their own company? Or what it means? How many even bother to measure it systematically? Too few, I'm afraid.

How many plant managers within the last 10 years have seriously attempted to understand their work force—the goals, values, ambitions, and problems of today's worker? Again, I'm afraid the answer is too few. And, unfortunately, from the standpoint of easy solutions to this problem, this kind of analysis cannot be done nationwide, but must be done on an industry-by-industry and even sometimes a plant-by-plant approach. Have there been major retraining programs of the supervisors themselves?

A recent cartoon in the New Yorker pictured a member of one of the recently discovered "lost tribes" peering through the trees at a jet plane and the caption read, "They've got the know-how, but do they have the know-why?"

How many board of directors meetings have been devoted to the international productivity problem? How many management compensation incentive programs give major weight to productivity improvement?

I believe, for example, that many in management have been a little too concerned about short-term gains, particularly those that arise from stock values. As you know, the stock market in recent years put enormous emphasis on the so-called instant performance cult.

It seems to me that during the latter half of the 1960's, when costs went up and price increases all too easily covered them, management slipped into the habit of being more concerned with the short-term earnings statement than with the long-term earnings that would be seriously affected by lagging productivity.

It's time we asked whether management is devoting adequate attention and priority to the nitty-gritty, step-by-step, grueling and, from some vantage points, long-term and unglamorous job of increasing productivity.

I doubt it, Mr. Chairman.

And I'm afraid these long-range questions have been getting short shrift, particularly those that involve basic transitions in the way we've been making products and doing business—transitions that may involve costly experiments and cost a company in short-term earnings.

But we're going to have to face up to these demands—and I'd much rather see it happen sooner than later.

Many of us who experienced the depression—and I will admit to some slight knowledge of the thirties—do not understand the motivation of today's youth.

I was privileged to participate in the recent White House Conference on Youth.

It was not only educational, but fascinating to see the attitudes of today's young people. And, I never realized what a young fogey I was.

While my generation sees wealth as something that is to be produced, that must be worked for to achieve, many of those at the Conference see the issue as one of a need to merely "redistribute the wealth that's already there."

Mr. Chairman, sometimes I'm not really certain who's to blame, if blame is even the right word.

Today's generation—more than any other in the history of the world—is better informed, better educated, and better prepared. And, at the same time, they understandably have higher expectations than did you or I.

We provide innovative schools, and new techniques in training our young people and, above all, we are just beginning to understand the profound impact television has had on their lives.

I can recall the first television program I saw. It was an event, I must admit, which made a lasting impression.

Some of the students I chatted with at the Conference, however, can't even remember precolor TV, let alone the medieval period of radio.

For them, television has always been there, and with it, the world in their living rooms. What seems clear to me is that television has played a revolutionary role in educating the younger generations in ways we never knew, at an earlier and earlier age.

We know how extraordinarily important these early years are in educating our children. We know the impact early education has in forming expectation perceptions. Some expert evidence indicates children between 2 and 6 watch, on average, 26 hours of television each week.

Well, for one thing, our children learn to expect "instant choices"—just a flick of the dial and a new program is there. Today's generation can watch the Olympics, live from Japan, 1 minute and "The Mod Squad" the next. But more importantly, they're becoming infinitely more aware of the affluences of American life than were we.

The world of work and the world of television have been two different worlds. Thus, to be sure there has been an inflation in wages and costs; but perhaps even more serious, there has been an inflation in worker expectations.

They can see Government leaders on the "Today Show" and watch them critiqued and perhaps debunked on the evening news.

They have come to expect to "participate" in the democratic process—and that's good—but they have also learned to view authority with less respect, and that's a problem when one seeks employment in an authority invested business community.

Television, Mr. Chairman, is a tough act to follow if we're trying to appeal to youth. And I guess those of you who may be seeking reelection this year will have an even better understanding of the problems when you solicit the newly enfranchised voter's support.

Who knows, all this talk about nuclear attacks and ABM's could also have given today's generation the view that the time really is now, and let tomorrow take care of itself.

Chairman PROXMIRE. Mr. Peterson, your entire prepared statement will be printed in full in the record.

Again, I apologize. I think it's a very, very good prepared statement and unfortunately some of the best of it comes later. Your references to Alice B. Toklas and so forth are very interesting.

(The prepared statement of Secretary Peterson follows:)

PREPARED STATEMENT OF HON. PETER G. PETERSON

Mr. Chairman, I'm delighted to appear before you this morning to discuss the subject of productivity—although after viewing a portion of the exchange between the Chairman and Mr. Meany, last Thursday, I'm not certain how "delighted" I should be.

I should like to address the puzzling but incredibly important subject of productivity with appropriate humility—reminding myself (as if you won't do that for me) that I've only been on the job as Chairman of the President's National Commission on Productivity and Secretary of Commerce for six weeks—whereas many of you have been working in the area for years.

To me, Mr. Chairman—and you and your colleagues emphasized this point your call for these productivity hearings—some of the really major problems we face on this subject are "human" problems. And unless we seriously begin to tackle those "human" concerns, all of the technological advancements in the world will do too little to speed U.S. productivity. It is, however, something I am sure we can do.

COMMUNICATING THE PROBLEM'S URGENCY

Part of the difficulty, however, is with the concept—even the word itself. We are using what communicologists call "cold" words in trying to awaken public concern in our need to increase productivity in the U.S. The image conjured up is straight out of Charlie Chaplin and "Modern Times," a film which portrayed modern society as an endless repetitive series of conveyor belts and thumping machines doing ridiculously simple tasks.

Yet, you and I know that we are faced with a problem of not only national but international dimensions. And a problem that only a truly comprehensive approach will solve. But first we must get ourselves motivated to understand the urgency of the problem.

What we need—and the challenge that faces us—is to mount a comprehensive "national crusade" to boost U.S. productivity.

To be successful—such a crusade must unite management and labor—private citizens and government—.

Mr. Chairman, I consider myself a non-famous "non-economist" although I've spent so much time in the field lately that I sometimes catch myself thinking I've become one.

I've listened to economists on the subject.

Too few are, in my view, sufficiently understandable—understandable at least in communicating their particular point of view in simple, human terms that the non-economist, a group which thankfully includes virtually all of our citizens, can understand.

It is clear that in identifying productivity problems, and in discussing solutions to those problems, we all too often fail to communicate with the American public.

You know this.

You practice communication.

But productivity economists—and here I use the term loosely—sometimes get too bogged down in their own brand of semantics. I've often thought we might get a lot more done—with more positive results, in fact—if we spoke English.

In this instance, if we're going to solve our productivity problems, we are going to have to engage in the most comprehensive education and communications program we "economists" have ever launched.

I believe we have a message which can be a meaningful one to every segment of society.

To those who understandably seek increases in federal funds earmarked for so-called "quality of life programs" we cannot only point to additional funds already set aside for that area—some \$26 billion more by 1976—but we can also note the dramatic impact increases in productivity have on our gross national product.

A 0.1 percent increase in the rate of growth of output per manhour translates to about \$1 billion of GNP in 1970. By 1980, with "normal" economic growth that 0.1 percent would produce about \$15.0 billion. So a 0.1 percent difference in the annual rate of increase of productivity could provide about \$60.0 billion of GNP during the decade of the 1970's.

The productivity growth rate has averaged 3.1 percent since 1950 (for the private economy). If it could be accelerated to a 3½ percent rate for the decade of the seventies, it could provide about \$250 billion additional GNP (in 1970 dollars) during the next 10 years.

To those who want the United States to play a major role in the world—and some are already asking whether we will be in a position to compete and at the same time to help developing nations—we can point to the economic impact productivity growth has in creating those resources.

And to our senior citizens who want to retire to a decent life—free from the ravages of inflation—we can cite productivity's crucial impact on the ordinary, so-called "little people."

But even more importantly, to the great majority of Americans who seek merely to improve their standard of living, we can point to productivity's impact on "real" wages and the tremendous positive impact it will have on product quality.

To those yet in the job-market—those who will provide tomorrow's demand for up to 20 million new jobs in this decade—we can cite the necessity of increased productivity to fuel the increased capital investments to provide those jobs.

To those who want to get rid of long-term controls on our economy, increased productivity is a major answer.

Mr. Chairman, we have a message that can be understood by all. And it really comes down to the basic fact that unless we increase productivity, we will not only lose our position as a world leader, but we won't even be in a position to answer the basic hopes and dreams of our citizens for a decent life. If we try to communicate in terms of gross national product, balance of payments, deficits, and unit labor costs, I'm afraid our message will be lost.

To get this message across, we're going to have to boil our "economics" into clear, concise language, and we are going to have to seek the aid of all who are involved in the business of communications—whether it be the Advertising Council (whom I have already asked for help), broadcasters, newspapermen, political candidates, governors, mayors, businessmen, union leaders, etc.

It took only a matter of weeks for every one of us to slip "Try It, You'll Like It", and "I can't believe I ate the whole thing" into our daily communications. With the proper commitment—I think we can spread the word about what increased productivity will mean.

I know you share my concern for the seriousness of the end result of this complex chain of our declining growth in productivity.

Clearly, we could spend the next several months—instead of the next fifteen minutes—analyzing statistics with which this Committee is familiar.

In the last half of the 1960's, for example, while the industrial nations of Europe increased manufacturing output per manhour by 40 to 50 percent, U. S. factory productivity climbed only 10 percent.

Japan, during the same period, increased her manufacturing output per manhour by 90 percent.

With respect to productivity growth, U. S. manufacturers had the worst record of any major power in the world.

And while every nation has experienced inflationary pressures, their productivity gains have better enabled other countries to offset much of the cost increases.

While the U. S. has slipped drastically in world trade, others have greatly strengthened their competitive position in world markets.

Between 1965 and 1970, factory wages in Japan increased at the fantastic rate of nearly 15 percent per year.

Output per manhour, however, increased at almost the same rate.

The result is a very stable unit labor cost.

And more importantly, for the worker, substantially increased real wages, which U. S. workers have not enjoyed in recent years.

In the United States, factory productivity increased at only 2.1 percent a year between 1965 and '70.

Wages, however, during that same period, climbed some 6 percent, resulting in a nearly 4 percent increase in unit labor cost.

Mr. Chairman, we could continue this analysis, but I don't believe that would be as productive as examining some of the areas many of us believe must be explored if we are going to really do something about our productivity problems.

In the remaining few minutes, I'd like to examine the problem from the standpoint of what we might call "attitudinal" problems and the kinds of solutions we may have to explore.

ATTITUDES AND VALUES

At the outset, I said that I agree with you that one key to much of our productivity problem is in understanding the "human" concerns.

Productivity doesn't have much of a "human" ring to it—it's one of those "cold words" economists use too often.

But what we're really talking about when we talk about "productivity problems" are "human" concerns.

And I believe that what this all boils down to is that the worker of today, the manager, the plant, the society of today is different. And the values and goals of yesterday are not shared by all.

Now, that's not a very profound statement, nor is it any big secret.

Today's worker is different. Today's plant is different. Today's work environment is different . . . and this is all an obvious result of today's society being different.

Some charge that we are not reaching our full productivity potential because of a deterioration of "traditional values of work, craftsmanship, and technology."

They point to a sometimes alarmingly high absenteeism rate in many industries—particularly among the young, drug abuse, wide-spread pilferage, poor quality workmanship and excessive spoilage as symptoms of a rejection of the so-called achievement ethic as we've known it.

Many cite the "work-ethic" upon which this country was built and then condemn today's worker for failing to continue those ideals.

Well, Mr. Chairman, I believe the problem is to understand why workers may feel that way—that is the first step in coming up with possible answers.

And I believe we can at least ask some penetrating questions of management workers, the young—all of us.

Let's start with management.

How many managers, for example, have a clear picture of productivity in their own company? Or what it means? How many even bother to measure it systematically? Too few, I'm afraid.

How many plant managers within the last ten years have seriously attempted to understand their work force . . . the goals, values, ambitions, problems of today's worker? Again, I'm afraid the answer is too few. And, unfortunately, from the standpoint of easy solutions to these problems, this kind of analysis cannot be done nationwide, but must be done on an industry-by-industry—and even sometimes a plant-by-plant approach. Have there been major retraining programs of the supervisors themselves?

A recent cartoon in the *New Yorker* pictured a member of one of the recently discovered "lost tribes" peering through the trees at a jet plane and the caption read, "They've got the know-how, but do they have the know-why?"

How many Board of Directors meetings have been devoted to the international productivity problem? How many management compensation incentive programs give major weight to productivity improvement?

I believe, for example, that many in management have been a little too concerned about short-term gains, particularly those that arise from stock values. As you know, the stock market in recent years put enormous emphasis on the so-called "instant performance" cult.

It seems to me that during the latter half of the 1960's, when costs went up and price increases all too easily covered them, management slipped into the habit of being more concerned with the short-term earnings statement than with the long-term earnings that would be seriously affected by lagging productivity.

As noted earlier, it was during the last five years of the 1960's that the U.S. registered the worst productivity record of any major power.

It's time we asked whether management is devoting adequate attention and priority to the nitty-gritty, step-by-step, grueling and, from some vantage points, long-term and unglamorous job of increasing productivity.

I doubt it, Mr. Chairman.

And I'm afraid these long-range questions have been getting short-shrift, particularly those that involve basic transitions in the way we've been making products and doing business—transitions that may involve costly experiments and cost a company in short-term earnings.

But we're going to have to face up to these demands—and I'd much rather see it happen sooner than later.

Many of us who experienced the depression—and I will admit to some slight knowledge of the thirties—do not understand the motivation of today's youth.

I was privileged to participate in the recent White House Conference on Youth. It was not only educational, but fascinating to see the attitudes of today's young people. I never realized what a young fogey I was.

While my generation sees wealth as something that is to be produced, that must be worked for to achieve; many of those at the Conference see the issue as one of a need to merely "re-distribute the wealth that's already there".

Mr. Chairman, sometimes I'm not really certain who's to blame, if blame is even the right word.

Today's generation—more than any other in the history of the world—is better informed, better educated, and better prepared. And . . . at the same time . . . they understandably have higher expectations than did you or I.

We provide innovative schools, and new techniques in training our young people, and, above all, I suspect we are just beginning to understand the profound impact television has had in their lives.

I can recall the first television program I saw—it was an event—I must admit—which made a lasting impression.

Some of the students I chatted with at the Conference, however, can't even remember pre-color TV, let alone the medieval period of radio.

For them, television has always been there, and with it, the world in their living rooms. I'm not sure how we can really measure the precise effect this has had. However, what seems clear to me is that television has played a revolutionary role in educating the younger generations in ways we never knew . . . at an earlier and earlier age.

We know how extraordinarily important these early years are in educating our children. We know the impact early education has in forming expectation perceptions. Some expert evidence indicates children between 2 and 6 watch—on average—26 hours of television each week.

We might ask ourselves what influence television has had?

Well, for one thing, our children learn to expect "instant choices"—just a flick of the dial and a new program is there. Today's generation can watch the Olympics—live from Japan—one minute—and "The Mod Squad" the next. But

more importantly—they're becoming infinitely more aware of the affluence of American life than were we.

The world of work and the world of television have been two different worlds. Thus, to be sure there has been an inflation in wages and costs; but perhaps even more serious there has been the inflation in worker expectations.

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Television, Mr. Chairman, is a tough act to follow if we're trying to appeal to youth. And I guess those of you who may be seeking re-election this year will have an even better understanding of the problems when you solicit the newly enfranchised voter's support.

Who knows—all this talk about nuclear attacks and ABM's could also have given today's generation the view that the time really is now—and let tomorrow take care of itself . . . if there is a tomorrow.

And so . . . when we try to understand the motivation of today's youth—especially the younger worker . . . we have to view him in a fundamentally different context than we are used to. For the young worker will increasingly be the bulk of the labor force. Presently some 26% of the work force was born after World War II. By 1976 the post-war television babies will reach 37%; and the estimates show it will rise to 47% by 1980 and 58% by 1985.

What we also find today is often the "somebody-else," i.e. "they" can pay syndrome. It's the age of "we-they" rather than "you and I".

The corporation is a "they" . . . seen as the "wealthy" force and sometimes the adversary which can and should carry the burden of improving the society. Polarization is their password.

Surveys show that on the average consumers believe corporations net 28% profit after taxes.

The real figure is 4%. The published figures on top executive's compensation levels aggravate this impression—and represent symbolically what many view as the much broader problem of "haves" and "have nots." As do other highly visible or publicized executive perquisites.

But this "adversary" notion is somehow increasingly built into our system . . . undoubtedly part of an anti-institution, mode that these young people grew up in—the civil rights protests, Martin Luther King, the university protests. Evidence that this is not all that deeply psychological or unconscious—if we can return to the basic question of productivity for a moment—is that 72% of all workers between 18 and 29 told a recent Gallup poll that they could do more—be more productive—if they tried—and this view on their part was substantially higher than that shared by older workers.

Unfortunately—and this is part of our difficulties—they see it as "somebody else's problem."

And this "we-they" syndrome is translated directly into the work context. Somehow we must develop a deeper sense of community and communication between the worker and his company.

Productivity is our problem . . . not a "their's" or "yours" problem.

Also, millions of parents in this country spent many years telling their children—"I hope you don't have to work the way I have worked. I'm going to send you to college to see that it doesn't happen"—with the result that we not only demeaned the current work environment, but generated "high expectations" that things would be different.

Thus, today's college education syndrome has exploded until 42% of our college age young have been to college.

Twenty years ago that number was well below that figure—only 30%. In 1930 that figure was only 15%.

Yet—while building these expectations—how much have our jobs really changed? Have we shifted job priorities, or merely hope priorities? Is there more participation in business decisions by these brighter, more sophisticated young workers? And can we legitimately take offense when many of today's young express feeling that "the system" is not responsive?

Let's review some history. Frederick Taylor was in many ways the father in our times of what we might call Phase I of the drive for productivity. He found that certain methods of making products or doing things were far more efficient, and of course less costly. He would define what "the" best method was

and break it down into smaller and smaller units of work that often took much less skill than doing the work previously had required. As a result, production techniques and output could be specified, measured and mechanized, and unit costs sharply reduced.

As our workers have increased their education and certainly their expectations, we should not be surprised to be experiencing the situation whereby more and more workers are enjoying work, or perhaps I should say tolerating it, less and less.

In a few situations, some important work has been done in job enlargement—aimed at the important, twin objectives of making the work more meaningful and the worker more productive. This is an area that must require more priority and more imagination at all levels of our society.

In a recent national survey of students conducted by the JDR 3rd Fund, only 39% held the view that "hard work is sure to pay off".

But more importantly, the study found, that for students, at any rate, "work does not rank particularly high as an important value" in their lives, falling far below the emphasis placed on love, friendship, education, self-expression, family and privacy".

It's interesting to note, however, that the same study shows four of five of the students "hold the belief that commitment to a meaningful career is a very important part of a person's life." And as to career choice, the students the opportunity to make a contribution, job challenge, and ability to find self-expression" at the top of the list of influences.

These attitudes are important not only because they confirm many of the theories popular of late but because these students do represent the bulk of tomorrow's management team.

And if they carry these ideals through to their chosen careers, industry, as we know it today, will be significantly changed.

That doesn't worry me, however, because I see it as a part of the overall challenges we're facing.

And the steps we take in the next few years to increase U.S. productivity will be a factor—and a very significant one—in shaping the face of industry in the future.

The challenge for today's employer is to take a new look at the work environment through the eyes of his workers.

We are becoming more and more aware of these attitudinal changes in the work force.

And I believe management does accept the premise that monetary incentives alone will not greatly increase productivity in many cases.

It's a rather melancholy fact—and I know you've noticed this as you've campaigned through your states and Congressional districts—when the whistle sounds ending a work-shift—the workers pour through the gates faster than we could shake their hands.

And yet management's lights burn late into the night.

For some reason—and as I say this is now changing—management for too long failed to hear the sound of those screeching tires pulling out of the plant parking lots.

To be sure, management is paid more and without a doubt their work is often more interesting—and that's probably a major factor in their deeper commitment.

We are going to have to adopt new approaches, new techniques, new work environments if we hope to foster productivity.

And the Federal government can and must provide the leadership needed, Mr. Chairman, in the interest of time, I am going to submit for the record a summary of the 1971 activities of the National Commission on Productivity, and have included the Commission's current work program as an appendix.

I've said some rather strong things about management this morning. And for someone who's been Secretary of Commerce for only six weeks, that doesn't sound like one who's counting on job seniority—(which I know will not seriously trouble some of you). I did think it was strange when the General Services Administration representative put my name on the door in pencil—mumbling something about this being an election year and one never knows.

But I'm convinced the problem is not in laying blame, but, as I said earlier, in attempting to identify some areas in which we can make progress.

I believe what is needed is an even-handed approach . . . one in which labor, management, and government share the burdens . . . make the sacrifices together . . . as the Senior Senator from New York has put it.

Let me also say that if we are going to make headway, labor certainly must bear some very important responsibility, for example in the area of relaxation of certain "restrictive work practices" that end up costing everybody dearly.

The Department of Commerce has issued a preliminary study on selected "restrictive work practices" which points out tremendous potential areas of cost savings and productivity growth. (I will include it in the record.)

I know this Committee is familiar with the types of work practices I mean—those which prevent the utilization of efficient methods of equipments—and which normally appear in collective bargaining agreements. In some instances, government itself perpetuates these practices.

But so much for the problems. What can we do about them?

STEPS TO TAKE

I've often said that Washington Bureaucracy suffers from at least two maladies—and perhaps many more than that. It either doesn't invent new questions at all, because the inertia of its enormous size is far more comfortable providing answers to the old questions—or it invents instant answers before it's even asked the questions.

I'm reminded of the story told about Gertrude Stein on her deathbed.

She whispered to her faithful friend, Alice B. Toklas, "What is the answer?"

Alice thought awhile and replied helplessly, "Gertrude, I don't know."

To which, after a pause, Miss Stein whispered, "Well, what is the question?"

If Gertrude Stein can say this on her deathbed, I thought as a raw recruit to this job I could at least pose some questions this morning in, say, my own tooling up period.

We talked earlier about the effect of productivity on our ability to compete in international markets. And as you know while the U.S. is just recovering from a highly damaging inflationary spiral, a number of our foreign competitors are facing similar problems today.

The thought has occurred to many that possibly what we are experiencing is a world-wide economic disease.

And we might ask ourselves whether it would be best to seek international, cooperative efforts to battle this wage-cost-push aspect of our effort to deepen our understanding and commitment to lick this productivity problem. Isn't it possible that we can learn from the experiments others have tried?

One country that's been much on my mind over the past year is Japan. Now Japan is a special kind of economic phenomenon. There is an assumption that the major objectives of government and business are essentially the same: the maintenance of Japan's economic health at home and the promotion of the nation's economic interest abroad. This is an assumption that the objectives of business and labor are essentially the same . . . a growing, prosperous company that can pay everyone more.

I think it is useful for us to look hard at the "Japanese miracle" and try to comprehend what factors have made that nation the power it is becoming today. The productivity figures I cited earlier are certainly no accident—capital investment has been at a rate more than twice ours.

Of course there are several complex elements that have contributed to Japan's stunning success. But to me one of the most interesting and important features of Japanese economic and social life is their "lifetime employment" system. Japanese workers are typically hired directly out of school and spend their careers with one company. Since the worker enjoys lifetime job security, he readily accepts technological change. If his job is displaced by automation, he knows he will be retained by the company for another task.

Conversely, management is willing to expend larger sums to retrain a worker knowing that such an investment is less likely to accrue to another company through the worker's leaving.

This permanent employment system apparently inflexible to the Western observer, has contributed enormously to Japan's overall economic—and productivity—growth.

For example, while the Japanese industrial labor force is unionized; in about the same proportions as the West, unions are organized by company and not by trade. The union tends to identify its long-term interest with that of the company. I think it is significant that in 1968 Japan lost only 3 million man-days to strikes versus more than 49 million in the United States. Furthermore, virtually all Japanese strikes are of short duration.

I realize that all surgical transplants are dangerous. And I'm sure cultural transplants are even more risky. So I'm not suggesting we turn recent history on its head and emulate Japan. But I believe there are lessons—important ones at that—we can learn and apply.

At the very least, we can begin to examine areas which may offer some potential for increased productivity.

Possible a good deal more job rotation which is being implemented in some of our plants, will be effective reducing the boredom and lack of commitment associated with assembly-line work.

Conceivably, we can learn much from the very successful profit sharing programs a number of companies have employed over the years. Sears Roebuck is an outstanding example. Some of the management and the employees there tell me there is much less of the "we-they" adversary relationship and much more of the feeling is "our company" and productivity is "our" problem. Should we be stimulating more such plans by providing additional incentives to do so? My own previous company's experience with profit-sharing would indicate that we should investigate those possibilities.

In some of these same companies, employees own a significant share of the company. To be sure this raises some new questions—particularly participating management.

Should we be encouraging such a phenomenon?

As we noted earlier, the Japanese have had great success with meaningful mid-career job retraining programs. In our country, on the other hand, a good deal of training programs are at the base entry level.

There may be much we can learn from a similar experience IBM has had in this country.

The company has gone through four generations of computers—all of which required different skills—highly technical skills—on the part of IBM's workforce.

Instead of firing and hiring new employees—trained to handle advanced equipment, IBM re-trained its employees from the initial electro-mechanical assembly to vacuum tube computers, to transistorized equipment, to today's integrated circuit designs.

As technology advanced, IBM's employees were trained to keep pace. The evidence suggests, Mr. Chairman, that the commitment on the part of the company to its employees has paid off in higher productivity.

In other areas, some have suggested we need to eliminate loss of pension rights on job-transfers. They urge more vesting in pensions as an answer, and there may be a great deal of validity to their proposals. This is all part of the fundamental and indeed philosophical question of the company's and the government's responsibility for temporary unemployment causes by changes of all kinds to encourage increased productivity.

Productivity bargaining is another area that should be looked at closely.

This technique is still in its infancy and its no easy route.

The idea, of course, is that both company and worker—indeed, society—benefits from productivity growth.

A British study of some forty cases showed that nearly three out of four companies achieved lower costs through productivity bargaining.

Obviously—much more thorough study of this technique is needed.

What I'm trying to suggest, Mr. Chairman, is that there are a number of areas in which we can move.

Some may require new laws. Some—on further study—may prove of limited value.

But if we are to meet the productivity challenge—if we are to successfully launch a nationwide crusade to boost U.S. productivity—we're going to have to start asking the penetration questions we may have been avoiding for too long. In other words, we must not only retool our plants but we must retool our attitudes and approaches to these critical human problems.

As long as I've taken the liberty of offering a few questions of my own—it is appropriate—I imagine—to suggest that the Committee might have some questions of its own—and rather than being accused of filibustering there this morning to avoid those questions . . . I'll stop now . . . and simply commend the Committee for its initiative in calling these hearings.

APPENDIX. SUMMARY OF PRESENT COMMISSION WORK PROGRAM

The scope of the Commission's activities has been greatly enlarged by the Economic Stabilization Act Amendments of 1971. Under Section 4, Congress declared that "it is the policy of the United States to promote efficient production, marketing, distribution, and use of goods and services in the private sector, and improve the morals of the American worker." The encouragement of productivity growth is considered an objective that complements the policy of the Employment Act of 1946 "to promote maximum employment, production and purchasing power."

Section 4 also states that productivity improvement should be promoted with the cooperation of labor and management, and cites some general factors to be considered, including improving worker motivation, making more effective use of labor and management personnel, developing programs to deal with problems of workers adversely affected by technological change.

The National Commission on Productivity is given a statutory basis and funds are authorized to support national and field operations for the period ending April 30, 1973. A supplemental budget for \$5 million was submitted and hearings have been held by both Committees.

Under this legislative authorization, the Commission will extend its activities in three areas. The largest proportion of the budget will be for undertaking an expanded program of policy research to assist the working groups of the Commission in formulating recommendations to improve productivity. Most of this basic work will be done by the Commission staff, either directly or with the aid of experts under contract. To avoid duplication, and maximize its productivity, information, studies and reports prepared by other government agencies will be used to the greatest extent possible. The research reports and recommendations will be the basic materials for national, regional, and local conferences, and other informational activities to be sponsored by the Commission.

We are devoting a substantial proportion of our resources to research on opportunities and obstacles to improving productivity in important industries which have been lagging. In this effort the Commission is striving to respond to the needs and suggestions of the agencies involved in the Economic Stabilization program. Accordingly, we have begun work on three major sectors where costs have been rising sharply—construction, health services, and state and local government.

Work on the construction industry is being undertaken in cooperation with the Construction Industry Collective Bargaining Commission. Joint studies are underway to devise ways of fostering labor-management cooperation to modernize building codes and of encouraging collective bargaining agreements that facilitate industrialized building. The Commission is also taking steps to improve statistical measurement of construction productivity. At its request, Federal Statistical Agencies are meeting to coordinate their activities in this field. Also a conference on construction productivity measurement is being planned where industry representatives will consider the problems of how to close the statistical gaps in this field.

Considerable work is being undertaken on productivity improvement in state and local government which now employ about one out of every eight workers and is one of the fastest growing sectors of the economy. Local officials and other experts from different parts of the country have been brought together to advise the Commission staff on the problems and areas for further investigation, and interested organizations such as the U.S. Conference of Mayors have been invited to pinpoint agencies that have adopted practices leading to higher productivity. With the assistance of the Labor Department, methods of assisting local government agencies and unions to introduce productivity considerations in their bargaining are being studied.

In the work on the health service industries, the staff of the Commission is conferring with experts from government, hospitals, insurance companies, and associations to determine ways of measuring changes in productivity and comparing hospitals with respect to their efficiency. A key question concerns the definition of quality changes and differences. The process of introducing new technology and the assessment of capital efficiency are also important factors in productivity improvement and will be examined with the cooperation of experts from the health industry.

Another broad area of examination will involve factors that affect productivity in industry generally. Alternative approaches to designing pollution controls will be analyzed in terms of both relative efficiency in achieving goals and implications for productivity growth. Studies are planned on the influence of worker attitudes and the possibilities of improving motivation through work redesign, group incentives and related techniques. These areas will be explored with the assistance of leading experts in government, universities, and private industry who have already studied these problems.

A second new direction will be the task of encouraging and promoting an understanding and acceptance of productivity improvement on an industry and local level throughout the Nation. One of the objectives of Section 4 of the Act is to promote the concept of labor and management cooperation to solve plant problems of waste, absenteeism, poor workmanship and related productivity problems. Hopefully, the idea of working together on matters beneficial to both parties will replace the notion that labor and management are necessary adversaries.

In support of this activity, the Commission will use to the maximum extent the existing field capabilities of the various Federal agencies. We are planning to give the Regional Councils the responsibility for (a) putting together a coordinated Federal agency productivity effort, and (b) creating and servicing Regional Productivity Commissions. The Regional Director of the Labor Department would be the lead man, and Labor, the lead agency in carrying out this responsibility of Regional Councils. The National Commission on Productivity would make funds available to each Regional Council for staff to carry out a program of conferences, seminars, and meetings to promote and assist local productivity efforts. The National Office will provide necessary guidance and information to the field effort. The first statewide conference under this program will be held in May in Chicago.

Finally, the Commission is enlarging its information program to improve public understanding of the issues and its program. Workers, managers, and consumers will be given more information about the contribution of productivity improvement to the economic well being of all. Some people misinterpret the idea to mean "speed up," stop watch efficiency, or lay off, so somebody else will make more money. They need to be shown that productivity gains involve working smarter and sharing in a larger return. The Commission's studies, reports, and recommendations, will, therefore, need to be disseminated widely and popular pamphlets and informational materials prepared and distributed.

In addition to activities under the Section on "National Productivity Policy," the Economic Stabilization Act Amendments of 1971 seek to enhance productivity growth through provisions of the pay stabilization program. Section 2 precludes from control by the Pay Board any increase in wages "paid in conjunction with existing or newly established employee incentive programs which are designed to reflect directly increase in employee productivity." These provisions specifically recognize the importance of productivity growth in maintaining cost stability and could provide additional stimulus to the progress of the productivity improvement program. The Commission and its staff will work closely with the Economic Stabilization program agencies to see that the importance of productivity to long-run economic stability is given full consideration.

Chairman PROXMIRE. Let me get back to what I started off with. In a statement establishing the Productivity Commission almost 2 years ago, in July of 1970, here's what President Nixon said, and I quote:

It will be the task of the National Commission on Productivity to find ways in which the rate of growth can be increased in 1970 and in the years beyond. Greater growth in productivity is essential if the nation is to achieve price stability, health, economic expansion, and a rising standard of living.

"The Commission's first priority," the President said, will be, and I quote:

The problems we face now. We must achieve a balance between cost and productivity that will lead to more stable prices.

The Commission will begin its activities immediately. It is the President's intention that the Commission sponsor a special President's Conference on Productivity that will bring together leaders of business, labor, government, and the general public.

And note, he states, the task is for now. That was 1970, 2 years ago, and the following years—can you point to any concrete results with 2 years of this?

Secretary PETERSON. Well, I guess my being here is one of the concrete results, Senator.

Chairman PROXMIRE. Well, it took 2 years to get you here, but I can't blame you. You've only been on the job, as you say, a relatively few days.

But, the President also called on the Commission to sponsor a conference on productivity. What happened to the conference?

Secretary PETERSON. Well, first let me try to answer your first question. There were enormous incentives that the President tried to build in the August 15 activity to try to get us to modernize our plant and equipment.

The evidence that was presented to him by work the Commission did, as well as by others, was that this country was investing about half as much in plant and equipment as were our competitors, that our equipment on the average was twice as old as some of our leading competitors'.

There is no question that capital requirements are one important aspect of productivity. Last year the President launched a major study of the whole technological position of the United States. Again the Commission, I think, stimulated that.

I don't know if you've had an opportunity to read his message on science and technology, but he has assigned to my office the responsibility for assessing our worldwide technological position, for doing something about 22,000 Government patents which are not being used at the present time—to see if we could come up with new ways to transfer Government R. & D. into the commercial sector.

Chairman PROXMIRE. Let me interrupt at this point, Mr. Peterson; it may be helpful to you in being responsive.

I think you have indicated the many ambitious and far-reaching things the President has proposed here, and they are very good and commendable and all of us must support them, but again, what results?

It is 2 years. The President is almost through his first term. This may be his only chance. We may have President McGovern in a few months.

What has he gotten?

Secretary PETERSON. Well, I think what I am trying to say is that some of the basic rationale that went into what I consider to be a very comprehensive program, on August 15, came from some very stimulating discussions he had with the Productivity Commission and with its previous chairman, George Shultz.

Chairman PROXMIRE. Now, you've asked the Congress for a \$5 million appropriation for the next 12 months.

How do you plan to use these funds? Are you going to add to your Washington staff? I understand you still only have three staff people; is that right?

Secretary PETERSON. No; the number, I think, is about seven or eight.

Our plans are to expand that to about 20 people, and I have attached an appendix to my prepared statement showing a work program. It includes looking at four segments of our economy which are not only

very important but which have lagged in productivity: the construction area, the State and local government area, and health services. There is also a special task force that is working on steel.

Chairman PROXMIRE. Well, I was going to say, you say you don't have three, you have seven. Aren't you including secretaries and so forth?

I'm talking about professional staff.

Secretary PETERSON. I'll get the number for you. I thought it was somewhat more than three. I thought it was four or five.

(The following information was subsequently supplied for the record:)

NATIONAL COMMISSION ON PRODUCTIVITY

Staff.—John M. Stewart, Executive Director.

Professionals (Assistants to the Executive Director).—Terence G. Jackson, Jr., John E. Morrissey, Edgar Weinberg.

Administrative and Clerical.—Dennis Condie, Administrative Officer; Doris Anderson, Deloris A. Ginyard, Marian Wilk.

Chairman PROXMIRE. Do you have a new staff director yet?

Secretary PETERSON. We have offered the job to an absolutely outstanding person. As of yesterday he is encouraged they will let him go.

I wish I could have announced him today. It would have helped me in this discussion.

Chairman PROXMIRE. One of the most astonishing things to me is that Mr. Schultz, who seems to be the person who should have more to say about how money is spent in the administration than anybody else, wanted to add a few more people to the staff and nobody could find the money.

It's amazing to me, because we're so free and easy with money in procuring weapons, and of course we need those weapons badly but we just don't seem to exercise any discipline. We go into the hundreds of millions, and billions, and yet we can't find a few thousand dollars for something as vital as this.

Secretary PETERSON. Mr. Chairman, you'll probably have trouble believing this, but we do like to pay attention to what the will of Congress is.

We are aware of the very widespread criticism of building substantial staffs for purposes that have not received the blessing of the appropriations process.

I have testified before the Appropriations Committee and, with the good will of the Senate and the House, we will get a budget of, hopefully, \$5 million. But up to now, quite frankly, the funds have been limited.

Chairman PROXMIRE. Well, I'm glad you mentioned the appropriations element. I'm on the Appropriations Committee.

I'll do everything I possibly can to help you, and I hope you will supply me with the arguments so that I can make that fight.

It is hard on our Appropriations Committee; you're absolutely right. There has been a negative attitude toward some things which have an enormous payoff, and I am delighted that you mentioned that point.

In the annual report it is stated that you plan to use the \$5 million to expand staff, and enhance informational activity, and you stressed that very much in your opening statement because of the importance of, as you say, communication.

I am not sure that I interpreted what you said correctly. Certainly the heart of this is not a PR operation. It's not just public relations.

It's not just simply having the happy notion of productivity, is it? It is a matter of discovering how we can do this job, and making sure that we adopt governmental policies that will encourage the productivity and that we do make the hard and tough decisions within the Government, for example, to improve Government productivity.

Wouldn't you agree this is not entirely, or even fundamentally, a public relations or communications job?

Secretary PETERSON. I would certainly agree that the substantive research work, which would be the major part of the budget—it is the single most important activity, Mr. Chairman.

On the other hand I would like to emphasize that, as we have seen in this country—and other crusades that are very important, the civil rights area for example, just to take one—I think it is extremely important when you have a country that, starting with management and going on down, has gotten fat and lazy, that has in many ways had an image of itself that the realities of the world did not justify, that sometimes an intensive effort is needed to arouse the country.

I think this role is an important one. I would not want to say it's the most important, but it certainly is a very important one at this time.

I find too many workers, too many people in industry who, when you talk to them about the productivity problem, obviously don't understand it and do not assign it a high priority.

Chairman PROXMIRE. One of the reasons I asked the question is because my good friend and former antagonist on the supersonic transport, William Magruder, is involved in this thing.

Last fall Mr. William Magruder, who's a preeminent PR fellow—boy, he is something else—was appointed Special Counselor to the President in Charge of Research and Development.

Mr. Magruder, with the cooperation of you, the head of the Council on Economic Policy, and Mr. Edward David, Science Adviser to the President, were to work out a program through which science and technology could be applied to increase the productivity of American industry and strengthen our international competitive position, and also help overcome domestic social problems.

Mr. Magruder was to have submitted a report to the President by early this year, hopefully in time for the state of the Union message, on the basis for an administration program.

Perhaps Mr. Magruder did submit his report on schedule, but we've heard very little recently on how R. & D. or science and technology can be applied to achieve the three goals that I mentioned.

In testimony before this committee earlier this year you acknowledged that the Government had not been able to develop a program of stimulating research and development that could assure the desired results in return for a reasonable investment of public resources.

What is your current position, and what are your expectations about Government efforts to employ technological innovations to enhance productivity, strengthen our competitive position, and solve economic problems?

Secretary PETERSON. First, I would commend you to the President's message on science and technology, which I think did outline some of the basic thrust of this program, but I will try to briefly summarize it.

First, I think we have been living with a kind of mythology.

Chairman PROXMIRE. A kind of what—mythology?

Secretary PETERSON. A kind of mythology, that's right, that there is vast industrial fallout from our Government R. & D. activity.

We currently spend about \$17 to \$18 billion in that activity. The entire expenditure of all U.S. companies put together is a number somewhere between \$10 and \$11 billion.

There are a few outstanding examples of fallout, but in my attempts, at least, to survey the entire landscape I am persuaded, at least at the moment, that the fallout is not as large as many believe.

Chairman PROXMIRE. Well, let me just say, I think this is most interesting to me, because again and again and again, in justifying the space program, weapons programs—if they can't find anything else they talk about fallout.

Senators do, on the floor of the Congress, and they get it through on this vague, generalized basis, and it's good that somebody with your practical experience and who's had a chance to judge this is questioning it and is skeptical about it.

Secretary PETERSON. Well, now the question is, what do we do about it, and this program has several aspects.

The President has asked me to look at the Government patents—there are some 22,000 of them—and evolve a new patent policy that puts more of them into actual use.

I have first looked at how many of those patents are in use and, while we don't have final numbers yet, it is a very small number. We are now exploring why this is the case, Mr. Chairman, and I think this applies not only to space efforts but to other efforts.

Part of the patent policy of this country is operated on the premise, it seems to me, that if something belonged to everybody, somehow that would be in the public interest. Therefore, we evolved the patent policy that was essentially a royalty-free patent policy in which patents were available to all.

Having spent 15 years in the very delicate process of industrial innovation, I've come to know that research and development is only about 5 percent or 10 percent of the total budget for bringing some new product into process. Knowing the high risk of that process, I think the notion that something that belongs to everybody often ends up being nobody's business because the companies will rarely take the large risks that are involved in bringing something to market if whatever they bring to market belongs to everybody.

Therefore we are now looking at a different kind of approach on some of these new R. & D. projects, first, suggesting the possibility of cost sharing on some of these projects, the thought being that the companies will invest some of their own money in some of these projects. They are more likely to think of what the commercial fallout will be.

Secondly, to explore ways in which they can get rights to these patents to come out of this work, but on the condition that (a) we go into market commercially within a specified period of time and create new industries and jobs, and (b) that they will pay back the public through the form of royalty fees or profitsharing or some arrangement of that sort.

So, I think that this entire transfer process is very important. The third thing that's important on technology, it seems to me, is to understand the role that the small, technologically based companies have had in the history of this country's innovation.

If you will study the history, Mr. Chairman, the 100 most important commercial inventions of the 20th century, which were done about 10 years ago, you will discover that a surprising portion of those inventions were either the products of an individual inventor's mind or a small company in the field, over half of them, for example.

Senator Percy will perhaps be embarrassed along with me to recount our history in the photographic industry. Two of the most significant commercial innovations in that field were made by Mr. Edwin Land of Polaroid; and Mr. Chester Carlson in the field of xerography.

It is an interesting fact that in both of those cases, most of the industry, or important segments of the industry, were convinced that what these gentlemen had, and they were brave and brilliant men, couldn't work, wouldn't work. Nobody would buy it anyway. And several billion dollars later it was clear that the industry was wrong.

Now, in the President's technology program there's a special program aimed at the smaller technologically based companies to try to stimulate them. Quite frankly, we decided after careful thought, not to suggest, at least this year, a broad-scale incentive for private R. & D.

One of the most common suggestions made to us was the idea of a 75-tax credit or tax deduction rather than the 50 percent that is currently allowed. If you look at the \$10.5 billion now being spent on R. & D. you will see that the initial cost of that would have been over \$2.5 billion, so a decision was made at this point not to do that.

But I can assure you that this technology effort is an essential part of this productivity effort.

Chairman PROXMIER. My time has expired. Senator Percy.

Senator PERCY. Secretary Peterson, whose responsibility is it to increase productivity? Labor, management, government—and if it is all three, what part does each of them have to play?

Secretary PETERSON. Well, Senator, later in my prepared statement I made the following general point. Perhaps part of—the culture we have developed—part of what is now going on is, we have developed in this country a kind of we-they adversary relationship in our industrial segment.

As you know, I have made what I think is a fairly systematic study of the reasons that lie behind the extraordinary success that the Japanese have had in the 1960's and 1970's. If one looks into that society he sees some very interesting things going on.

In the first place, as you know from your business, there is a lifetime employment system in which companies, and indeed the Government, take a very active interest in the long-term career of the employee. There is a sense, therefore, of unity of community between the worker and his company.

Unions are organized on a company basis, not on an industry basis. Therefore there is more companywide identity.

I believe, Senator, that one of the areas we have to look into very deeply is, what we can do to stimulate more of the sense that it is no one person's problem, it is every segment's problem, and that we have to look very seriously, as the Commission is, to the productivity bargain where we have major effort.

You and I know the role that profit sharing can have on creating the sense of partnership. Aside from the experience I had in my previous company, I was recently talking to the chairman of Sears, Roe-

buck, whom you know, in Chicago. You know, there, that the employees own about 25 percent of the company. You know that profit sharing there is a way of life.

The chairman indicates that they seem to have far fewer productivity problems than some of their competitors, and they have far fewer labor problems than some of their competitors.

We have the whole question of ownership of companies, and I think an important question we must look at is whether it might not be in the best interest of the economy to have more employee participation in the ownership of the business.

Now, I guess what I'm saying is, there's a little too much of this being management's problem or labor's problem.

Senator PERCY. Yesterday an economist, an economic writer, said to me, why these hearings? Why are you so worried about productivity? After all, the fourth quarter of 1971 showed productivity of 3.5 percent, which isn't bad in contrast to what it has been before.

I pointed out, in my judgment that was just a response to the recession. It always goes up in that period, but in the long haul I saw no factors that would give me any confidence.

I have since learned that in 5 minutes the Bureau of Labor Statistics will release their first quarter figures for productivity growth in the United States, and these figures will show a drop from 3.5 percent in the fourth quarter to a figure of 2.1 percent in the first quarter of 1972.

Would you care to comment on why we have had such a disastrous drop back to this level of 2.1 percent in the first quarter?

Secretary PETERSON. I was just handed this myself, too.

Senator PERCY. Well, it's unfair to ask you something that neither one of us had an hour ago.

Secretary PETERSON. But it does say that productivity in manufacturing increased at 2.9 percent compared with the fourth quarter increase of 0.8 percent.

I would have to tell you, Senator, that I disagree with those who find great solace in the productivity improvement of the last half of last year. Some very distinguished people find solace in it, including Fortune magazine, which as you know did quite an article on the subject.

I think you know, and I know, that when an economy is picking up there's quite a lag in there. Somehow you learn to get by with fewer people. You don't add the people until you're satisfied the demand is going to be there.

I think the question we should ask is, what happened in 5 years, not in one quarter, when we did not have this kind of cyclical phenomenon. It is the performance between 1965 and 1970, though, I think we need to focus our attention on.

Senator PERCY. I concur 100 percent with you, and I felt so strongly about the Fortune article that was done by a contributing author that I wrote a reply to it.

Can you give us some feeling as to the attitudes of American management and American labor toward productivity? Does American management really have it as high on their agenda as you in the administration has it on yours? And what is the attitude of labor? When I said, in answer to a question from Mr. Grayson at the Price Commission public hearing, that in my judgment productivity increases did

not, in the long run, cost us jobs but rather created jobs, George Meany simply gave a loud "Harrumph" in disagreement with this concept. What is your feeling about labor's present attitude, and whether or not productivity increases actually cost us jobs?

Secretary PETERSON. You will remember, Senator, it was a number of years ago; as I recall, it was the first half of the 1960's, when the Commission on Automation was set up and you will recall, then, that there was a very wide body of opinion, particularly in the labor movement, that automation would cost this country seriously in jobs in spite of its obvious effects on increased productivity.

I was encouraged by the fact, Senator, as I recall, after a year or two of looking at that subject very thoughtfully and really looking into the evidence, I am told that a substantial body of labor opinion switched on that particular subject.

I believe that the case can be made that not increasing productivity has disastrous effects on the working man. We've already seen its potential impact on his real wages, which is what he should be interested in.

I think we can see in the international world we are in, the very important relationship between productivity, a share of the world market, and, in turn, the jobs that flow from that, so it is my feeling that you get more jobs and also more real wages through increased productivity.

Now I think the problem we must address, that lies behind a lot of these concerns, is this transitional problem of unemployment that may come in certain selected industries, and that is why my testimony talks about that particular problem.

But I think to focus so heavily on that problem, the transitional problem, that we don't encourage productivity increases, is really to throw the baby out with the bathwater.

Senator PERCY. If this question in any way duplicates a question that Senator Proxmire might have asked in my absence, just say so. I will be most interested, as the new chairman of the Productivity Commission, what your plans are for the future.

In the past the Commission has been somewhat disappointing: Just a very small group studying certain things.

Do you plan it to be an activist commission? Do you plan frequent meetings of the Commission? It doesn't meet very frequently.

Do you plan to have an activist, top-level commissioner or executive director? Do you have one in mind? Do you intend to have regional directors and regional activities, and is it your intention to have councils, productivity councils, established, industry by industry, plant by plant, hopefully, department by department, to get back to seating labor and management on the same side of the table working on very practical problems?

Secretary PETERSON. Senator, on the subject of the Executive Director, when the opening came up there I want you to know that the criteria I used were as follows:

I think an important part of the productivity problem is, in some ways, a very pragmatic problem. It's a very operational problem.

The question is, What is happening in the plants? What is happening in bargaining?

We have offered a job to a candidate that I think will meet those requirements, but the answer to your general question is, if Congress

will approve the appropriation we have asked for, and we certainly have been pushing as hard as we can on that, I consider this one of my most important responsibilities.

Senator PERCY. My time is up. Thank you, Mr. Chairman.

Representative BROWN. Mr. Chairman, did you want to recognize me for questions?

Chairman PROXMIRE. Oh, I beg your pardon. I certainly want to recognize Congressman Brown. By all means.

If we recognize anybody, we ought to recognize Congressman Brown. He's a—

Representative BROWN. A familiar face.

Chairman PROXMIRE (continuing). Very provocative, intelligent—he's a fine questioner. I assumed from my experience—

Representative BROWN. Thank you, Mr. Chairman. I'll use my own time.

Chairman PROXMIRE. This is on my time.

I assumed from experience in the past that you weren't that bashful, Congressman Brown. I'm delighted to see you'll wait on something, even if it's just my recognition.

Take it away.

Representative BROWN. Mr. Secretary, I'm delighted to see you this morning, and I won't waste your time with my praise of you.

You mention in your testimony the adversary relationship between business and labor, but in effect this is an adversary relationship that goes much beyond that.

It is between Government and business, and consumer advocates and business, and to some extent, the media and business, because everybody seems to be questioning everyone else's motives and sincerity—the success of their stewardship of their part of our society.

I would like to ask if the response by Government and by industry in recalling products, and so forth, as a result of the attacks that have been made on say, the reliability of products, the safety of products, the efficacy or the truth of the advertising of products and the method by which these things are made has actually had much effect on the cost of the products?

Has it improved our capacity to compete, that we are now assuring by Government control that products are more reliable, that they are safer, that they are more honestly advertised, or to what extent are we paying for this in the cost of the product?

A specific example, if I may, because this is a very generalized question, the recall of automobiles that have some functional error in them as a result either of bad design or perhaps even inadequate care in production which would refer to either the management or the labor responsibility—does anybody know what the impact such a recall has on our ability to compete as a nation in the world?

Obviously these recalls are not made cost-free. There is apparently the necessity to pay for them. Somebody has to pay for them.

Secretary PETERSON. Congressman Brown, let me just step back just a moment. I think some of the people who are advocating some of these newer approaches to the various problems you refer to, safety, pollution, et cetera, have in many cases not considered the long-range cost implications of some of these devices that are being asked for. It might be interesting to spend a moment asking, why is that the case, because obviously the one thing that unifies all of us is that we are con-

sumers and that ultimately we have to pay for whatever products are produced.

Representative BROWN. And we all live in the environment, and we are all citizens and wind up with some degree of a tax burden.

Secretary PETERSON. Now, one of the formulations I have heard is that some of these things won't add too much to the cost because the profits of the corporation are at extremely high levels, and therefore these costs can simply come out of the profit structure.

Representative BROWN. That seems like a very simple and reasonable explanation.

Secretary PETERSON. Well, let's look at what the evidence is. The typical American today, in a recent study, believes that corporate profits after taxes are 28 percent. The actual number is much closer to 4 percent.

As you know, profits in real terms are less than what they were some time ago, but I think there is a persistent view that profits are at an extraordinarily high level, and therefore somehow these costs can be absorbed by the corporation without affecting consumer costs.

Second, we have a tendency of so polarizing things that we rarely talk to each other about the systems implications of what we're talking about. For example, I am not aware, and I have spent little time looking at it, that we have a very good indication of what the cost will be in 5 years of some of these programs.

This is not to argue against it. This is simply to say a rational decision on some of these things implies knowing what some of these facts are. But I think one of the explanations is that we think somebody else is going to pay for it; that is, somebody else other than the consumer.

Representative BROWN. Well, Mr. Meany, when he was here, in a very eloquent, entertaining presentation of his viewpoint, conceded that profits were low and that this was part of the problem; that he wanted industry to make substantial profits so that they could reinvest in additional jobs and make our society more productive.

One of the questions I didn't get to ask, because there was some difficulty in getting questions through, was about whether or not that is transmitted down the line in the labor movement to the people in the process of negotiating for higher wages, or is there, in fact, transmitted, from what you tell me and the statistics that we see, some type of a canard that profits are closer to 28 percent in industry.

How do you resolve that? Are we, as individuals in the various segments as the society, talking out of two sides of our mouth?

Secretary PETERSON. It may be that we're speaking out of ignorance, and before you came in, Congressman, we were talking about the entire problem of profit-sharing concepts that are being tried in the various companies.

Having been in such a company and having watched other companies who had such programs, I think one of the great virtues of those programs is that it does focus business and labor on the common issue of whatever the profits are.

You see, in many of the current bargaining arrangements, as far as the individual worker is concerned there is no particular requirement or need for him to know what the company requirements really are, and, therefore, he can be subject to wild exaggerations on this score.

If, however, he had a common interest in those problems, it is far more likely he is going to find out what they are. But at the present time, obviously, not only a lot of labor people but—according to this national survey—millions of other Americans, have a grossly exaggerated view of what profits are.

Representative BROWN. Well, let me ask you specifically, are you talking about the educational process which we all go through, public education and what it ought to do in terms of a better understanding of business productivity, the responsibilities of business, management, labor, government, and so forth in our society?

Are you talking about some method by which we can get broader employee ownership of the specific industry in which we work? I am given the impression that we have broader employee ownership of the productive elements of the society generally, that nearly everybody is a stockholder nowadays.

I never will forget talking to a labor meeting one time, and one of the references made by one of these folks was, "Well, it is just like my broker was telling me the other day," and I thought, you know, I don't have a broker but this guy is doing well enough as a laboring man to have a broker.

Or are you talking about more candor on the part of industry? What is our approach to this problem?

Secretary PETERSON. I think there are a couple of aspects of it. I think you can get misled by looking at gross, aggregate statistics on how much of American industry is owned, let's say, by various kinds of retirement funds.

That is one of these gross, impersonal statistics, that the working man probably doesn't understand. I am talking about ownership in the particular company in which you work, so that this notion of profits has a very direct meaning to that particular worker.

Representative BROWN. Well, may I suggest that a lot of employees who may not have their own investment plan and their own broker, probably had some investment in the company retirement plan which may, in effect, be a stock participation plan, either in that company or in a mutual fund of some kind, that sees the value of the pension plan improved as the success of the general economic level of the society improves, which relates to our ability to compete abroad.

Now, are you trying to translate that into individual ownership of the company in which a man works, or isn't there a way that you can suggest to that guy that, look, the whole process is part of how your pension plan improves?

Secretary PETERSON. I think you have to do both, Congressman.

I am simply suggesting that up to now whatever we have done—and we have certainly had a lot of stock ownership by a lot of people—there are grossly inflated notions about profits in this country. I think it is true that in those companies who try to tie increases in compensation to increased earnings in the enterprise, you will find much wider spread knowledge about what the true facts are, because quarter after quarter these people are involved in the process of profits.

Representative BROWN. This involves a very candid presentation. I would think, if the company's whole profit investment picture, and of course there is a tradition, I would say, a tradition in American business, perhaps it is common to all entrepreneurial undertakings, that you just don't tell "nobody nothing" about what your company is doing.

You keep that kind of material to yourself. That belongs to the owners, or in turn to the stockholders.

A publicly held corporation will put out a corporate report at the end of the year, but those reports are sometimes more confusing than they are illuminating on the problems of the company or on its statistical success or its failure.

Now, what about that problem?

Secretary PETERSON. Well, I guess all we can do is look at the results. I know there are many businesses that are sincerely trying to communicate.

I will be glad to get this national survey for you so you can look at it, but it is a very sobering picture.

But I repeat, when the typical American person thinks that American companies are making seven times what they are actually making, it is evidence that we have failed in our communication process.

Representative BROWN. Is this survey in a condition that can be inserted in the record at this point?

Secretary PETERSON. Yes, sir, I'd be very happy to do it.

Chairman PROXMIRE. Without objection, it will be so.

(The document referred to follows:)

[Extract of a speech by Thomas W. Benham, President, Opinion Research Corp., at the Sheraton-Park Hotel, Washington, D.C., Feb. 7, 1972, for the White House Conference on the Industrial World Ahead: A Look at Business in 1990]

TRENDS IN PUBLIC ATTITUDES TOWARD BUSINESS AND THE FREE ENTERPRISE SYSTEM

(By Thomas W. Benham, President, Opinion Research Corp.)

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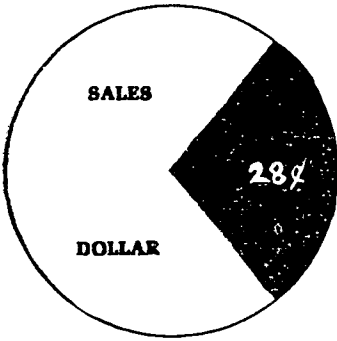
BASIC ATTITUDES TOWARD OUR BUSINESS SYSTEM

Finally, I'd like to close with a few slides dealing with some basic attitudes about our economic system and then wind up with a few observations.

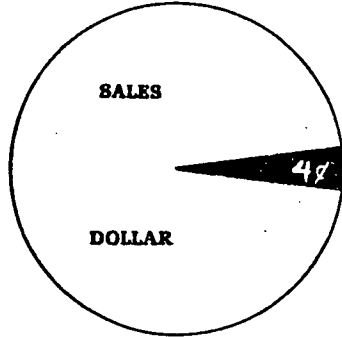
Here is our latest survey at Opinion Research Corporation on the public's conception of what the average manufacturer makes after taxes on sales.

PROFIT ON SALES

Latest Median Public Estimate Of Manufacturing Profits In America, After Taxes.



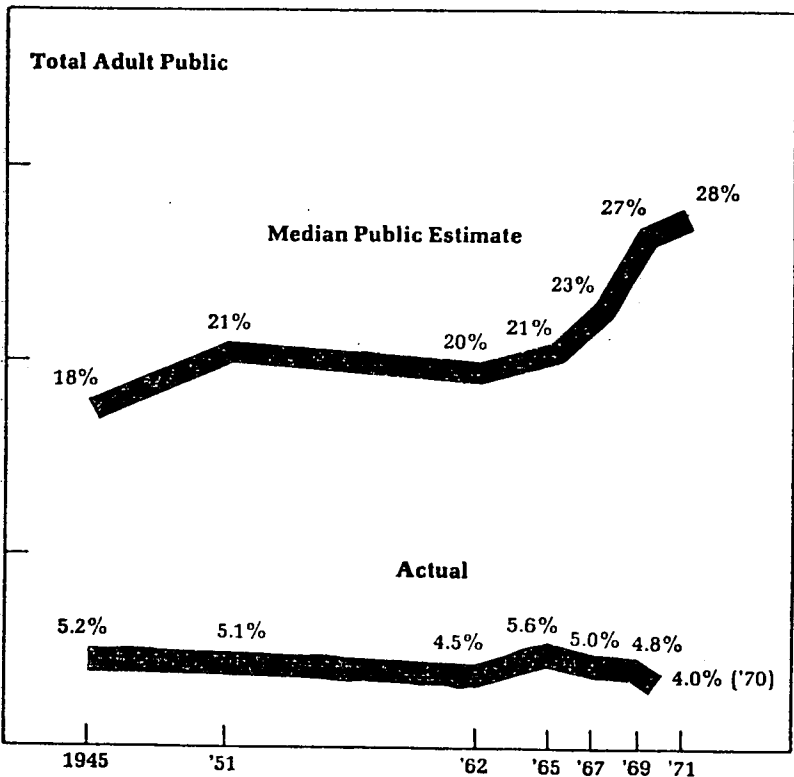
Actual 1970 Manufacturing Profits In America, After Taxes.



Source: F.T.C. and S.E.C.

The latest public estimate is that the average manufacturer makes twenty-eight cents out of every dollar of sales after taxes. The actual fact is around four cents.

MEDIAN PUBLIC ESTIMATE OF PROFIT COMPARED TO ACTUAL



Profit Data: Federal Trade Commission, Securities and Exchange Commission.

In the fifties, people estimated about twenty cents on a dollar. That has now gone up to almost thirty cents. Thus, when you as a communicator are trying to tell a value story, you've got this misconception in the mind of the public. You are making a fat profit. A so-called "bargain" may not be very credible to me, if I have this notion fixed in my head.

Also the public tends to think companies can raise wages without raising prices.

Representative BROWN. Mr. Chairman, my time is up.

Chairman PROXMIER. Mr. Peterson, as I indicated, I very enthusiastically support your zeal for improvements in productivity, and I think you and Senator Percy deserve a great deal of credit, but as with anything, we can carry it too far; and I just wonder if maybe the administration might be letting this get a little bit out of hand in their enthusiasm.

Maybe not, but what alarmed me was an article in yesterday's Wall Street Journal, by Richard Jansen. I will read you the Headline. "The Role of Government in Business Might Vault if Nixon is Reelected. It Could be More a Partner to Help Fight Competition, Might Encourage Mergers."

And, of course, the idea behind this is that, above all, we must compete with our economic rivals abroad, and I understand that, but I think that we can, as I say, push these things too far.

A basic theme with the article is, there will have to be less competition domestically so that we can compete better abroad. "Washington must become," it says, "less of an antagonist for U.S. industry and more of a partner."

The article quotes Secretary Connally as saying that there must be a transformation of traditional business, Government, labor relationships.

Incidentally, the super headline on the story is, "Buddying Up—Not Buttering Up, but Buddying Up."

Now, if the Federal Government is acting in a way destructive against business, it ought to stop. It ought to stop right away. But, I don't think I could go along with the steps the Wall Street Journal says the administration contemplates.

Let me read you these specific steps, and get your comment on it.

If President Nixon is reelected—I don't know why the Democratic candidates haven't picked this one up, but it's a better campaign speech than I have read most of them giving—if President Nixon is reelected, he would do this, according to the Wall Street Journal.

No. 1, turn antitrust policy inside out; encourage mergers.

No. 2, more long-range Government planning.

No. 3, more Federal assistance to key industries; tax incentives, and direct subsidies.

No. 4, divert young people away from college into vocational training.

No. 5, convince or compel—or compel—unions to avoid lengthy strikes.

Now, can you imagine the reaction if a Democratic President had advocated these things? There would be a witch hunt for socialists who are undermining our Government, that the McCarthyism of the 1950's would pale by comparison.

I wonder if these five policies are being considered by the administration, and if they are, do you support them?

Secretary PETERSON. Well, I am not aware that they are being considered in anything like that form.

Chairman PROXMIRE. Well, in what form?

Secretary PETERSON. Let me take them one at a time. On the subject of antitrust, there is a particular area that in my previous work I was concerned about.

We have the problem, as you know, of certain industries that are being heavily impacted by import competition. Far from anybody stifling competition, the whole new thrust of the international picture is that competition is more intense than it ever has been.

In certain applications of certain antitrust guidelines, there is a tendency, for example, to discourage any kind of horizontal integration in those industries, at the very time that our world competitors in those particular industries are encouraging industries to get at a certain size where they can afford the latest capital equipment and therefore become more efficient.

In that particular respect, that is, heavily impacted industries that are subject to great foreign competition, I think we need to look at our adjustment policy.

Chairman PROXMIRE. Well, you're going to be followed by Ralph Nader, who might have some interesting comments on this, but does vertical integration always mean that you're going to have stronger competition?

Doesn't vertical integration—isn't the whole history of the Standard Oil Co., for example, a history of being able to eliminate ruthlessly its competitors by vertical integration?

Destroy them, and then after that was done, to increase prices?

Secretary PETERSON. Well, excuse me. I should have also said horizontal integration, which is the particular kind I was talking about.

It obviously depends, Mr. Chairman, on the matrix of the industry. The particular industries I'm talking about, for example, the textile industry, is characterized by hundreds and probably thousands of companies, and the kind of concentration you refer to isn't even relevant there.

On the subject of technical training, and how something might be done with college students, the reporter may or may not have gotten this from me, but I'll state my view.

Any projection that I have seen of the long-term needs in this country for workers makes clear the requirement for increasing amounts of skill. We are moving into a postindustrial phase in which we are moving toward skilled workers increasingly.

The point I made to this particular reporter is that at a time when many experts tell me, who know more about the subject than I do, that 80 percent of our young people should be getting some kind of skilled training, particularly skilled training oriented to the future, less than 1 out of 4 high-school students are getting this kind of training, and, in turn, 40-some percent are going to college.

Chairman PROXMIRE. Well, let's take a look at the other side of this. I was down in Puerto Rico on Saturday to speak, and they have a terrible unemployment problem; and I pleaded with them to do more in the area of education, especially vocational education.

Robert McNamara, the head of the World Bank, has told me that the trouble with the education programs in many countries is they prepare children who are in grade school for high school. Most of them don't go to high school. They prepare them in high schools for college, and they don't go to college. They prepare them in college for professions, and they don't go into professions.

They don't train them for doing anything useful, and that is what you are stressing, but at the same time, again, I think we can go a little too far. I think maybe you do, in your prepared statement, when you say, the young people place love, friendship, education, self-expression, family, and privacy above work.

The tone of your prepared statement is that this is a problem. I am sure you don't mean that you disapprove of these ideals, or that they are less important than work. Do you think we have to try to change these attitudes and destroy these ideals?

Are too many young people going to college? Do you see job training as the only purpose of college? Will international competitiveness be improved by having fewer college-educated people?

You know that Servan-Schreiber book, that great book on "The Challenge of America" in which he takes the Edward Dennison thesis, the doctoral thesis, to show that the essence of economic growth in this country, the reason we have such an enormous advantage, is because we have stressed education, including higher education, much more than any country in the world.

Now aren't we going to go too far the other way if we stress vocational education as heavily as you are doing?

Secretary PETERSON. Well, in the first place I think in my prepared statement I was simply quoting what the study said, if I can read that accurately, of how students felt.

In the job context, Mr. Chairman, I think when you find young people saying that they want to find the opportunity for self-expression. Part of this, I think, has to be answered by what Senator Percy was talking about in Belvedere, about the whole problem of job enrichment. These young people are more intelligent, they're more sophisticated, they're capable of participating more broadly. I think one answer is to give them an opportunity on their jobs to use those talents.

I'm going on to say, however, and I know of your interest in some of these quality of life areas—take the area of health care, for example. This is not an argument against being educated in the humanities but it is to say that we are going to have a critical shortage in the health care arena of all kinds of paramedical, of nurses, medical technologists of all kinds.

Now, however liberally educated a person is, the question is, is that kind of education sufficient?

Chairman PROXMIRE. Well, that balances out. I didn't mean—of course, you make the point. You are not saying that we ought to have less of the liberal arts approaches, and a deeper understanding makes a person a fuller person, a fuller man or fuller woman. What you're saying is, we ought to concentrate also and to a much greater extent than we have, in the vocational area.

Let me ask you about another aspect of this. Can you identify any past experiences with Government trying to manage business apropos

of this shift, that the Nixon administration has been accused of, managed business that has been successful?

How about Lockheed, Penn Central, and defense procurement in general? Isn't it a pretty sad and sorry and miserable record?

Secretary PETERSON. The answer to that I guess is "No."

Chairman PROXMIRE. It's not a sad, sorry, miserable record?

Secretary PETERSON. No; I want to build up the syllogism that I think you're trying to establish. Your premise seems to be that the Government is managing the Penn Central and Lockheed, and I'm not sure I can accept that premise.

Chairman PROXMIRE. Well, what I pointed out in this article which you didn't deny, is the Nixon government is going to move into more long-range Government planning, more Federal assistance to key industries, tax incentives, direct subsidies, convince or compel unions to avoid lengthy strikes; a kind of—I don't know whether you'd call it a socialistic program, a fascistic program; whatever it is, it is more Government domination. And I am saying, isn't the history that we have had pretty discouraging in that area?

Secretary PETERSON. Well, you won't find me advocating that the Government should manage businesses. On the other hand, part of the polarizing that takes place is if someone talks about systematically looking at the future, he is immediately told that he believes in Government planning and management of business.

We have a variety of problems in this country, Mr. Chairman, that you are well aware of, that are going to require at least a long term projection of what the problem is. The energy problem is a beautiful example of that problem.

I think it is important that the Government does systematically look at the future projections of the problems it is likely to face, but that is a long way from saying that the Government should actually manage these enterprises.

Chairman PROXMIRE. My time is up; Senator Percy.

Senator PERCY. Secretary Peterson, I had a very ominous feeling that there is a high probability or possibility that at this moment we have the freest economy that we're going to have for many, many years to come. I have a feeling we are moving more and more into an area of control and regulation, and I see it pervading every aspect of what we in the Legislature today are doing and what the executive branch of the Government is doing.

My concern is, if we do not increase productivity; if we do not reduce unit costs of production instead of having a disastrous increase in the unit cost of production in the first quarter, that we may find imports flooding in, and therefore we may find ourselves reversing our trade policy by putting barriers up and instead of having prosperity through freer markets, we are somehow going to try to keep our markets to ourselves. And unless we close the gap and we improve our balance-of-payments situation and find a way to create more markets abroad, that we're going to have the so-called voluntary restrictions on investments become compulsory; that we're going to go back to the days that President Johnson talked about: restricting tourism, the freedom of tourism abroad and taxing individuals when they travel abroad. And that we're going to have to find all kinds of ways of controlling the economy, if we don't get prices down, because although it's better than it was, it certainly is not working effectively right now.

Are you concerned about this, and is this one reason you feel that a productivity drive is essential if we are to save the free economy as we know it in America?

Secretary PETERSON. I share your concern very deeply, Senator. You may agree with me that it is quite an irony that other economies in the world who are growing and getting increasingly industrialized are finding that central forces—planning, administering, setting up standards, et cetera—are proving to be increasingly less effective as their society gets more sophisticated, and they are turning increasingly to a variety of market mechanisms for making these decisions.

Anybody who has talked recently, for example, to the people from the Soviet Union will hear occasionally comments along this line as to how difficult it is to allocate resources, to decide what your consumers really want. So it would be quite an irony if we find ourselves moving in that direction at the very time that the people who have had the most experience with those kinds of systems are moving away from it.

We are seeing all kinds of requirements of standards of various kinds which are legislated by other groups of people than the consumer and the business that is involved. Now, in my view, as I alluded to very briefly in my comments—and I know you are talking to Chairman Grayson—I too have had a few discussions with him about this problem—to those who want fewer controls in this economy, and I am certainly among those, there is nothing that would be more important than getting the productivity increase going.

Senator PERCY. Well, then I ask you, what in heaven's name is the administration doing about it now?

There are some areas in which the Congress is really restricting and impeding progress, possibly in the executive branch, but there's been no clearer mandate that Congress could give the administration than in this area. We certainly have provided the 7-percent investment tax credit.

We have no barriers to the Treasury Department's schedules on changes on amortization and depreciation to give a double incentive now for capital formation investment. We have created legislation authorizing \$10 million, which is a miniscule amount of money, to organize productivity counsels in this country as we did in World War II with 5,000 productivity counsels.

The administration only requested \$5 million; the House, after hearing the testimony, only thinks it will appropriate \$2.5 million. From the standpoint of plans that have been seen by the Senate, they don't really think the \$2.5 million can be spent.

In other words, I'm not saying that money is the whole answer, but I say that we stand ready to support administration initiative and have been months ahead of this problem in trying to point out to the administration an area to really do something.

And I just would very much appreciate your response again. Do you intend to set up productivity counsels State by State, area by area?

Let me give you a specific illustration. We had a mayor of Jamestown, N.Y., in Washington. He came here to speak with congressional staff and the productivity Commission about a newly formed, Jamestown Area Productivity Counsel that they have set up. He told us that he had gotten encouragement on the Hill, but when he went to the Productivity Commission, they simply said they did not know how

to help Jamestown, N. Y., and he went back rather discouraged, maybe thinking this was not a very important activity that he was undertaking.

Now, I realize you have spent a very short time in the job, but can you tell again of your intention to change this attitude and put this right on the top of everyone's desk instead of at the bottom of the pile?

Secretary PETERSON. Well first let's start at the top, Senator. I had a rather extended session with the President last week and we covered a number of subjects and this was among them. I think this subject evoked as much enthusiasm and interest in the discussion on his part as anything else that we talked about, so that he and Secretary Connally, whom I met with 2 hours on Friday talking greatly about productivity and others, are fully enthusiastic about it.

We did ask for \$5 million, Senator, you're right, instead of \$10 million. This covers us through April 30 of next year. We laid out how we would spend that money.

As you know, we received a substantial amount of criticism from some quarters about spending too much. It seems to us that \$5 million in essentially less than a year period will give us an opportunity to do a great deal in this field, because you know and I know that a lot of this has to be done by the private sector.

Now the budget we have does provide for regional productivity councils, as you perhaps know. And you have my commitment that as soon as we get clear on exactly what the content of the program is, I believe that the communication aspect of this at the local level—indeed, at the national level—is one of the most important challenges we have, because this is a local job that needs to be done.

Senator PERCY. What is the number of full-time staff people involved in the National Productivity Commission now?

Secretary PETERSON. We had a little discussion on that. I had the impression it was seven or eight. We plan to go up, almost immediately upon getting this authorization, to 20 full-time people, and then, Senator, we've got a full list of research contracts that we're going to let out just as soon as we get the money approved.

Senator PERCY. Well, I repeat that we want to back you up; we want to help you in every way. You will never be criticized for moving too fast in this area, and certainly when we see the Price Commission and the Pay Board literally overnight, commandeer space, hire staff, bring them in from all over the country and designate 3,000 Internal Revenue agents to be available to them, I hope we will be doing it equally effectively and creatively and energetically in the area that is the real solution to the problem and not a band-aid approach doomed to failure.

Because you did not have a chance to comment on productivity bargaining, I would like to ask you whether you favor productivity bargaining, and, if so, why?

Secretary PETERSON. Yes; we have a major project and that is one of our major ones, to look at productivity bargaining. That is one way of getting the community of interest that I was talking about, instead of we-they, the more we produce, the more we earn. I did point out in my prepared statement, Senator, that in the case of England, a country which has been having a very serious productivity problem, as you know, I was very interested to read a summary of a study there

where they looked at 40 such cases, and in over three-fourths of the cases, the unit cost that is reflecting the higher wages that got paid as a result of the increased productivity went down in the cases of companies that had productivity bargains.

So I, for one, am enthused about that concept.

Senator PERCY. You think the Government itself should encourage productivity bargaining?

Secretary PETERSON. From the evidence that I have now, I think it is one of the principal answers to this problem.

Senator PERCY. I would like to state for the record the figures from our own staff, they gave us the figures of the number of the Productivity Commission staff, three professionals and three secretaries.

My time is up.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Secretary, something you said in answering Senator Proxmire struck me. You talked about the people who find self-expression in the liberal arts area and some of these other areas.

Wouldn't you suggest—or may I suggest—that people like Thomas Edison and Henry Ford and Andrew Carnegie may have found some self-expression, too, in their efforts? And they made a rather substantial contribution to society. The automobile, regardless of what you think of its qualities as a polluter, is a pretty darn good means of transportation, at least in the marketplace test since everybody owns one or two or more today, and that wouldn't have been possible without somebody like Henry Ford, who organized the elements of production to make the automobile an inexpensive part of our society.

And the same thing goes for Carnegie in steel and the liberal arts benefits that sprang out of that in the way of Carnegie libraries. And Thomas Edison, who we have to thank for the television lights under which we work, and some other people.

Now, are there less of these people today in America?

Is that what our problem is?

Secretary PETERSON. Well first, let me say that the concept of Yankee ingenuity and the Yankee inventor—it is more of a cliché. As you pointed out, in many ways it has been the hallmark of what has made this economy the way it is.

Representative BROWN. Well, it is the picture we have in many parts of the world of what America is.

Secretary PETERSON. Now, going with that Yankee ingenuity has been an enterprise system, obviously, that has given them an incentive to do what they have done. I think while you were gone we talked about the brilliant success of Mr. Land in Polaroid and the whole xerography structure.

You'll see there a brilliant invention or a brilliant inventor combined with an entrepreneurial system that somehow brought it to life. That is why so much emphasis is being put, Congressman, on the small, technologically based inventor, because we want to be sure that we do not put barriers up, but that we actually encourage those.

Representative BROWN. Well, you anticipated my question and didn't answer the one that I really asked, and that was whether or not we really have fewer of these people in our society today, and, if we have fewer, why fewer? And if we don't have fewer, then why aren't

we getting better in terms of society and productivity as a result of their inventions and their contributions?

Secretary PETERSON. Well, I guess one of the reasons I didn't answer your question is because I don't know how to answer it. We don't know how many such people there were 10 years ago or 20 years ago.

Representative BROWN. Well that's an adequate answer. Let's go on to the next question.

Why are we doing better as a society for the efforts of those people in these fields who are around and producing something?

Secretary PETERSON. I'm not sure—

Representative BROWN. I'm not sure; I must say, with all due respect to Senator Percy, that the Land camera equates quite with Ford automobile.

Secretary PETERSON. Well, xerography, I think, has changed the lives of a number of people, including a few Government officials, I imagine.

Representative BROWN. Well, we can make more copies; I don't know how good that is, but go ahead.

Secretary PETERSON. I don't think there's any evidence I have seen, Congressman, that we are doing less well than we did. I think what we are seeing is evidence of the competitive revolution that this country is facing. It is a matter of other countries doing considerably better than they used to do.

For example, if you look at the number of U.S. patents applied for in the Patent Office Department, you will see a fairly steady number that is increasing some over the last 5 years. But, what is really striking, is to see what percentage of those, of the U.S. patents, are now coming from abroad. That number has gone from about 18 or 19 percent in 1960 to numbers much closer to 40 percent now.

What I am saying is that it isn't that we are doing less now. It is that we are going to have to do a lot better in the kind of competitive world that we're living in.

But I wouldn't want to appear to be criticizing the shortage of inventors, or anything of that sort. It's just that we are living in a world where we've got to do better.

Representative BROWN. Well, let me talk about an area, or ask about an area, which I don't think is terribly competitive; it is a domestic problem. Now the Federal Government, at least according to action taken by the House the other day, and the Senate has passed a similar bill, although there is a difference that has to be resolved, is going to undertake the expenditure of \$25 billion in the next few years to save our water supply in the United States by attacking the problem of sewage.

It would seem to me that on the basis of that that we're going to need a hell of a lot of sanitary engineers and chemists. I'm told, however, that in the educational field, the number of young people entering the profession of law is going up at a geometric rate, whereas we are not increasing the number of engineers and people in fields where we really have a practical need.

I happen to have a black university in my area, and one of the things that the leadership of that university is doing is trying to get more young blacks into the hard sciences, so to speak, and out of teaching and the profession of ministry and a lot of other careers which are sort of traditional in that segment of society.

Now, my question is, should we be doing something to match up the needs of a future society with the kind of training and the kinds of incentives—and I'll come back to that in just a minute—that society ought to be providing for people to move into those fields.

I don't want to give everybody a number when he's born and say, you're going to be an engineer, you're going to be a lawyer, you're going to be a teacher, but it seems to me that we ought, if we are as good elitists as we think we are, to be trying to encourage in some way the production, or the meeting of the needs of society, by the production of education and other aspects in this area.

Secretary PETERSON. Well, Congressman, I think the senior Senator from Illinois—I have trouble saying that; he was the junior Senator for awhile—will recall that most well-managed companies in this country do devote a considerable amount of their time and energy to projecting the future. They do, as you recall, Senator, spend time saying, 5 years from now where is this industry going, where might the market go. If we project where we are going, where are we going to be, etc.

It is my thesis that the faster changes come in our society, and the more sophisticated we get, we are going to have to do a good deal more of what I call future systems projections where we start putting together the pieces that are going to be required to solve certain problems.

The one you used is an excellent one. The one I talked about on the health care field is another one.

We talk about pieces of the problem without thinking about what the rest of the system is. A very important part of this system is whether or not we are going to have to have skilled human beings available to carry on that work, and I agree with you that we're going to have some kinds of future projections of the people requirements to do this job so that you gentlemen and the President and others can then decide what they're going to do about it.

Representative BROWN. What are the incentives?

You mentioned self-expression, self-satisfaction in the job.

Has our system of progressive tax hurt the incentives of people to get into inventive industries?

Do we not protect our patent rights adequately?

Why aren't we stimulating more American invention, American development of methods and systems and products?

Secretary PETERSON. Well, on the education front, Congressman, I suppose it is fair to say that the educational establishments of the country are not particularly, or have not traditionally, been particularly market-oriented to future requirements.

In the technical field that I mentioned, I may, if I might, give you an anecdote of my previous company. I looked at the 5- and 10-year requirements of certain kinds of electronic and computer technicians in this country based on industry projections of where we might be going. I then visited personally a number of high schools across the country to see what they were doing in this regard.

I concluded there was a splendid opportunity there, because the public school system seriously lagged reacting to what the requirements were going to be.

Representative BROWN. Well, if that is not an indictment to education, it's a substantial difference of opinion, at least. Is that right?

Secretary PETERSON. A substantial difference of opinion where?

Representative BROWN. Between you and the educators.

Secretary PETERSON. Well that may be, but the test will be whether our young people do have the skills required when that society emerges in a certain direction and whether we're going to continue those very high rates of unemployment among our young people.

If we suffer through the experience of giving our young people many years of education and then find that they cannot get work because they don't have the skills, then I would consider that a failure of the system.

Representative BROWN. But the evidence is surely there, currently in our unemployment statistics about young people. But I won't get deflected into that, because that's a theme that I have been singing in this committee for some weeks. But let me just hit one or two others.

What about tax incentives for productivity increases on research and development?

Now, tax incentives generally have a bad name politically in this society of ours, and they're apparently now going to get a worse name, because at least one of the major parties has undertaken as part of the campaign this year to try to get tax reform and get rid of all these incentives in the production of gas and oil and that sort of thing, which just happens to be part of our whole energy resource problem in this country.

But, nevertheless, we're dragging this into the political arena with the idea that we're going to make some political capital out of it, regardless of what it may do down the road with reference to energy resources.

What about productivity increases?

Is that going to be a sinister kind of thing, or is there any possibility that we could go into some kind of tax incentives for research and development, or is it immoral?

Secretary PETERSON. Well, it certainly isn't immoral.

Congressman, I began my statement by saying—and the Chairman asked—whether I believed that this was a PR effort or an information effort, and I said that I think that the time has come to mount something close to a national crusade for productivity.

Representative BROWN. Can you do that from above?

Secretary PETERSON. I think you'd have to do it as this society does all things. There will be some leaders in various segments of our society who will start articulating the problem, making clear why it is important, and then we will see a lot of segments of this society, in my opinion, become mobilized; but precisely for the reason that you mentioned. Until this country gets a full appreciation of the fundamental importance of productivity to answering quality of life problems, real income problems, competitive problems, job problems, all the various problems we are concerned with, it will be very easy to demagogue this issue.

But I think when the public understands the crucial relationship between productivity and the answer to these problems, we will then be able to come up with appropriate solutions to them. But until we do, I think it is, as I said, a natural subject for demagoguery.

Representative BROWN. Well, perhaps our choice also is to lose that economic battle to the Japanese or to the Germans or to someone else.

Thank you, Mr. Secretary.

Chairman PROXMIRE. Thank you, Mr. Secretary. You've been most responsive, and a fine witness. You certainly have given our productivity hearings an excellent beginning.

Secretary PETERSON. Mr. Chairman, I am delighted to say you did not live up to your reputation as a —

Chairman PROXMIRE. Well, I will try to do better.

Secretary PETERSON. Well, wait a minute; I want to be sure I clarify that point: I am delighted to say you did not live up to your reputation as a rather sharp questioner.

Senator PERCY. Mr. Peterson, I might say you've gotten off mighty easy this morning; we will invite you back.

Chairman PROXMIRE. Well, stick around and see what happens to Nader. He is up next.

Secretary PETERSON. Thank you very much.

Senator PERCY. I want to say once again, however, that I don't think we could have at this critical time in the history of our economy, a more capable and able and dedicated man than Peter Peterson as Secretary of Commerce.

Chairman PROXMIRE. Very good.

Now if Mr. Nader would come forward, and let me say that we're delighted and pleased to have Mr. Nader; he's been doing a job that members of Congress should have been doing but have not been doing a long time ago.

He shames this Member of Congress, and he should shame all of us because of his effectiveness.

But having said all these nice things about him, Mr. Nader, let me greet you with a sign. Can you see this?

It says, "Ralph Nader breaks the law;" and you do. And let me point out to you, Mr. Nader, that you've been doing it consistently, but this time, I'm going to call you on it.

If you could hold this here, let me read you what the law says, Mr. Nader. "Each standing, select or special committee of the Senate shall require each witness who is to appear before the committee on any hearing to file with the clerk of the committee at least 1 day, that is 24 hours, before the date of appearance of that witness, a written statement of his proposed testimony."

Now, it is now a quarter to 12; you walked into the room 10 minutes ago with your statement; we have just seen it; we've just had a chance to look at it; I glanced at it; it is up to your usually high standards.

But how in the world can we do anything like a job of analyzing the statement, working up questions, working with our staff so we can prepare an intelligent colloquy when we get hit just at the last minute?

And I appreciate, as I say, that you are, I think, in many ways the best witness that the members of the committees have in the Congress. If you don't give us that in advance, if you don't abide by the law, you put us in a difficult position.

Senator PERCY. Mr. Chairman, before Mr. Nader replies in his own defense, I'd like to be a self-assumed public advocate for him. In my judgment, Mr. Nader who works essentially with a volunteer group, manages to be his own FTC, and his own productivity commission, in this case. I think a man who works under those conditions on

the miniscule budget that he does might occasionally be excused for being a few hours late, I, for one, appreciate his being here, but also I appreciate the warmth with which you always greet every guest.

Chairman PROXMIRE. Well, now, Senator Percy, I'm shocked and surprised. You espouse and support—

Senator PERCY. I knew you would be; I knew you would be.

Chairman PROXMIRE. You support an administration which if it stands for anything, believes in abiding by the law.

Senator PERCY. This is a law-and-order administration, that's right.

Chairman PROXMIRE. And yet you are condoning conduct which repeatedly breaks the law and not just marginally, not just by breaking it a little, in part, but just smashes the whole thing into smithereens. This wasn't submitted 2 hours before.

Senator PERCY. Well, I would merely say let's look at the seriousness of the offense. I frankly was out with my wife last night, and I wouldn't have had time to read it anyway, so, Mr. Nader, I'm glad you're late.

Chairman PROXMIRE. Well, Mr. Nader, now that we have complimented you, some people ask me why Ralph Nader should appear before these hearings. What does he know about productivity?

I am sure your testimony this morning will provide the answer, and I think it is exactly the kind of thing that we need to balance our tendency to emphasize strictly the numbers and the sheer economic advantages of productivity.

Mr. Nader, take it away.

By the way, one other innovation since you've been here: we limit every witness to 10 minutes, and when you have 2 minutes to go, a buzzer will go off warning that you have 2 minutes left, and then maybe with your ingenuity, you can answer questions.

STATEMENT OF RALPH NADER, CONSUMER ADVOCATE, ACCOMPANIED BY MARK FREDERIKSEN

Mr. NADER. Thank you, Mr. Chairman. I won't waste time in my own defense and I will start directly with my statement, although I appreciate both your comments and I think the bipartisan reply would be that you are both right.

One, traditional measures of productivity are too heavily focused on output per worker hour and are too plant or factory bound. There is a series of suggestions which I would like to make with the hope that the issue of productivity be viewed in the broadest possible context if it is to become a humane means to a higher quality standard of living for the people.

Far greater emphasis needs to be placed, for example, on the service sector and white collar, which now accounts for over 60 percent of labor in the United States and also, I might add, accounts for some of the most inefficient areas such as the medical care delivery system. More emphasis needs to be placed on poor, higher level management, on competition between companies and industries as a spur to higher productivity.

Attention should be given to such relationships as that between the rising labor productivity and a declining energy productivity. One product, for example, such as aluminum cans, can have a much lower energy productivity compared to an acceptable alternative.

The extra energy used by the steel industry or aluminum industry to compensate for their drop in energy productivity may have accounted for about 2 percent of all electricity produced in this country during the recent 5-year period. With a restricted energy supply, such demand can raise prices, generate pollution and its costs and radiate in other ways throughout the economy so as to have a most significant impact on productivity determinants.

Such a trend, too long ignored, needs to be charted much more carefully, and it might spotlight better the problems of greater efficiency in energy utilization and innovation.

Two, productivity must not be viewed at the expense of worker safety and health. The coal industry, for example, with its highly automated machines, actually increased the fine, dense coal dust that impaired or destroyed the lungs of coal miners. Proper safeguards could have been taken.

All measures of productivity should take this social cost into account, for occupational health and safety also is a key factor in the society's standard of living. Industries in European countries frequently exceed the job safety performance of industries in this country.

I might also add that there are some in the business world who believe that reducing occupational disease and injury is a function of efficiency or productivity, not as it usually is considered to be, just an added cost.

Third, the elusive problem of "job satisfaction," the development of the quest for meaning in work, the reduction of monotony, expendability on the job, absence of opportunity or right to share in decisions affecting the workplace require more initiatives and habit breaking by management and labor leaders. Spending some time "on the line" for 2 or 3 weeks a year on both their parts may be just the kind of behavioral experience that will sensitize them to worker problems, alienation, and anomie.

Fourth, consumer fraud, product hazards, and monopolistic practices—such as the recently disclosed FTC report on monopoly costs—made available by Senator McGovern—as they raise prices to the consumer, provide increased pressure for high wage demands that are unrelated to company efficiencies. This connection obviously misallocates resources and reduces competitiveness in international trade. The reduction of the 2 by 4 for housing construction may be viewed by some as increased productivity, but by others as shoddy or even unsafe construction.

Fifth, a faster emerging technology which efficiently recycles waste material, or prevents such waste in the first place by developing standards or systems which reduce the use of energy or ecologically harmful materials, for example, is a key factor in the longer range productivity planning. Some of this work is going on at the Oak Ridge Laboratory in terms of substitutability of materials, and there is a great deal of information that needs to be brought to the committee's attention.

If, as the chief of Dow Chemical told Business Week recently, his company is already at the point of being able to recycle for profit, as well as avoid fines, then more needs to be known fast about this horizon.

Sixth, the subcommittee should hear from workers, foremen, and union specialists in labor productivity. Such experience may well bring fresh insights into the subject which economists and statisticians can-

not generate, or, in present conceptual frameworks, measure or use. Such input might, I am suggesting, lead to better theory and be a stimulant to broader measurement standards. This suggestion extends to receiving the experience of other countries, such as Sweden and Yugoslavia where new organizational methods of mass production and workers sharing in such decisions have been undertaken.

Seventh, the following quotation—really a moment of candor—by Robert Stevenson, president of Ford International, appeared in the August 13, 1970, issue of *Autocar*, a British publication: it warrants careful consideration, given the myths and alarms peddled by too many industries in this country seeking special supports and privileges from government:

Political, social or monetary problems, the economic systems elected by the different countries, all this will hardly count on a long term basis. Only one thing matters: the level of productivity.

Whether they are socialist, communist, or capitalist, the countries remaining in the race will be those capable of producing efficiently. This also applies, of course, to the different manufacturers. In this respect, the great progress of automation made over the past ten years has minimized the differences among the big world manufacturers, whatever their labor costs may be.

U.S. hourly wages are often double those of other countries, but this is no longer as important as it used to be, inasmuch as labor costs have a lesser bearing on the cost of a vehicle. There are no more than nine or ten hours of manual labor left in the assembly of an automobile. If you add up all the elements of a car, from tires to engine, glass, seats, etc.—without counting raw material—the total number of working hours embodied in a car is between 65 and 70.

Hourly wages don't make the difference anymore between manufacturers in different countries. The difference lies in techniques and in production volume.

Eighth, the Price Commission has changed its method of calculating the effects of productivity when determining the maximum allowable price increase. Previously, the Commission required the companies to calculate their own productivity when determining the maximum allowable price increase. This productivity increase was subtracted from the cost increases to determine the final price increase.

Thus, if costs went up 4 percent, but productivity went up 2 percent, the company was granted a 2-percent price increase. Apparently, it was in the companies' own narrow and immediate interest to hedge for lower productivity figures.

Chairman Grayson testified before the Joint Economic Committee that some 95 percent of the companies reported productivity figures below their respective industry average. The Commission has now changed and begun utilizing BLS productivity figures. Sources in the Price Commission have informed us that had BLS data been used all along, the average price increases approved would generally be 0.2 percent lower than was the case.

Applying this to \$7.5 billion approved increases before March 22, it would have meant a savings to consumers of about \$475 million. This subcommittee might wish to follow through on this episode to determine what recommendations should be made regarding unjust enrichment by the companies at the expense of consumers.

Furthermore, the Price Commission continues to prevent citizens from having the information due them in order to more precisely evaluate its performance. Still, among other penchants for secrecy, the Commission refuses to disclose the average productivity increases,

for instance, of the four domestic auto manufacturers lump sum. It claimed that it does not calculate such average data, but the information is stored in their computer system—which has cost almost \$750,000—and can be easily calculated.

This information is not of marginal significance, since each percentage point shaved could mean hundreds of millions of dollars to consumers. Small wonder that corporate profits are rising so much over last year, while real wage gains are relatively constant and price levels are increasing, with wholesale price indexes forecasting the same trend for the future.

Ninth, a good many of the criticisms of the Price Commission might have been avoided if more of their members came from nonbusiness backgrounds or allegiances. For example, J. Wilson Newman of the Commission is on the boards of several companies—which is his right—including General Foods.

On March 7, the Price Commission acted by a vote of 4 to 2 to reduce the maximum price increase for term limit pricing firms. Previously, a firm under the TLP agreement was allowed to raise prices an average of only 2 percent in 1 year.

Under the Price Commission's revised TLP agreement, all new TLP firms would be limited to an average annual increase of 1.8 percent. Mr. Newman, a current director of General Foods, voted against the TLP reduction. In a press release of March 15, the Price Commission announced the new lower limits for TLP firms.

General Foods submitted a price increase request dated March 16, which was hand delivered to the Price Commission and received on March 17, at 10:33 a.m. The company requested a TLP agreement under the old limit of 2 percent.

The Commission announced in its decision list of April 18 that General Foods was granted a term limit pricing agreement at the 2-percent rate. Jef Eves, of the Price Commission's Office of Public Affairs said that the General Foods increase was the very last case under the 2-percent TLP agreement.

It seems as though General Foods' knowledge of the independent rule change hastened their efforts to gain a TLP agreement. Still, they didn't get in "under the wire," but were allowed the more liberal increase rate, a savings of over \$4 million.

The Price Commission's explanation raises serious doubts about the process of "negotiating" price increases and the ex post facto interpretations of such malleable ambiguities.

Tenth, the committee should not only inquire about what the National Commission on Productivity has done since 1970, but what can it do, given the predominant views of its membership. The whole aspect of productivity is really mired, very heavily in tradition, in habit, in professional narrowness, and obviously in various economic vested interests. Take the public membership which consumers would have to rely on heavily. John T. Dunlop has spent a career consulting for unions. He may represent unions but I doubt whether he can represent the public in the vigorous way that is needed here. He is also a cautious status symbol of the status quo. Arjay Miller, formerly president of Ford Motor Co., now dean of Stanford Business School, should have been placed in the business membership column, along with his industry-indentured colleague, W. Allen Wallis of the

University of Rochester, who would make the president of General Motors sound like a liberal on safety policy. One searches for members, in addition to William T. Coleman, who have the inclination, freedom and time—time is a problem for everybody here on this Commission—to really come to grips with some of the more controversial determinants of productivity such as competition and enforcement of antitrust laws and some of the other points mentioned above. The problem with the Price Commission, the Pay Board and the National Commission on Productivity, as we and many others have stated before this committee, is that their structure and representativeness are not conducive to a job well and justly done.

Just imagine, members of the Price Commission are part time. I mean, that is just, in its own focused way, an indication of the kind of restrictions—quite apart from value systems—that are placed in the structure of these Commissions, as well as their lack of Congressional confirmation.

Thank you.

(The following addendum was subsequently supplied for the record by Mr. Nader:)

ADDENDUM TO STATEMENT OF RALPH NADER

I would like to comment further on the recent denials of price increases discussed in yesterday's hearings. On cursory examination, the action of the Price Commission, in turning down the price increase request by the Ford Motor Company, and that of the ICC in denying the railroads a 4.5% increase in rates, give the impression that the government's long arm of Price stabilization is finally flexing its muscle. Closer examination, however, shows that the actions are more on the order of isometric exercises. While the ICC suspended the railroads' request for a 4.5% increase, it quietly eliminated the expiration date for the "emergency surcharge" of 2.5% which has been in effect since February 5, 1972. Thus the denial of a "4.5%" increase really amounts to a suspension of a further 2% increase. The Price Commission, meanwhile, denied the request of Ford to increase the price of certain auto parts by 4.45%, and applied Ford's customary profit markup to the cost increases for its foreign-made Capri autos. Although the decision is meaningful to those purchasing replacement parts or Capri autos (who won't be feeding extra profits into Ford's coffers for retailing its foreign cars) its significance to Ford is miniscule in light of the increases already granted.

Secondly, I would like to reemphasize the significance of the procedural process which was brought to light by the General Foods TLP increase. The Price Commission has stated that it had held many "negotiation" sessions with General Foods before any request was formally made. Once more, the Price Commission seems to think that these discussions are binding on itself, but not on the company involved. In the case of General Foods, a rule change was duly made before the actual request for an increase was made. I believe that the point of negotiation begins when the formal increase is submitted, as this is the first time that the public is notified of the requested increase, and thus is its first opportunity for participating in the decision-making process. The Price Commission would prefer that the agreement be hammered out in the back rooms, out of sight of the public, as was done for over a month and a half with the General Foods case, and is currently being done with the increases for next year's auto prices. For the company, these back-room negotiations not only have the advantage of secrecy, but they buffer the company from any future rule-changes not the company's liking, as the Price Commission will not apply the rule changes "ex post facto" upon a company that has entered into no binding agreements with the commission. If such procedures are to continue, all companies would do well to discuss with the Price Commission as soon as possible any increase proposed for the distant future. Thus, if a rule change comes along, the company would retain the option of choosing which regulation, old or new, would best suit the company's purpose.

The concept that prior discussions free a company from the effects of a rule change should send shivers down the spine of any administrator with a semblance of obligation to his duty. In the General Foods case, the company formally requested an increase under a rule that had been changed two days previously. The simple argument that the Price Commission had been talking to the Company is hardly a rationale for granting the price increase under the older, more liberal rules (at a savings to the company and expense to the public of over four million dollars).

I believe that this committee would be wise to investigate further the Price Commission's process of hammering out "negotiated increases" made before the public has been given the chance to participate. Certainly the increases of the auto industry, with its significant impact on the economy, must not be handled in this way. Also, in light of the General Foods case, it seems in the public interest that the company be handled like any other that filed for a TLP increase after the rules had been changed.

Finally, there is the issue of whether the public must pay increases in excess of \$475 million granted by the Price Commission based on false productivity data provided by the companies. A "mistake" of this magnitude cannot be "chalked off to experience" but must be rolled back. This, coupled with the Price Commission's bankrupt policy of allowing companies to gain further profits from price increases, has cost the consumers over \$1.2 billion in overcharges, with no relief in sight.

Chairman PROXMIRE. Thank you. Your timing could not be better.

Mr. Nader, you make an appealing pitch for getting away from the mechanistic simple-minded drive where productivity is the answer to all of our problems. In effect, you ask the proper question, why? Too often that question is not asked. Why is materialism the only answer? Does man live by bread alone?

We need to be asked this, but on the other hand, isn't this likely to collapse the whole effort? To take President Nixon's favorite analogy of a football team, if a football team is going to ask, is this brutal pain of blocking and tackling really worth it—if they can ask that, can they compete and win.

Vince Lombardi was an idol of mine, and he is accused of saying, "Winning isn't the most important thing, it's the only thing."

Well, I question that statement as you do here. At the same time, he is one who got terrific results in competition.

Isn't this approach, with all of its human value, one that we have to be pretty careful about taking in view of the kind of international competition we are involved in? As you say, this isn't a matter of a capitalistic system. The Communists have the same approach. So do all systems. They stress, and stress hard, production per man-hour, so that we are the ones who soften on this thing. We might be happier people for a while, but can we afford to do it.

Mr. NADER. Let me answer the question—well, before that, let me introduce—if I may introduce into the record, Mr. Chairman, a submission that elaborates on some of these points.

Chairman PROXMIRE. Yes, indeed. Without objection.

(The submission referred to follows:)

Though great concern has been paid to labor productivity, the subject of energy productivity (energy used per unit of output) has received little attention. Using the latest available data from the Dept. of Commerce, energy productivity figures have been calculated for some selected industries, and are compared to labor productivity during the same period. As can be seen, the labor productivity in each industry has increased, while the energy productivity has plummeted, further straining the nation's energy resources.

Changes in productivity from 1963-67

	<i>Percent</i>
Aluminum :	
Output per man-hour.....up--	8.25
Output per fuel and electricity.....down--	8.25
Output per kw. electricity.....do--	7.00
Steel :	
Output per man-hour.....up--	7.3
Output per fuel and electricity.....down--	6.3
Output per kw. electricity.....do--	24.0
Motor vehicles :	
Output per man-hour.....up--	9.7
Output per fuel and electricity.....down--	3.0
Output per kw. electricity.....do--	10.0
Canning and freezing fruits and vegetables :	
Output per man-hour.....up--	11.0
Output per fuel and electricity.....down--	20.0
Output per kw. electricity.....do--	33.0
Cigarettes :	
Output per man-hour.....up--	4.7
Output per fuel and electricity.....down--	33.0
Output per kw. electricity.....do--	47.0
Petroleum refining :	
Output per man-hour.....up--	26.6
Output per fuel and electricity.....down--	8.0
Output per kw. electricity.....do--	19.0
Million kw. used by steel :	
1967	44,597
1963	29,433
Difference between 1963-67.....	15,164

Decrease in productivity accounted for 11,000 mkwh or about 1% of all electricity produced in 1967.

Fourteen percent increase in output differences should only be 4,200 mkwh if energy productivity remained constant.

Sources : "Indexes of Output Per Man-Hour, Selected Industries, 1939 and 1947-70," Bureau of Labor Statistics Bulletin 1962. "Census of Manufacturers," U.S. Department of Commerce, 1963, 1968.

Mr. NADER. And I'd also like to introduce Mark Frederiksen, who is with me, who's worked quite a bit on the price-wage control system. He's well known to members of the Price Commission.

Chairman PROXMIRE. Fine.

Mr. NADER. I notice in your announcement, Senator, you stress what needed to be stressed first, notice, to improve our standard of living, and when we are dealing with standard of living, we're obviously speaking a great deal about services which usually are not expected.

We can have, for example, a high standard of living in our medical care delivery system, but it's hard to sell that to the Yugoslavs or to the French, so when we do talk about productivity we have that as a touchstone, at least one touchstone of our evaluation.

What you said has to be taken very seriously. We are now facing an economic system where growing GNP is not solving many of our domestic problems. Indeed, it is sidestepping them, such as our inner cities' deterioration, or it is inflating them, such as the medicare system as it is practiced and administered, or it is creating them excessively, such as pollution, so that we cannot measure, inboard, how many widgets come out of a plant per man-hour when we try to lay the guidelines for a higher guideline of living.

One can say, for instance, that one of the most efficient sectors of any economy in the history of the world is the Red Chinese medical care and delivery system which every American physician who has

been visiting China to observe it recently is absolutely impressed by its distribution to nearly a billion people, the economy of its scope, and generally by any economic indices, amazingly efficient. They can't export that, even if they wanted to for their foreign exchange or if they wanted to improve their international trade posture, and neither can we.

So, I think that a great vista on new evaluations of productivity is how does it meet peoples' needs, whether or not they are market structured. Many needs, for example—like the need to breathe fresh air and use clean water—are not market structured. Those resources are clearly critical to our standard of living, however. It clearly has to be reflected in the policy and the determinants of productivity.

Now, what about overseas? Here companies are basically selling products and know-how and to some extent services such as insurance or banking services. Now, here is where I think Mr. Stevenson's comment, president of Ford International is so startlingly to the point, where, in effect, he is beginning to show that if we look at this problem in terms of comparative wage rates, which are the popular presentation of this, we are going to miss the point. The point is, as he states it, technique, automation—and he doesn't mention explicitly—but distribution systems, efficiency of distribution systems, particularly as they involve white-collar workers who tend not to be subjected to the same productivity yardstick, and pressure, that blue-collar workers are subjected to. And there is another part implicit in your comment.

What kind of life do workers lead? After all, they spend a good portion of their waking hours in really dangerous, noisy, hazardous, boring, tedious work. In order to try to find out what they felt about that, the Center for Study of Responsive Law intensively interviewed workers, nine workers, ranging from a coal miner to a taxi driver, bricklayer, and we have put out this book called "The Workers." What comes across in this book is something much more, I think, troubling than dissent or dissatisfaction with the system.

What is really more troubling is an adjustment to it. That is, they showed in many ways how they have adjusted to what really can be considered an inhumane workplace system, given the wealth and pretensions in this country. The fact that they can pay their mortgage gradually, they can buy a car with a coal miner's wages, cannot obviate the 40 or 50 hours working under the ground, exposing the workers to coal dust diseases and the other hazards and demeaning dehumanization of that mining system.

So, when we do talk about productivity, we have got to start with the workplace, and what workers feel and don't feel about the workplace, and to what extent must workers be given a higher decisional role over the workplace, something like worker-management councils.

If they're happier, if they feel that they have a conscious input into what is being produced, if they have that kind of change in tedium—and many other suggestions have been made by productivity people who have seen the broader picture—you are going to get a higher productivity.

Chairman PROXMIRE. Well, I want to come back to that, but let me get to a specific question.

In your statement you make what seems to be a very serious charge against the Price Commission. Let me make sure that I have the facts straight.

The Price Commission voted on March 7 to tighten the rules on term limit pricing, otherwise known as TLP, on those agreements. Mr. Newman participated in this vote.

Is that right?

Mr. NADER. Yes.

Chairman PROXMIRE. Subsequently, on March 17, General Foods applied for a term limit pricing agreement, and this agreement was later approved under the old generous 2-percent rule rather than the new rule in effect at the time of the application.

Is that right?

Mr. NADER. Yes.

Chairman PROXMIRE. Now, what reason did the Price Commission give for this special treatment?

Mr. NADER. The reason which they gave which I called a malleable ambiguity.

Chairman PROXMIRE. You call it a what, again?

Mr. NADER. A malleable ambiguity.

Chairman PROXMIRE. Malleable ambiguity.

Mr. NADER. In that the new limit was not to apply to companies already having agreements with the Commission, which did not include General Foods, or which are already in direct negotiations with the Price Commission staff for TLP at 2 percent or less.

Well, the question is, what is a direct negotiation?

Well, it seems to me that any informal contracts don't constitute a direct negotiation because almost every company in America has had informal contacts with the Price Commission. Direct negotiation is when the first formal submission is made, and that first formal submission was dated March 16, hand delivered to the Price Commission, received on March 17 at 10:33 a.m.

If they are going to interpret negotiation to mean informal contacts, then there wouldn't be any major company that would come under the TLP reduction.

Chairman PROXMIRE. Now, as I understand it, Mr. Newman is a director of General Foods. Could he have known on March 7 that General Foods was planning a TLP application?

Mr. NADER. I think you would have to ask him.

Chairman PROXMIRE. Well, isn't it true that direct negotiations were underway?

Mr. NADER. I think they were in contact, but I can't read his mind.

Chairman PROXMIRE. Do you think Mr. Newman acted improperly in voting on this rule change?

Mr. NADER. I don't think he made the right decision. The word proper depends on what information he gives to your inquiry, but what I am saying, it doesn't sound good at all. It is just part of this two-hat situation, this implicit conflict of interest.

Now, as you know, the members of the Price Commission are exempted from conflict of interest regulations.

Chairman PROXMIRE. Except for the chairman.

Mr. NADER. Except for the chairman, they are exempt from the conflict of interest regulations of the Federal Government, and this was done, I suppose, for a number of reasons, but I would just like to read you the quote by Charles Walker, Undersecretary of the Treasury Department when he said, "We wanted to make 100 percent,

double-dog sure that the whole world knew that they were not subject to conflict of interests, that is the 20 members including the Pay Board members were not full time. By Congress saying this out loud, enacting it to law, there would be no questions that would come up in the press."

Well, what he forgets to recognize is there may not be a technical violation of conflict of interest because they have been exempted, but that doesn't avoid the propriety of raising a serious question about this kind of double allegiance.

Chairman PROXMIRE. I fought very, very hard for a conflict of interest amendment that would have provided that all members of the Price Commission would be subject to it, and all I could get out of it was that Mr. Grayson, the Chairman, was subject to it.

What, under the present circumstances, should be done to protect the public in these possible conflicts of interest in the Price Commission?

Mr. NADER. Well, what has to be done is for Congress to pass an amendment. That is what has to be done. I think there is enough indication of dual loyalties and secrecy that do not allow the public to evaluate exactly what his role and other people's roles were on the Pay Board and the Price Commission, and the whole pattern of the Price Commission, which took a long time even to announce its votes, whether it was 4 to 3, or what the votes on various issues were of the Price Commission members.

That law argues for something far more than a letter from a committee of Congress or some voluntary assurance by the members of the committee. It argues either for amendment by the Congress or for a short-term recommendation that these members resign and that they be replaced by people who can both give more time and more undivided allegiance to the functions of the Price Commission.

Mr. FREDERIKSEN. May I comment?

Chairman PROXMIRE. Well, my time is up.

Congressman Brown, would you permit a further answer?

Representative BROWN. Yes.

Mr. FREDERIKSEN. Something that bears very, very close scrutiny that comes out of this affair is the process of the Price Commission negotiating with the company or in the terms Mr. Eves of the Price Commission—they were in "direct negotiation"—

Chairman PROXMIRE. Whom?

Mr. FREDERIKSEN. Mr. Eves—E-V-E-S. He is in the Public Affairs Department. He told me the Price Commission was in direct negotiation with General Foods for over a month before they submitted the TLP pricing agreement. Another example, last week in the Wall Street Journal there was an article about how the auto companies are now negotiating with the Price Commission about the next model year's price increases.

Now, there's absolutely no public input to this whatsoever. We cannot get any semblance of the data from which the Price Commission is basing its decisions, an example, the productivity data for the auto companies. We can get absolutely nothing, the consumer has no voice in this process whatsoever. This system has simply got to change. There's probably over \$8 billion worth of increases approved right now for which the Price Commission held no public hearing what-

soever on any increase, and the Chairman of the Price Commission stood here last week and said he will not hold any hearings as required by law.

This system has simply got to change.

Mr. NADER. There's also another aspect, for example, of the lack of careful regard for arm's length relationships. Have you heard of the President's Commission on Personnel Interchange?

Representative BROWN. Mr. Chairman, I don't mind yielding to you, but I would like to ask my own questions and let Mr. Nader ask questions on his own time.

Mr. NADER. Well, fine.

Representative BROWN. Well, I was just advised I have a quorum call in the House and I know that counts on the effectiveness of my representation.

Chairman PROXMIER. Well, please go ahead, Mr. Brown.

Representative BROWN. I think your comment about productivity increase as a function of health and safety and environment has considerable merit, and I would like to see us get into a system of assessing that in terms of our concerns about productivity increase.

How do you measure it?

Mr. NADER. Well, that's a very good question.

It's really very primitive.

Representative BROWN. Thank you very much. How do you measure it?

Mr. NADER. Well, that's it. We don't know how to measure it except by the following, lost hours, lost wages—

Representative BROWN. You would equate it with the cost of producing the product?

Mr. NADER. Well, certainly that's the hard nail way to equate it. I could have other reasons for doing the same thing, but if you want to talk about dollars and cents, yes.

Representative BROWN. I wonder if you would submit to us some specific suggestions about how it might be worded. I don't want to get into a philosophical discussion because I have a number of questions. I want to go, then, to other things, such as job satisfaction. How do you measure that?

Mr. NADER. The best way I know of starting to measure is to ask the worker as well as the health and safety aspects of job satisfaction.

Representative BROWN. You mentioned this with reference to coal mining, and what occurs to me is a story that is unfortunately very personal, but when I was called into service in the Korean war, about the same time a Reserve Army unit in my area was also called in, and I talked to one of the fellows who was in my unit, and I said, you know, I feel kind of sorry for you. You are going into the Army and I'm getting called back into the Navy, and I am the guy who's lucky because I'm going to be sleeping between clean sheets every night, and his response to me was, to heck you are the lucky one. I am the lucky one.

And I said, I don't figure that, and he said, you know what? They don't give you a shovel and I have one that I can dig with when they start shooting at you.

Well, now, in terms of job satisfaction or where he would rather be, I gather his preference was for the Army, mine was for the Navy

in that circumstance. Maybe neither one of us really liked to have had to go, and then there are a lot of people who would not like to work at all, and I being one of them, if that were one of the choices in life.

Now, the question I'm getting at is, how do you measure job satisfaction for all of the elements of society?

Mr. FREDERIKSEN. One thing you can look at, the Bureau of Labor Statistics compiles right now, is job turnover rates. You can also compile statistics on absenteeism, too.

Representative BROWN. Those statistics vary, do they not, as we get closer to full employment? As you get beyond the 4 percent full employment level, I am under the impression that job absenteeism increases rather significantly.

Now, do you equate that in this picture? You are aware of it, aren't you?

Mr. FREDERIKSEN. Well, yes. They now have a little room to play. You are saying that as unemployment goes down, absenteeism will increase.

Is that what you say?

Representative BROWN. Yes.

Mr. FREDERIKSEN. Well, there's less of a supply—you know, the supply and demand.

Representative BROWN. Yes, I understand why it occurs.

My question is, how do you equate it into the whole system of job satisfaction because it varies from circumstance to circumstance?

Mr. FREDERIKSEN. Well, one thing, you do something like the Bureau of Labor Statistics does with seasonal adjustment, you could have an unemployment adjustment.

Representative BROWN. Well, how do you measure job satisfaction between two people, one of whom would like to be in the Navy and one of whom would like to be in the Army?

Mr. FREDERIKSEN. Well, perhaps you could look at something like an input-output table of all employment, not only looking at the turnover rate of an individual section of the economy, perhaps motor vehicles, but look where people are going from and where they are going to.

That may be one alternative.

Mr. NADER. Another indication is where you may have—

Representative BROWN. Now, I don't understand that because maybe here I sit as an eighth grade educated person and I would like to be a college professor. My job satisfaction, however, with the job that I must necessarily hold in order to survive is necessarily what, high, low? You see, I'm not equipped for the job. That's what I'm trying to get at.

Mr. FREDERIKSEN. What you're saying is perhaps there's a little bit of status quo factor in the whole thing.

Representative BROWN. Well, what I'm saying is people are different. People are different in their qualifications and training, and they're different in their personal ideas about what they would like to pursue as a career.

How do you measure job satisfaction?

Mr. FREDERIKSEN. Well, the idea of sort of an input-output table for a job turnover, if you went into the Army and the other person went

into the Navy or vice versa, then that difference would be zero. The thing is pretty much the same as it was, taking the flow between two points.

Representative BROWN. I think you're going to have to refine it a little.

How do you measure some of the factors in our economy that are involved here with reference to what we try to do to improve the quality of life for the average citizen?

I am thinking particularly of higher taxes, increasing Federal controls, reduction in choices of products, careers, the kinds of freedoms we enjoy, and what might more appropriately be called a laissez faire system as opposed to the system of strong Federal implementation of things like on-the-job safety programs and product safety, product limitations.

How are those things measured in terms of getting an equation of productivity? In order to increase the quality of the environment, for instance, we're going to have to put on some rather severe environmental controls. I think we're all sort of agreed to that.

How do we measure this in terms of our society?

Mr. NADER. Well, there's three ways necessary to reply to your question.

First of all, there's a lot of things we don't even know anything about, so we shouldn't at first try to measure them. We should try to talk to workers first.

Intensive interviewing and intensive dialog with workers are very key in the beginning in part of the recent literature that deals with the workplace and the factory scene and so forth, because we've been dealing too much with hard statistical calculations without actually getting down and talking to workers to determine, how satisfied are they within their existing level of expectation. Let us assume the assumption is they are not going to get a better job, they're not going to get a promotion. How satisfied are they within that framework.

And then you develop a second framework in terms of what expectation level would they like to aspire to. For example, when you see the workers in the Lordstown plant, the GM Vega workers in Lordstown, Ohio, striking not over wages and not over seniority, striking over work conditions, that is a gage of worker dissatisfaction, particularly when you go out there and get chapter and verse about what they think is the source of their dissatisfaction, and so—

Representative BROWN. What I am trying to do is equate that with productivity, with higher taxes, with increasing Federal controls, with things that are necessary to accomplish these measures of our success which you have outlined in your first paragraph, with which I agree heartily.

Mr. NADER. Well, first of all, this is just like input-output analysis. You put in the various things you want to do, what they cost, what the alternatives are, and spin it out in a more complex way, and then you come out with the various alternatives.

For example, if water pollution control costs \$25 billion over the next period of years, if we can show that if we don't invest this \$25 billion we're going to have rising indices of hepatitis and other disease and property damages and fishery resources wiped out, and if we can also show that that \$25 billion is not really a net cost since its going to

generate more income, more jobs, and more profits in terms of developing a new subindustry, then we can start making the calculations.

You know, it can get very complex, like an input-output table.

Representative BROWN. How about the taxes involved in supplying the \$25 billion?

How do we figure that? How do we figure the elements that go into it? Is there an index that you can give me of everything that ought to be included?

Mr. NADER. Well, what you need here is a welfare economist who will develop for you a hedonistic index or other very, very abstract or technical ways of utilizing data.

What I am saying is that the framework is really a mechanical one, once you accept the process of making value assumptions and facts clear.

As to what are the assumptions and what you put into the program, that is where the real problem is. For example, there's an economist who developed a hedonistic index to automobile utilization, but I don't think we're at that point in the area you speak to. I think they are far more sophisticated in calculating what we need. I think what Congress has to do is make some more basic assumptions, more basic disclosure, broadening the concept of productivity more clearly.

Representative BROWN. Well, you missed my exchange with the Secretary of Commerce in which we discussed the need for more sanitary engineers in terms of this \$25 billion expenditure and water pollution control.

You would concede that we need more sanitary engineers.

Mr. NADER. Yes.

Representative BROWN. And the problem currently is we're not getting enough people in engineering, and that we're having a geometric increase in the number of people who want to be lawyers.

I'm not sure what help the lawyers can be with reference to sanitary engineering problems.

Mr. NADER. Well, let me tell you.

Representative BROWN. Sir?

Mr. NADER. Well, let me tell you; if I may.

Representative BROWN. Well, may I ask the questions I want to ask rather than—I am unfamiliar with that.

Mr. NADER. No, no. This goes right to your point, if you'll just let me interject. You want—

Representative BROWN. What I would like to ask you is, how do you measure the dissatisfaction of people who would like to be lawyers who are encouraged or seduced or incentivized to being sanitary engineers because that is the need that society seems to have at the moment?

Mr. FREDERIKSEN. Well, it's a bit of a conflict in terms. If a person has been seduced into doing something, then, obviously they wanted to do it.

Representative BROWN. Well, let's say regulated into doing it.

Mr. FREDERIKSEN. OK. You may say regulated by the economic terms. The sanitary engineer may get twice as much pay as a lawyer because of the laws of supply-demand type of concept.

Well, there you raise a valid point, but still one of the problems that people should want to get into the job that they have to do. For instance, if they did not have pride in their jobs—

Representative BROWN. But we need the sanitary engineers.

Now, what are we to do to get them; anything?

Mr. NADER. Well, that is part of manpower training, which is a traditional program to improve productivity. Manpower training, the conversion economic policy, but you see, my point is that if we really knew how to handle this water pollution problem with the technology we have, we wouldn't need that many sanitary engineers, for example, or we would have different systems of cycling waste disposal, like the land disposal systems for sewage, which would reduce some need for sanitary engineers.

It really goes to the point that you were making that we constantly have to reevaluate how new technology requires a different allocation of human resources.

Representative BROWN. My time is up. I did want to make one point, that your statistics are in error with reference to the current status of the Wholesale Price Index and the Consumer Price Index, and in view of—well, I don't want to get into that, but in view of the timing of the statement, it seems to me the current statistics ought to be used.

Mr. NADER. I don't think so, not the Wholesale Price Index.

Mr. FREDERIKSEN. Also, I might add, the Consumer Price Index, there is a statistical quirk in every sector of the Consumer Price Index, went up and mysteriously the general index stayed the same. Wholesale prices are still increasing.

Representative BROWN. Not at the same rate that they were, and that is the inference of the statement.

Chairman PROXMIRE. Before I call on Senator Percy, I hope you'll address yourself some time to the statement by Mr. Meany who told us that we needed plumbers more than lawyers, that we can get along in a city of 7 million people without lawyers, but you couldn't without plumbers.

Mr. NADER. I wonder who passed the labor laws?

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Possibly job satisfaction is being where you are needed, Mr. Brown—what is the satisfaction in being an unemployed lawyer as against an employed sanitary engineer? You weren't seduced into your profession. You went into it with your eyes open because you felt you might be unemployed in one area and needed badly in another, just as doctors are needed today and engineers, particularly in space science, aren't needed.

Representative BROWN. Never having been either, I can't answer.

Senator PERCY. Mr. Nader, I welcome you and appreciate your being here.

Do you have any estimate as to the loss in productivity which is caused by shoddy workmanship in American factories? Do you have any idea of the dimension of it?

Mr. FREDERIKSEN. We may take the general index of looking at the nonproduction workers. Part of it would be the whole quality control problem, making sure the right order gets out, that it is of the proper quality.

The productivity of nonproduction workers is not going up as fast as the productivity of the production workers. One would think that if you designed the plant properly and you constantly were redesigning the management system, that you would, as much as possible,

eliminate the supervisory and quality control-type people. This does not seem to be the case.

Mr. NADER. I might add, also, if you ask yourself how does shoddy workmanship register economically. There are two ways it can register economically. One, the costs are passed on to the consumer. The consumer has to pay for repairs, for replacement. Therefore, the consumer is getting less for the consumer dollar. Therefore, that consumer, who is a laborer, is going to be part of a higher pressure for wages in order to pay for the bills at the store, and these wage gains may not be connected with productivity gains or efficiency. That is one cycle.

What the consumer movement is trying to do represents the second cycle, that is to prevent the easy transfer of shoddy workmanship on to the consumer and make it be internalized as a cost of production. When General Motors or Ford recalls hundreds of thousands of cars, part of that cost, presumably, is going to be absorbed by these companies. Let's assume they don't transfer it on in anticipated price increases—part of that cost.

On the other hand, insurance premiums may go up; there may be increased litigation. All of these are added costs to shoddy workmanship, so you get it either way. You either get it by transferring to the consumer, cheapening the consumer dollars, building up the demands for wage increases—it's not only shoddy workmanship, but things like adulterated foods and things like that—or it is cycled directly back in terms of recalls and premiums and better quality control systems for correction.

Obviously the latter one is the better way to do it. If you can internalize the social cost, you really provide the most efficient way the economy can afford it, viewed as a whole, to prevent that cost. I mean, an ounce of prevention is worth a pound of cure, if you can catch it at the earliest level. As you have said, your experience in industry is that job health and safety is economically provable; it is not just a humane thing, if you look at it in other than just the next 6 months or some very short range thing, it is an economic asset to productivity.

Senator PERCY. Obviously, if you have to recall 6½ million automobiles, the consumer pays for it competitively against foreign manufacturers, that cost is a tariff cost which hurts us in world competition. It causes more imports. It causes less exports.

I noticed in the Washington Star that George Krumbhaar, the head of our minority staff, was on the highway driving his Ford Torino 70 miles an hour, and all of a sudden the axle apparently dropped down almost a foot, and he screeched to a halt. He finds now that 396,000 Ford Torinos and Mercury Montegos have been recalled for this problem. The nature of the recall is to install a retainer plate which the company says will provide a warning sound in case the axle bearing should fall again. I assume that the plate might be some comfort considering the possibility of a crack up, but, I ask your opinion, as an expert in this field, again, taking into account problems of this type, be they matters of design as in this case or of faulty workmanship, whether they are not a terrific cost of productivity, and if you would care to comment on the kind of repair job that is being done.

Mr. NADER. It is what is called a cheap fix, which is an alarm clock to let you know what is going to happen a few miles down the road, and as you say, it was not shoddy workmanship. Most of these recalls are not shoddy workmanship because you can't have such consistently shoddy workmanship. They are design problems, and what Ford wanted to avoid was a major reinstallation in the axle system, which would have cost them more.

We have written a letter to Douglas Toms, head of the National Highway Traffic Safety Administration, asking for his agency to reconsider their position on this to see whether they want to urge Ford to make a more permanent and a safer repair or installation.

As you know, the Government doesn't have the authority to require this yet, under the auto safety law that may be amended before this Senate shortly. They can only require notification of defect.

Mr. FREDERIKSEN. Taking the point one step further about catching these things at the earliest possible time, perhaps a little investment of a little money to collect complaints of this nature and computerize them. Such as a computer could watch trends, for instance, in the automobile industry, and could make prediction of these things possible. For instance, the motor mounts in a 327 Chevy V-8 engine may be suspect, the computer system could check out the rate of failures.

Had this thing been in effect, perhaps the whole recall of millions of Chevrolets may have been caught much before it was, and perhaps lives saved.

Senator PERCY. I have a copy of "The Workers," which was prepared for Ralph Nader's Center for the Study of Responsive Law, and you indicate in the forward that, "a kind of initiatory democracy by which citizens can assert themselves over larger social organizations, be those organizations corporate or governmental, is needed."

Could you explain more precisely what you do mean in this respect?

Do you believe a successful program of initiatory democracy could have a marked effect on worker productivity, actually?

Mr. NADER. Yes. In that context, what I meant was a worker spends a good deal of his life or her life in the work place, and yet it has been traditionally viewed as management's prerogative as to the layout of the workplace and the conditions and there has been very little recognition even by labor unions about workers' rights here. What I am suggesting is that there has to be the development of workers' councils who are consulted and who can initiate proposals to improve the layout of the work, pace of the work, the variety of the work, whatever the case may be, so that they can be more committed to their work and be more productive.

If they are just watching that clock and going through a process of automation, they're not going to be that productive, but even more important than that, it isn't just being more productive in terms of volume per worker hour. It is being more productive in terms of being able to have a say in the kind of product that is produced and to have a feedback in terms of the kind of product that is produced.

There have been a large number of employee suggestions under an industry sponsored employee suggestion program that has saved industry millions and millions of dollars and almost every company has

this suggestion process, and they pay for the suggestions as they are adopted.

I am suggesting a much more consistent, much broader participation by workers over their workplace, not just how you get more widgets per hour out of the machine, but dealing with the noise of the machine, the fumes, the tedium, the monotony, the lack of variety, and so many other things that they know about and they can talk about so much better than anybody outside of this plant, and I think that if company management would spend more time in the plants other than just touring—I made a suggestion in my testimony that it would be a good idea for heads of companies to spend 2 or 3 weeks a year on the line, right in their plants or a variety of plants. A tremendous utilization can occur as well as a direct feedback system that doesn't have to channel up through 17 hierarchies to the executive suite.

Senator PERCY. Well, I concur with you whole-heartedly.

I know in managing factories I never could do it in theory. I had to get out on the line regularly, put it down on my calendar just as a scheduled appointment would be with anyone who wanted to come down and see me, and sit down and talk to people and see what was on their minds. There was no abstract way I could possibly do it.

However, I would like to read to you a statement, the chairman having kindly extended my time. I have just two questions.

A statement made by Frank Pallera, assistant research director, AFL-CIO, from a paper he gave at the University of North Carolina:

Let me start out by saying to you, motivation, as I understand it, is an abstract concept that has very little relevance, very little pertinence, very little meaning for the industrial world today. Most of it is unadulterated nonsense. It has very little meaning in the real management-labor relationship field.

I've only read an extract from it, but is that enough of it to give you a feeling as to whether you wanted to comment on that?

Mr. NADER. Could you just read the first sentence of that?

Senator PERCY. All right.

Let me start out by saying to you that motivation, as I understand it, is an abstract concept that has very little relevance, very little pertinence, very little meaning to the industrial world or for the industrial world today.

Then there's a final paragraph on the same front-cover page:

From the work standpoint, why should the worker move to increase his output. What will it mean to him if he does increase his output, because there is more likelihood that his job would be threatened. He may find himself out of work by the very nature of the fact that he has performed efficiently and effectively and increasing his output.

Now, those are rather strong admonishments coming from an officer of the AFL-CIO to someone not to improve his output and efficiency. Maybe that is his articulation of the "harrumph" that I mentioned earlier that George Meany gave when I said that increasing productivity in the long run increases jobs.

Mr. NADER. Well, certainly there's a real problem if you tie down a labor agreement with management to productivity increase, that it's going to phase out the workers' jobs; or they don't give the workers the tools to increase their productivity.

It is kind of like a false incentive. I suppose the longshoremen on the west coast pioneered the productivity increase labor-management agreement. Until recently, it has worked to satisfaction for some or many in management and labor there.

It is a very difficult problem, because if you ask yourself would upper management want to increase the productivity and ease themselves out of a job. Obviously, they wouldn't, so there has to be some sort of incentive.

So I would suggest in addition to the incentive being in higher wages, that there also be a retirement incentive, that the retirement process, the pension process, and giving people a stake in the wealth—that that is a very important process of the productivity picture.

And it might deal with this very contradictory situation that you have described.

Senator PERCY. I would like to confront you with a problem that we have. As a person who has done more to find a way to arouse public interest about this problem, I turn to you for help.

This subject is a difficult subject for people to grasp or to become interested in when the worker today thinks of productivity increases, he immediately thinks of speedups, measured work, piecework, and that is not it at all. I am speaking of modern times, and that's not at all what I have in mind.

I have no interest in that end of this study that we are doing, but I would like to read statements to you and ask how can we change the attitudes expressed here.

I think it's important to put this summary in the record which is one of the better ones I have seen.

It is your own afterward to Ken Lasson's book, "The Workers." You say "the quest for meaning in work as distinguished from the quest for work is one of history's least charted courses. Man struggles to make a living. To make a living has always overshadowed the humans' end to work and what it means to him."

The problem of the meaninglessness of work was a constant battle in my 25-year industrial experience, and its becoming a tremendous problem for society today. The recent series of 10 articles by Haynes Johnson and Nick Katz in the Washington Post, entitled "The Unions," which I'm sure you've read, documented this very clearly.

I was struck by their quotation in the second article from a song by Joe Glaser called, "You've Got To Fight That Line," and this is the last stanza.

"You've got to move me and move me like a supermachine. Got a hustle, got to rustle, it's a crazy scene. Want to scream, want to hollar, want to call the cops. But it can't help none 'cause the line never stops."

Then Johnson and Katz said the young worker's complaint is simple. He says he hates the job, particularly the monotonous factory job. At times he hates it so much that he will deliberately throw a monkey wrench into the machinery or turn to drugs to escape the boredom. To him, whether the job is better than it used to be or pays more and gets greater benefits is really beside the point.

We must change the standard industrial and white collar working environment. The health of the society, the kind of society we want, simply depends on changing the present work situation that many Americans face.

Government certainly cannot require this by law. There is no way we can legislate this feeling, for it requires a massive change in the

attitude of both organized labor and of management. And so I turn to you—what can we do to properly alert the country to the great danger we face: that everything we are trying to do to build society here at home and fulfill our commitments abroad is totally in danger unless we somehow find an answer to this problem of productivity, part of which is worker attitude.

Chairman PROXMIRE. Senator Percy, there's a rollcall. You had better get over there; you're going to miss it.

Senator PERCY. Mr. Nader, I will leave you with a question. I will study the record very carefully. Thank you very much indeed for being with us.

Mr. NADER. Thank you.

Senator PERCY. I would rather hear your answer than get the rollcall.

Mr. NADER. Well, let me give a few suggestions. There are models in foreign countries that we should look very closely and see if they could be adopted here. Apparently, in one of the Swedish automobile companies they have developed a system whereby a group of workers work on the entire car, rather than just punching a particular aspect on the assembly line.

We need to know whether this can be adapted on a larger scale. This is seen as a way to give more pride and workmanship, more identification with the entire product, as well as a more team-type atmosphere.

If it does work or if it is—it is working, rather, in Sweden, which also has to be competitive in its car exports. Then we should see whether it should be adopted or recommended here. In Yugoslavia, there's obviously the well-publicized worker councils, where there not only is high participation in managerial decisions; but they work closely in terms of the definition of the workplace itself.

Another approach is to recommend that some of these problems are not soluble within the lifetime of any workers, so have productivity increases reflect in shorter work hours, a 4-day week, a 6-month year, in order to reduce the time exposed to this type of tedium and monotony and just plain dehumanization by the machine.

These are, I think, some illustrations by way of pointing out that if the committee has time on its calendar, it might well try to have either additional hearings showing models where things have worked, where a particular company or a particular industry have tried to alleviate some of these problems, or second, to hear from the workers themselves.

Some of them are exceptionally articulate about what has to be done—not only about what actually occurs on the line. And third, to perhaps commission some studies—case studies—on these areas around the world.

May I also add briefly, I ran across an article by an industrial psychologist, which was written about 4 years ago, about the automobile assembly line. He made the startling statement that there was almost a pleasure in a worker getting injured—not seriously injured—but minor injuries, and his name is called out and he's brought off the line. That is, he ceased being a statistic, and even though he was an injured person, he was humanized.

Now, when things get that bad, I think we need more glimpses, more vignettes, more microscopic portraits of exactly what is going on here. It is a very uncharted area.

I think Robert Coles, the Harvard psychologist that has put out a number of books which tried to define it—get the words as said by the workers and so before we escalate them up the ladder into statistical principles and correlations.

Chairman PROXMIRE. Mr. Nader, there is one statement you made in your testimony, I want to get to that in a minute because you estimate the Price Commission's practice of accepting a firm's own estimates as costing consumers hundreds of millions of dollars.

But first I'd like to get your comment on a big story that was in the newspaper this morning of two favorable actions, that is, favorable from the consumer standpoint, in holding down price increases by the Price Commission. You and I have both been critics of the Price Commission.

Chairman Grayson is going to appear before this committee tomorrow and we want to follow up as much as we can in relating the productivity problem to the inflation problem.

One was a denial by the Price Commission of a Ford 4½ percent price increase. And the Price Commission said it would reduce prices by tens of millions of dollars and Ford indicated it would be only a couple of million.

And the other was an action by the Interstate Commerce Commission that suspended a railroad freight increase of nearly \$500 million. Of course, that was a far bigger increase, and it was not by the Price Commission.

I would like very, very much to get your comment on that, because as I say, we are having Mr. Grayson before the committee tomorrow and would like to follow up on how useful this is. Does this indicate the Price Commission is beginning to do something?

Mr. NADER. No; not necessarily at all. You know an old-fashioned bargaining theory where the company or industry knows the regulator is getting tougher because of the pressure that you and the others are putting on the Price Commission and their record in the last few months.

They are going to ask for more in order to settle for less. So I could just say what is reported today is purely tentative.

Chairman PROXMIRE. Is that what you're saying? Has the Ford Co. wisely expected to have pressure put on them, so they ask for more than they know that they would get?

That makes the Price Commission look good and makes the consumer feel as if something has been done for them, but actually on the basis of your analysis, this doesn't mean much.

Mr. NADER. Yes; that's a very ambitious price increase. First of all, there are almost no safety features on the next models' cars that they can use the price increase rationale. The pollution increase is minor on the next model cars in terms of systems that have to be adapted.

They've had a record sales year. The productivity increase is quite high. They are making a great amount of profits compared to prior years, and still they are asking for this 4-plus-percent increase, which is higher, I believe, than last year's request, both intermediate and general.

Chairman PROXMIRE. That's very interesting and helpful, and I didn't see any analysis of that kind.

The hour is late, and I do wish you could submit to us a more detailed analysis of this so that we could establish this fact.

Mr. NADER. All right.

Chairman PROXMIRE. I think it'd be very helpful.

In your statement you said that the Price Commission's efforts of accepting an industry's estimate or their own price condition is costing the consumer \$475 million.

Could you explain how you got that number?

Mr. NADER. Yes; Mr. Fredericksen.

Mr. FREDERIKSEN. Yes; as of March 27 is when I had gotten data from the Price Commission of how much they approved and what were the average increases. Up to March 22, which is about the time this productivity change was announced, the weight average increase granted companies was 3.16 percent.

Now, if you reduce it by two-thirds of a percentage point, that would come down to something like 2.9 percent. In other words, the increases would have been reduced, the dollar value of increases, would have been reduced 6.4 percent.

Now, applying 6.4 percent to the \$71½ billion of increases approved, the figure would come out to \$475 million.

Chairman PROXMIRE. What can be done to recapture that overcharge that has already taken place?

Mr. FREDERIKSEN. Well, the first thing—even with a rate of 95 percent of the companies claiming below the industry average, you still have to know that this particular industry did or did not claim above or below the average.

The first step that I took was to ask the Price Commission for the average productivity increases for the big four auto companies. I did not ask for separate figures for General Motors and Ford and Chrysler. I asked for them to be put all together, so the proprietary information would just be lost in the process of aggregation.

I might note that though the Bureau of Labor Statistics releases such productivity figures on the auto manufacturers, the Price Commission has seen fit to refuse my request. They wouldn't give it to me.

Chairman PROXMIRE. That's absolutely outrageous. I was the author of the amendment that required public hearings. As Mr. Nader pointed out, we have not had any public hearings; the Price Commission has denied they're going to have public hearings.

It's very, very difficult to know. How are we going to impress the Price Commission? They've had hearings on policies whether they should have rents and foods under control, but not on specific increases.

There's no way consumers can get this information. As you say, the only defense they have had is of proprietary information. And when you can show that it would not be proprietary because it would be concealed, and there's no way that you can tell what the individual firm's figures were, it seems to me their case does collapse.

Can you give us that so that we can present that to Mr. Grayson tomorrow? I don't see how you can have an effective answer to that. We'll ask him publicly.

Mr. FREDERIKSEN. All right. I will get you the request.

(The following information was subsequently supplied for the record:)

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C.

Mr. MARK FREDERIKSEN,
P.O. Box 19367,
Washington, D.C.

DEAR MR. FREDERIKSEN: The Price Commission has considered your request for the weighted average of productivity increase figures reported by American Motors, Chrysler Corporation, Ford Motor Company, and General Motors.

We regret that we will not be able to provide you with this information as it does not fall within the scope of Part 311 of Price Commission regulations on Public Access to Records.

The information you have requested is considered confidential by the corporations submitting the data and the aggregation of data from only four companies would not, in our opinion, preserve the confidentiality of this information.

In addition, the figures are not available in the form of an identifiable record. Inasmuch as the aggregation of this data is not necessary for the accomplishment of the Price Commission mission, it is administratively infeasible for us to expend the time and efforts of our limited staff in the collection of data according to individual request specifications. We also believe that, to the extent it is not confidential, information of the nature you are requesting may be available in the records of the Securities and Exchange Commission.

Sincerely,

MAX MEDLEY, *Director,*
Office of Administration.

TO: Director for Administration Date March 20, 1972
 Price Commission
 Washington, D. C. 20508

SUBJECT: Request for Identifiable Record

In accordance with TITLE 6, Chapter III, Code of Federal Regulations, Part. 311 - PUBLIC ACCESS TO RECORDS, the following records/documents are requested (subject to standard Federal handling costs):

NOTE: Describe the record sought in sufficient detail to permit the identification and location of the requested record.

DESCRIPTION: The weighted average of productivity increase figures reported by:
 American Motors Nov. 17, 1971 (date of
 Chrysler Corp. Nov. 24, 1971 P.C.
 Ford Motor Corp. Nov. 29, 1971 Decision)
 General Motors Nov. 30, 1971

In submissions requesting increases for passenger cars and commercial vehicles, and relating installed optional equipment.

The weighted average should be calculated by multiplying each company's productivity figure by its reported sales (on the PC-1 form) of the products involved, adding these figures for all companies, and then dividing the result by the total sales for all companies.

	EXAMPLE: Total Sales for products (,000)	% increase productivity	sales x productv. 2,600,000
Company A	1,000,000	2.6	2,600,000
Company B	3,000,000	3.0	9,000,000
Company C	5,000,000	2.0	10,000,000
Company D	10,000,000	2.9	29,000,000
Total sales.....	19,000,000	Total sales x productivity..	50,600,000

Weighted average productivity increase = $\frac{\text{Total of sales} \times \text{Productv.}}{\text{Total sales}} = \frac{50,600,000}{19,000,000} = 2.6\%$

Print Name Mark Frederiksen Signature Mark Frederiksen
 Address P.O. Box 19367 City Washington, D.C.
 State and ZIP Code #20036 Telephone 833-3404
 ACTION BY DIRECTOR FOR ADMINISTRATION:

PC 6200-2(7/72)

Mr. NADER. I mentioned that we are sidestepping another major point if 95 percent of the companies reported productivity figures below their respective industry average which might imply a violation in terms of their fair and full disclosures to the Price Commission, pursuant to the Price Commission decision.

I know theoretically it's possible for that to happen.

Chairman PROXMIRE. The trouble is it was such a bad concept to begin with. Mr. Grayson came in here several months ago, and I asked him about this complicated procedure.

I asked him how many of the big firms—I mean the biggest tier one firms—understood, and he said he thought 50 to 75 percent had some knowledge of what their productivity was. Now, you just cannot have

an enforcement system in which the people who are the best informed don't know what it is all about.

Let me ask you about what's this.

Mr. NADER. The major industries, Senator, like the auto and steel industries, they know it.

Chairman PROXMIRE. They know. He said half of them do.

Mr. NADER. And that is what the Price Commission is supposed to be concentrating on.

Chairman PROXMIRE. I didn't pursue with you, Mr. Nader, the railroad rate increase holddown by the Interstate Commerce Commission. I got your answer on Ford but how about the \$500 million action by the ICC?

Mr. NADER. Well, without knowing the full details of it, it is certainly a turnaround for the ICC to do it. And the other regulatory agencies might do about this, like the Federal Power Commission on natural gas rates. But I'd have to look at the details to see whether again this is a temporary denial pursuant to a slight reduction a few months later and approval thereof.

Mr. FREDERIKSEN. This might be qualified in that the ICC granted a two and a half percent increase at the beginning of the year, and then the additional increase was going—

Chairman PROXMIRE. 4.45.

Mr. FREDERIKSEN (continuing). To be added on top of that. The 2.45 increase that was instated at the beginning of the year still holds.

Chairman PROXMIRE. Now, incidentally, I've just been notified that on that area where Senator Percy was questioning you about the Ford Torino and the axle collapse, the Ford Motor Co. has announced—and we just got it this minute—that they're going to replace axles on all Torinos.

Mr. NADER. Very good.

Chairman PROXMIRE. You're getting results.

I just have one other question. I understand that some months ago the Civil Service Commission, one of the largest employer groups in the world, produced a film to try to improve the lot of workers at the lower level of civil service by making their foremen aware of their existence and their problems.

When the foremen saw the film, they screamed bloody murder because it said unkind words about the foremen, and then the Civil Service Commission proceeded to censure the film, leaving a new message that the lower ranked people didn't know that the foremen knew that they were there all along.

What do you think about this approach to attitudinal problems?

Mr. NADER. I didn't know that the Civil Service Commission, which we are studying at the present time, had that.

Chairman PROXMIRE. I take it that that adjective would not apply to the changing to the content of it, would it?

Mr. NADER. No; obviously not. They suppress all of their agency personnel inspection reports that cover all of the other agencies. You can't get them. But the idea of actually using cinematic techniques, as photographic anthropology, is very powerful.

Chairman PROXMIRE. What graphic?

Mr. NADER. Photographic anthropology.

Chairman PROXMIRE. I thought you said pornographic. I got interested there.

Mr. NADER. Well, if you go to the FAA and you see that massive room and see the hundreds of people working, jammed at one desk after another, you get a feeling of what the atmosphere is.

GSA often tries to restrict square footage, figuring it can save so many millions of dollars per worker per desk per chair. They don't know that they may be losing in efficiency and interruption and noise, and there's a lot more of that.

Of course, I know you are not holding a hearing on Government civil service productivity, but maybe that's the next area to go into.

Chairman PROXMIRE. We are, we are. One of the big areas of the productivity effort is measuring Government productivity. Kermit Gorden did that in 1964 with a very interesting study as you know, and I have been pressing the GAO to follow up on this, and they are doing their best, and they have had some kind of report, but I think we are going to be able to get an improvement and begin to think about and work on the measurements for people that work in the Federal Government, instead of just assuming that there's no way that you can measure it, let alone improve it.

Gentlemen, I want to thank you very much.

Mr. Nader, we've had a lot of witnesses, but you undoubtedly are the outlaw, the lawbreaker, that has contributed most to these hearings in some time.

Mr. NADER. I thank you for your sense of equity, Senator.

Chairman PROXMIRE. The subcommittee will stand in recess until tomorrow when we will hear from the Chairman of the Price Commission.

(Whereupon, at 1:05 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, April 26, 1972.)

IMPROVING NATIONAL PRODUCTIVITY

WEDNESDAY, APRIL 26, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire, Javits, and Percy; and Representatives Reuss and Conable.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

Mr. Grayson, when you first discussed your productivity concept before this committee, I thought you made a series of mistakes concerning it which would have a bad effect on your price control operation. First, you seemed to assume that while many firms did not know their productivity at that time, that they would swiftly find out and in the process become productivity conscious to the benefit of our economy and in doing so provide another restraining influence on inflation.

Second, the way you proposed to use the productivity concept it seemed to me provided a perverse incentive. In other words, the more productive a firm was, the more they improved their productivity, the less justification they would have for a price increase.

As I said, the easiest thing in the world for a firm to do is to let its productivity sag. The hardest thing is to improve productivity. It is not easy. It is a tough, difficult proposition. You have to drive people hard to do it.

Furthermore, under these circumstances, why should they try when your proposed price increase gets slapped down when you succeed.

Your third mistake I thought was in assuming that the concept of productivity was sufficiently uniform standardized and understood that there would be easy agreement on whether a specific firm's productivity had in fact improved by a degree sufficiently measurable to permit or deny a particular price increase.

With complete honesty, firms would argue that they consider their productivity low because this is not a well-established and not widely understood field and they might be right.

In reading your prepared statement, I see that you have corrected some of these mistakes. You have learned a great deal about productivity. But permit me to say that I think you are still forcing it to bear much too heavy a load. I say that although I would agree that improving productivity is really the name of the game.

If we cannot correct our measurement performance in world competition, we will not improve productivity. Out of 11 leading industrialized countries we are dead last, not second or third. Newsweek has a cover this week in which they had the United States competing with the other countries of the world. Well, we are lumbering along far behind. But poor productivity performance is the reason for it.

I think you are right to recognize, as you do, the central importance of productivity, but I think you still underestimate the immense difficulty of achieving improvements. You are a highly intelligent man. You have discussed productivity with the outstanding experts of the country. You have learned a great deal on the job and you have improved your operations, but not nearly enough.

Now you recognize your second mistake, the second of the three mistakes I mentioned. You have changed your productivity approach and you now properly provide a reward, an opportunity to secure a price increase if productivity is in fact improved. This represents a great step forward and I congratulate you on it. But you still persist in your other error. You seem to assume that the concept is sufficiently standardized that you will be able to get a high degree of compliance without the delay and complexity of debate, and may be confusing court tests that will further complicate and delay this operation. Maybe you are still continuing to be the happy salesman of a program which you recognize is hard but you somehow fumble along.

Finally, you overlook in your prepared statement the heart of the difficulty, as I see it, negotiating improved productivity. I am talking about negotiating between management and unions. There is a hard rock fact that won't go away. It is that as long as unemployment is seriously threatened, as long as workers are not secure in their jobs, labor negotiators must insist on opposing changes to improve productivity and hold down costs and prices.

This is why economic growth and reduced unemployment is so important in meeting the inflation problem. The rising curve of demand, the climbing production, is essential to permit an atmosphere of negotiating productivity improvement. The administration has overlooked it.

Maybe I am unfair, but I didn't see that you admit it. I think you will get nowhere with productivity improvement until you recognize it. Workers can and should gain and gain immensely from productivity improvement but to do so they must have jobs. They will oppose technological advance with the fervor of luddites smashing labor-saving machinery. That was an opposition to productivity improvement because workers felt they would lose their jobs. Insane as that was, it is understandable and it is going to continue.

It is a hard and tough fight we have to cope with. Please don't forget that. I wish you, with your great skill in communication, artic-

ulating your position, and the fine job you have done with this committee and the public, would be an ambassador of the administration for stimulating employment, for reducing unemployment. I think this is the real Achilles heel.

We look at Japan. One of the big reasons why Japan has had this enormous increase in productivity is because the workers are completely and thoroughly secure in their jobs. They don't have to worry about losing their jobs, no matter what innovation is put in. They will benefit because it will mean their wages will be higher. So all the force is in favor of improving productivity.

In West Germany there is no problem of unemployment. It is very trivial compared to this country. For that reason, too, there is little opposition.

But in this country I think the biggest factor standing in our way is that nagging 6-percent unemployment level that we haven't been able to do anything about for 13 months. I think these things tie together very interestingly and very well.

I am looking forward enthusiastically to your testimony this morning.

First, Senator Percy.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. I am sorry I was a few minutes late, Mr. Chairman. I just returned from Chicago this morning.

I have a very brief opening statement, but I would like to indicate that I do feel it is very appropriate that we begin today's hearings with the chairman of the Price Commission. There has been no more single influential force in alerting this Nation to the importance of increasing its productivity than the wage-price control program in phases I and II.

We so often talk about the need to make wage-price controls work. In my view we need to make productivity work. It is the key to stable prices, higher take-home pay, and the final end of wage controls.

The Productivity Commission could be just as dynamic and dedicated an organization as the Price Commission. Yesterday, both the chairman and I pointed out the fact that we now have enabling legislation authorizing \$10 million to back up the Productivity Commission which has now succeeded, after months, 6 months, in doubling its staff from two professionals to three professionals.

I was with Mr. Grayson the weekend he literally moved into Washington and was working around the clock on Saturday and Sunday to bring staff people in and to build an organization. If we can build an organization that quickly to control the economy, then we ought to be able to build an organization to free the economy of these controls.

I know of no group who wants to work itself out of a job faster and who has more to do with its time than Mr. Grayson.

We are literally on the brink of never again having a free economy in this country as all of us have known it. We are perilously close to that brink right now. I have an ominous feeling that we are not aware of it. Seeing NAM and business espouse controls, I think we are in a fearsome condition right now. The mentality that loses faith in a

free economic system can destroy us if we don't find an answer to it. Unless American productivity is increased both in the short and long term, I fear we will continue to move toward an increasingly regimented economy. Unless we increase our international competitiveness and vitality, new restrictive trade legislation becomes an increasingly grim possibility.

So-called temporary controls on U.S. capital movements, initiated in 1963, which President Johnson said would be the first priority to get rid of and which President Nixon in campaigning said he was going to get rid of, have become virtually permanent now and could become stricter. Tough controls on foreign travel and tourist spending would not be unlikely.

President Eisenhower suggested that because of the balance-of-payments crisis, which was minuscule then as compared to now, we had to bring our dependents home from Europe—we couldn't afford to have wives and children over there with their husbands.

President Johnson was talking about controls on travel, the \$1.00 per day tax on tourism abroad. The outrage of the Nation, that we would restrict our movements that way, was such as to cause him not to do it.

These are some of the dangers we face unless we get our economy in high gear. There should be new dedication to opening avenues for employee participation and motivation through profit sharing and innovative programs of job enrichment. We had brilliant testimony yesterday from Secretary Peterson and Ralph Nader. We certainly look forward, Dr. Grayson, to your appearance today.

Chairman PROXMIRE. You may proceed, Mr. Grayson. Your fine prepared statement will be printed in full in the record at the end of your oral statement.

**STATEMENT OF HON. C. JACKSON GRAYSON, JR., CHAIRMAN,
PRICE COMMISSION, ACCOMPANIED BY LOUIS NEEB, EXECUTIVE
SECRETARY; AND W. DAVID SLAWSON, GENERAL COUNSEL**

Mr. GRAYSON. Thank you, Mr. Chairman.

On my right is Mr. Neeb, Executive Secretary of the Price Commission, and on my right, Mr. Slawson, the General Counsel.

Mr. Chairman, we do disagree on certain points about the success of the program, but on this point, on productivity and its importance, I couldn't agree more wholeheartedly. I want to work with you and others on this committee to increase the productivity of this Nation.

I would like to highlight several things that I said in the prepared statement. One, I believe it is one of the most important weapons to combat the inflation problem we have.

Two, it is the only long-term antidote to controls. As Senator Percy has just said, there is an increasing tendency on the part of many people in this Nation to want controls. I have seen this since I joined the Price Commission. It is an alarming tendency. I think one of the ways to combat that feeling is to prove that productivity in this Nation is not dead; we have to increase it and stimulate it.

That is the only way in which we can, as a long-run preventive, hold down the inflationary tendencies.

My prepared statement is in three parts, one of which is kind of an analysis of productivity in general.

The second is a shift in the Price Commission's policies after we had learned more about productivity—and we want to change our policies according to our learning experience. We are shifting to the use of industry productivity offsets as opposed to firm productivity offsets.

Third, there are several suggestions I want to offer to this committee or the National Commission on Productivity.

Regarding the first section, the analysis, I think much better definitions are needed. As with a lot of our regulations and practices, our society needs to move a lot faster in changing to fit the times. One necessary change is a better concept and definition of productivity. It has been thought of only in terms of an economic concept.

I am not deploring those who say that this is not important. But, the standardized productivity concept has to have added the sociological and psychological concepts that are so important in productivity. One needs only to look at the people in this country who are looking at the quality of life, wondering why it is that they are being asked to speed up the routine affairs. So productivity is much more than producing tangible goods. I think that concept of productivity needs to be expanded, enlarged, and new techniques of measurement created.

I think it is going to involve people working with economists, psychologists, and sociologists, together with the economists, so that we can change these concepts.

It is not the responsibility only of economists and businessmen to increase productivity. It is shared by everyone including the Price Commission, to try and measure productivity and increase it no matter where you are. I think management shares an equal responsibility as several people have said. It is not just labor that needs to increase productivity. That is one of the definitions and terms of productivity that has been incorrect.

I think there are many areas where management needs to abandon rigid practices, to engage with labor from a collaborative and not an adversary position. I think labor, itself, needs to look at some of its restrictive practices. They need to look at their own attitudes toward some of their work rules and get a new generation of worker attitudes to instill into the attitudes of the whole labor movement—the young people who want more meaning out of work.

All of that is related to productivity. And the Government shares a responsibility in it, too. It has been assumed by economists that the Government productivity is zero because they didn't know how to measure it. That is not true. I do not believe it is zero. It varies in the Government, but it should be measured also. The Government shares an equal responsibility in all of its branches to increase productivity.

The second part of my prepared statement concerns a shift from using firm industry productivity offsets to industrywide figures. Here we learn that individual firms did not have good productivity data. We also saw that by deducting the full productivity, we reduced the incentive to increase productivity because we merely subtracted it away.

So we have now shifted as a policy in the Commission to going to industrywide productivity data offsets. This is more manufacturers and construction only for the moment. The Price Commission will provide in the Federal Register, by the end of this week or the early part

of next week four digit SIC industry productivity numbers and these numbers will be used by all firms to whom the four digit SIC code applies as a direct offset against their costs and labor costs.

Here we will be subtracting it regardless of what the firm productivity is for two reasons: One, the firms that are below the industry figure now have an incentive to increase, because we are subtracting the industry figure. Those firms that go above the industry figure can have as an incentive to retain the practices that increase productivity.

We do retain the overall profit margin limitation so that some of these productivity gains must be passed on through lower prices.

Chairman PROXMIRE. This is what I mentioned in my opening statement, that the change represents a real improvement.

Mr. GRAYSON. These will be published in the Federal Register. They will be used. They will be weighted by projected sales where there is a multi-SIC and product lines. We are going to be very tough on trying to let people out of these as exceptions.

If any industry feels these figures are not fair, they can come to us, but we will have to be shown the evidence before we will change them. We will work with the Bureau of Labor Statistics and others. We are later going to try to come up with service industry productivity figures. That is a difficult area, to try to measure service. We hope to come out with those in several months. They will be a two-digit SIC. We do have 440 of the productivity figures in the Register which will be published.

The last part of my prepared statement has three suggestions to this committee or to the National Commission on Productivity or other Government agencies which concern trying to develop better productivity measures and incentives in the service area. This is one area that has been lagging, and has been pulling down the average which makes us last in productivity among those 11 countries.

The service industries do have some increased productivity, but it must be much more if they are to have the same wages as the high productivity manufacturing industries.

Secondly, a productivity campaign, but not just words, not just plans and talk but some action, some collaborative situations, as you have suggested, Senator Percy, where you have productivity bargaining in profit sharing, collaborative arrangements between labor and management.

Third, we must launch an informational campaign on productivity for the labor community, itself, to inform them of the dangers of failure to increase productivity. We do stand to lose jobs and it is in their own best interest to work with management to increase productivity.

This is particularly important with the younger workers coming into the workforce. They want real meaning in their work and they need to understand what productivity is.

That is the end of my oral statement.

(The prepared statement of Mr. Grayson follows:)

PREPARED STATEMENT OF HON. C. JACKSON GRAYSON, JR.

Mr. Chairman, I welcome the opportunity to again appear before this Committee, and present for your consideration the views of the Price Commission concerning productivity in America today, and tomorrow.

As I believe the Committee is aware, in its internal and public activities the Price Commission has recognized and has stressed the critical importance of productivity in what the President has characterized as the war against inflation. To the Commission, renewed American productivity is not only the most powerful weapon in the anti-inflation arsenal, but may prove, in the end, to be the most potent antidote to continuing government controls on wages and prices.

My statement here today reflects the seriousness, the urgency, and the grave importance with which the Commission views the subject. If this statement is construed to be a plea by the Commission to both Government and the private sector for a substantially increased and vigorously pursued new attack on the many problems relating to productivity in America, the assumption would be essentially correct. Perhaps no other single national goal is more important to the American present and future than new standards for revitalizing American productivity. As the driving force behind the American economy, improved productivity can free the nation from inflation and from controls and make us a more competitive nation in the international world of trade.

I have divided this statement into three parts. The first part examines the term "productivity" in an effort to get closer to the real meaning and significance of the term, today and tomorrow.

The second part examines Price Commission experience with industrial and service companies and reviews the conclusions drawn from such experience which led to the Commission's adoption of industry standards as a measurement yardstick.

The third part contains specific recommendations by the Price Commission to this Committee for possible action the Congress might initiate, either through the National Commission on Productivity, or other qualified agencies, or legislation.

I. Productivity: An Analysis

During the six months of Price Commission existence to date, the Commission has had both intensive and extensive experience with the various aspects of productivity in the private sector of the American economy. In addition, it has maintained an ongoing study of productivity in America. The Commission has held seminars among productivity leaders in labor, management, and universities. It has retained as consultants some of the leading productivity experts in the United States who have examined, analyzed and reported upon scores of studies, articles, books and papers on the subject. It has, in sum, attempted to be as knowledgeable with this critically important subject as possible.

In the course of its first-hand experience with productivity in the private sector, the Commission has come to recognize various needs and requirements which it believes worthy of serious examination.

A. NEW DEFINITION NEEDED

In the last two or three years, and particularly in the past several months, the term "productivity" has taken on the mantle of a national goal. Formerly, it was essentially an economic term for identifying and measuring work output, primarily in the manufacture of tangible goods. As the term has caught on, it has become integral to such concepts as international competition for trade, world leadership, a resurgent economy, and other larger issues. Users of the term—both in government and in the private sector—have tended to employ it loosely and imprecisely.

In the course of many studies analyzed by the Price Commission, we have found the term has significant application to such varied social and economic activities as output, work attitudes, plant management, motivation, collective bargaining, trade unionism, automation, world trade, protectionism, tariffs, medicine, agriculture, education, no-fault insurance, and even credit cards. To many, "more productive" increasingly has come to be a synonym for "somehow better" in an economic sense, with no clear definition as to what "better" implies.

Critics of the conventional economic definition of productivity as an economically measurable unit of output-per-man-hour, (as compiled by the Bureau of Labor Statistics), point out that by such measurement, only if real output rises faster than all real costs can we say there has been an increase in efficiency. Such critics, in similar vein, point out that the BLS measurement techniques therefore tend more closely to measure merely plant utilization and volume than individual productive effort. They point to the fact that the purely economic

definition is inapplicable as a yardstick in large areas of the services, professions, and state, local and federal government. They further point out that in most productivity measurements using the standard economic definition of the terms, there is no sound technique for assessing productivity in middle or top management, and in addition, frequently no measurement of work-performance of salaried white-collar workers in large manufacturing organizations.

Other critics citing increasing evidence from such psychologists and sociologists as Maslow, Herzsber, Herrick, and McClelland, claim that considering productivity in pure economic parameters is inadequate, if important measures to improve work performance are to be identified and utilized. Studies the Commission has evaluated by such men are often cited as proof that output-per-man-hour effectiveness in the workplace can be considerably altered and/or improved by application of environmental and psychological "quality of work" measures. Clear evidence of such improvements is abundant. It is argued that the purely economic work-measurement indices, therefore, are less than fully useful in a goal-setting exercise. The "residual" factor in the conventional economic definition, it is claimed, does not truly measure these important and necessary social and psychological variables.

With the emergence of "productivity" as an increasingly vital national goal, the Price Commission therefore believes it imperative that a new, comprehensive, accurate, and standardized definition of the term be sought for, perhaps with Congressional sanction, in order to make the term homogeneously valid, contemporary, and truly descriptive for all who use it in the coming decade.

B. PSYCHOLOGICAL AND SOCIOLOGICAL FACTORS

In any action undertaken to improve American "productivity"—whether a new standardized definition is arrived at or not—the psychological and sociological "quality of work" factors must be included in the planning.

Studies evaluated by the Commission provide disturbing evidence that increasingly in the United States, attitudes toward work, work-quality, workplace conditions, organizational structures, and other environmental, psychological, and social factors have profoundly affected and will continue to profoundly affect work performance in the United States.

Recent surveys gathered and analyzed by the Commission, by such groups as Gallup, Harris, Opinion Research, and the Institute for Social Research, to name but a few, document with total unanimity an increasing American disaffection for work *per se*, particularly among the millions of young Americans pouring into the work force.

A distinguished panel of scientists, journalists, scholars, doctors, and psychologists, assembled by the National Commission on Marijuana and Drug Abuse, issued a report on *Central Influence on American Life*. The report notes "Whereas the individual's economic achievement formerly gave his life broad social meaning and inspired his existence, technological advances have tended to depersonalize his role in the economy. Instead of the economic system being dependent on individual productivity, the individual is increasingly dependent upon the system." The presence of this attitude, the impact of which has been measured and evaluated by Herrick, Schmiedeskamp, and others is profoundly contributive to economic malfunctioning and productivity declines. To exclude such factors from productivity analysis is to preclude the ability either to identify the problem, where it exists, or useful solutions designed to improve workplace output.

Study of Japanese productivity, in which patriotism plays a measurably large factor, corroborate the importance of psycho-social factors in work performance.

Recent actual events such as the 1972 strike in General Motors' Vega Plant in Lordstown, Ohio, by workers whose average age was 25, and whose strike was not for pay but for quality of work conditions, are sobering real-time evidence of the impressive relevance of psycho-social factors to American work performance.

The Commission's analyses have revealed a clear gap between the important work done by economists, working in the predominantly quantitative and statistical disciplines of their profession, and the equally important work of the behavioral psychologists and sociologists, who use different terms, and qualitative measurements of their profession. It is the Price Commission's position that interdisciplinary effort and a new interdisciplinary language usable by all, which equally includes the insights of the psychologist and sociologist with those of the economist, have become necessary in the 1970s for comprehensive, useful action designed to increase American productivity.

C. MANAGEMENT RESPONSIBILITY

In the material evaluated by the Commission, far too often consideration of "productivity" tends to be exclusively in terms of the work performance by white and blue collar workers in the economy.

As noted previously, to date no effective measurement standards exist by which to measure or evaluate management's increased productivity or management productivity *per se*. While it is true that outside of return on investment, such measurement of management productivity by current output-per-man-hour techniques may be difficult, a study of abundant management literature provides widespread evidence of the degree to which rigid, entrenched or outdated management practices, and fear of innovation can and do, contribute significantly to low productivity performance. Thus, effective measures undertaken to improve American productivity must necessarily involve management, both in promulgating new and increasing levels of work performance and work efficiency, and in maintaining their rate of increase.

Management efforts to improve productivity, where they exist, seem with few exceptions, to be primarily undertaken without collaborative planning with labor. From evidence available, productivity bargaining has been scant in U.S. companies, and as Rosow has pointed out, is usually conducted in the adversary bargaining techniques used in collective bargaining. Abrasive management practices in demanding speedup are frequently reported in both management and labor literature; attempts by management to make significant contributions to job enrichment or other productivity-increasing techniques are not frequently reported.

It is further significant that a recent search to identify unusually-successful innovations in productivity gains and work performance revealed that many of the most striking case histories have taken place, and are taking place, in Common Market countries and in Japan.

It is perhaps relevant that a goodly number of American companies coming to the Price Commission with their productivity figures have revealed a remarkable lack of ability to measure or understand even basic productivity measurement. This leads to an assumption that a majority of American industry, while competing increasingly with foreign manufacturers for world trade, may be behind in the international challenge. American productivity gains in the last few years ranked in 11th place of the 11 industrialized nations of the world.

In almost every talk I have made to members of American management, I have tried to stress the critical importance of productivity increases by the private sector in the United States. I have said new breakthroughs in American productivity cannot be achieved by the Congress or the Administration. They can only be achieved by the private sector. It must accept its responsibility to create high-quality, competitively priced American goods and services in international markets. To this committee, I would like to add a companion observation: Government can urge. Government can prod. Government can inform. But in the free enterprise system, Government cannot itself perform in the private sector. If from these hearings Congressional leadership to improve productivity is undertaken, it must be with full awareness that the accomplishment, under our system, must be undertaken and achieved only by the private sector.

D. LABOR RESPONSIBILITY

I believe that organized American labor, which represents less than 25 percent of the work force, must also assume responsibility with American management for increasing American productivity.

It is a matter of record that a great many restrictive labor practices rising cumulatively out of four decades of collective bargaining are as rigid, entrenched, and outdated as the many old-fashioned management practices referred to earlier. Restrictive labor practices are those most frequently alluded to by companies requesting price increases of the Commission as root sources of low productivity figures.

Labor rigidity in clinging to unnecessary, anachronistic labor-wasting work-rules, in many cases designed in and for a less affluent, less secure and less efficient period of labor history, can prove to be as great a deterrent to innovation and improved productivity as management rigidity.

Labor, like management, still tends to cling to the old we-they adversary relationship established in the earlier, formative days of American labor history.

Papers on the subject analyzed by the Commission, however, reveal that in

many locals of many unions, rank-and-file workers—and particularly the younger members of the labor force—view the movement as a different generation. Herrick's studies, for example, reveal the younger worker to be far more concerned with job satisfaction and workplace environment than monetary incentives. There is other evidence, with Lordstown as an excellent example, that the one American worker in four who is organized, to say nothing of the three in four that are not organized, is less concerned with the old monetary emphases of collective bargaining than with the new psycho-social factors of job redesign and job enrichment already discussed.

The Steelworkers, among others, have proved, that a new kind of dialogue not based on the old adversary principles, and not clinging stubbornly to outdated and unnecessary work practices, is possible. Perhaps with Government help such dialogue can be capable of early realization. A joint effort of labor and management, in a team effort designed to improve the quality of work and the quantity of output could prove to have an extraordinary impact on American productivity gains in the near and long-range future.

E. GOVERNMENT RESPONSIBILITY

Studies conducted by the NCOP, among many others, indicate a regrettable negative productivity rate in local, state, and federal governments. The President has stated, "At this moment in our history, most Americans have concluded that government is not performing well. It promises much, but it does not deliver what it promises . . . The more we spend, the more it seems we need to spend, and while our tax bills are getting bigger, our problems are getting worse."

The Government cannot ask the private sector to undertake significant reform in productivity while its own house is in high disrepair. Entrenched rigidities and inflexibilities in the federal Government exceed those of the private sector, perhaps many times over. As the new Price Commission has discovered in an effort to do its work, the President appears to be correct in stating "the Federal Government finds itself speaking through a wide variety of offices and bureaus . . . (which) . . . trip over one another as they move to meet a common problem. Frequently, they behave like a series of fragmented fiefdoms, unable to focus federal resources or energies in a way which produces any concentrated impact.

While Government at all levels continues to grow, its measured productivity gains are zero. The sweeping reforms suggested by the Ash Council and other sources reflect the need to make a government preaching productivity begin to practice what it preaches. Nine Federal departments and twenty independent agencies are currently involved in education; seven departments and eight independent agencies are involved in health. Three departments help develop our water resources. Four agencies in two departments are involved in the management of public lands. It has become virtually impossible to count how many Federal grant programs exist.

Certainly, as the Congress concerns itself with American productivity, it can well afford to take cognizance of productivity in both Federal and state government, and to inaugurate ways and means for significant productivity gains in the public sector at least as impressive as those requested of the private sector.

As noted elsewhere in this statement, the Economic Stabilization Programs with its emphasis on productivity, already has made a perhaps significant contribution in the private sector through its insistence on productivity awareness in determining price increases, and will so continue during the limited time of our existence. The Commission, however, is grateful for the opportunity of hearings like these, in which it can voice its conviction of the pressing need for major productivity increases inside the Government of which it is a part.

F. SUMMARY

In brief, from its extensive experience in the area and from its many studies, the Price Commission believes that the term "productivity" must be reexamined, and a new, more comprehensive definition of the term arrived at. It believes that the narrow, conventional output-per-man-hour concept of the term must be expanded to include the inputs of the psychologists and the sociologists, thereby to identify quality of work as an integral factor in quantity of work, or quantitative output. The Commission further believes that both American management and American labor, in collaboration long-overdue, can jettison old rigidities

and inflexibilities and, aided by Government itself involved in new productivity gains could quickly catch up with, and surpass, the growing productivity gains abroad.

II. Productivity and Allowable Price Increases

Since its inception, the Price Commission has stipulated, in its Form PC-1, that all companies requesting a price increase from the Commission must supply accurate productivity data to the Commission. Such data are used as an offset to allowable cost increases.

Until May 1, 1972, the Commission required any firm supplying productivity data to deduct its reported productivity gains from its reports cost increases to arrive at an allowable price increase. For example, a firm whose costs are half labor, which could prove a 5.5% increase in labor costs and could prove productivity gains of 2.5% during the reporting period would be allowed a price increase of 1.5% (half of 3%), barring other cost increases and the profit margin limitation.

Over three thousand signed orders for a price increase had been issued by the Price Commission to Tier I companies in the United States, as of April 15, 1972. Each of these companies was required under Price Commission regulations to furnish acceptable productivity data in the computation of its price increase request.

Not only is each company required to furnish the necessary statistics, it is also required by Price Commission regulations to furnish the method by which those figures were arrived at, or the method of computation. Despite such requirements, a considerable number of price-increase applicants were totally unable to furnish productivity data, forcing the Commission to make decisions in such cases.

Commission experience with private sector companies

Price Commission experience with productivity figures in the course of analyzing and approving productivity data furnished by the companies requesting price increases has been disturbing—when American productivity is viewed, as here-inbefore stated, as an important national goal of the United States. A very substantial number of the productivity figures furnished the Commission by the various companies were either inadequate, inaccurate, or non-existent. Commission analysts have estimated that more than half of all productivity figures submitted to the Commission were returned *at least once* to the company for further statistics. Methods of computation of productivity figures submitted by the various companies ranged enormously, and were frequently based upon erroneous notions of productivity computation. In a considerable number of instances, the Price Commission's insistence on productivity figures represented the first time a particular company had ever engaged in seeking out such figures for itself. Further, many companies which had good productivity statistics and measurement computations were extremely pessimistic on initial productivity estimates provided to the Commission, and as the following case histories illustrate, frequently were required to recompute and resubmit their data.

Specific Commission productivity activity

To acquaint the Joint Economic Committee with the impact which productivity measurement by the Price Commission has made and can make in determining allowable price increases, three typical case histories have been selected. It should be noted that all three case histories are examples of companies submitting productivity data before the new industry-wide measurement criteria (see below) went into effect.

Company A

Company A, a \$400 million manufacturer furnished individual submissions for price increases across 10 different divisions.

Upon investigation by Price Commission analysts, it developed that the company had no productivity figures for any of these 10 divisions. After a long session with a senior economist of the Commission, in which productivity measurements required by the Commission were explained, company A was forced to go back to study its books, and return with revised requests.

The revised requests showed productivity gain in each division, which had been listed as without such gains in the former submission. This had the effect of reducing company A's request for price increases in excess of \$1 million in revenues.

Company B

Company B, a large \$375 million manufacturer arrived before the Commission claiming a negative productivity increase since the base period. In justifying this, company B's representative stated that continuation of negative productivity in 1972 was anticipated to be less negative than 1971.

After Price Commission analysts studied company B's records, it became evident to them, and they were able to demonstrate to company B's representatives, that the company was actually projecting productivity gains—not negative productivity—in 1972. A week later, at the Price Commission's request, company B resubmitted a request revised to incorporate these new insights, and included a projected productivity gain of 5 percent across all ten divisions.

Company C

Company C, a large firm in the service sector, arrived before the Commission citing zero productivity figures. The zero figure was computed, admittedly, because the company had no knowledge of, or conversance with, productivity measurements. Company C's request for price increase was denied, because of the absence of productivity data.

With this stimulus, company C went home and examined its books. Its representatives came back 3 weeks later with a new application showing a very small gain in productivity. The economist in charge of the application challenged the new productivity figure, because the company had admitted its inability to make such measurements. He further informed the company that the Price Commission had notified the Internal Revenue Service to check the company's productivity data.

Company C thereupon withdrew its application for a price increase, and has not returned since with a new application.

From the foregoing examples, it is clear that in its contact with Tier I companies requesting price increases, the Price Commission is forcing applicants to become aware of productivity importance. It is forcing applicants to reexamine their existing, and frequently inaccurate, techniques of measuring productivity. It is making all applicants keenly aware of the importance the Price Commission attaches to productivity as a factor in pricing, and to the profound interrelationship between American productivity and inflation in America.

Industrywide standards

Up to the present, the Price Commission has utilized a variety of measurement techniques, including Bureau of Labor Statistics standards, for determining the productivity off-sets allowable in each individual price increase application. As the foregoing attest, the confusion in productivity submissions made to the Commission was considerable; within various industry categories, there was no standardization, no common method of computation, and no industry-wide consensus as to either what productivity was, or how to measure it. It became increasingly evident to the Commission that the private sector has no uniformity whatsoever in productivity measurement, and that it was incumbent upon the Commission to provide some form of standardization in each industry category which would facilitate the work both of the Commission and of the applicants requesting price increases.

Throughout the spring of 1972, the Commission has developed a new set of industrywide standards for productivity measurement, which it will inaugurate on or about May 1, 1972. These new standards have been compiled by the Commission, using Bureau of Labor Statistics figures, and figures from other sources in industry and government which will provide a standard, set productivity figure for most of the categories in the SIC codes. Under the new rules, all manufacturing and construction companies are required to use the new industry-standard productivity figures, no matter how high or low their productivity may be. If, in a given industry category, the standard figure is 3%, any company with productivity higher than 3% may retain the residual amount provided the increase does not exceed the limitations of its base period profit margin. Any company with productivity figures below industry standards is motivated to improve, to get its productivity up above industry standards so it can reap the rewards of being over.

Unfortunately, as borne out by the relatively low productivity gains registered for all of American business, a great many companies in each industry category have productivity figures well below the standard for that industry category.

The new rule provides to those companies a strong incentive to bring their productivity at least up to industry standards. Companies above industry standards are rewarded for their productivity performance until such "rewards" bump up against the inflexible profit margin limitation.

Commission analysts have estimated that the adoption of the new industry-wide standards, beginning on May, will not only considerably simplify Commission productivity analyses, and considerably reduce both Commission and private sector workload, but also will reduce the average price increase granted by the Commission, currently at 3.2%, by an estimated 1%, lowering the average increase to 2.2%.

Conclusions from Commission activities to date

To an agency like the Price Commission, in which the matter of American productivity is a matter of serious national concern, six month's experience with productivity standards in the private sector—and in particular companies producing services—has not been heartening.

It is significant that those corporations with extremely high productivity experience were those whose statistical information, and methods of computation, were best prepared and most fully understood. As a general rule, those companies with low productivity tended to be the companies whose records and computation methods were the most inadequate, or absent.

The Price Commission believes it may have performed, and will continue to perform a valuable educational function in this area. In a significant percentage of those companies, it has insistently impressed upon company representatives the need for high productivity awareness, and equal awareness of valid and continuing measurement techniques. A large number of those companies, when Phase 2 began, had scant or inadequate information about productivity measurement. Today, because adequate productivity measurements are mandatory before any company may receive an allowable price increase, there is considerably greater information about the importance, nature, and computation methods than existed heretofore.

III. Productivity Recommendations to the Joint Economic Committee

With its increasingly broad experience in and consistently strong emphasis on productivity as a major anti-inflationary weapon and important national goal, the Price Commission respectfully offers the following recommendations to the Joint Economic Committee for its consideration, and perhaps action through the National Commission on Productivity, or suitable agencies.

RECOMMENDATION NO. 1—DEVELOPMENT OF SERVICE PRODUCTIVITY DEFINITIONS, MEASUREMENTS, METHODOLOGIES

In 1972, according to Conference Board figures, the service sector contributes 38 percent of the U.S. gross national product, yet employs 60 percent-plus of the national work force, a figure including Government employees, as the *Report on Local Government* made by the NCOP attests. There are as yet no truly valid measurement devices for determining productivity in this vast area, comprising almost two-thirds of the United States' workforce.

Particularly in recent years, reports indicate that industrialization has eliminated the worker from his work, and that the transfer from a craft productivity to one of mass production inevitably loses personal attachment with work. The advent of a service economy, as Victor Fuchs has suggested, may imply a reversal of these trends. Employers in many service industries often render a highly personalized service, offering scope for the development of new personal-service skills for which no exact measuring methodology has yet been developed. It is not inconceivable that in the service sector, productivity measurement may be forced to be redesigned into a new interdisciplinary qualitative-and-quantitative method for measuring the *personalization* of work.

Productivity measurement criteria predicated on an output-per-man-hour basis often have no capacity to identify innovative jumps in productivity, found with high frequency in the service sector. How, for example, can productivity measurement be placed on the services a car owner finds at a service station? Certainly, some service station operators do a better and perhaps faster job of cleaning your windshield, checking your oil and filling your gas tank. As a

result, you prefer one station over another. But how can the productivity of the men cleaning the windshields, checking the oil gauges and filling the tanks be accurately measured?

The Price Commission, therefore, suggests the establishment of a major task force to study and formulate new non-industrial criteria for measurement of productivity in the service area, including State, local, and Federal Government. The Price Commission believes, from its experience with service companies and their generally inadequate or absent techniques for measuring productivity, that such a study and its recommendations might considerably aid the producers of American services to discover new major productivity "leaps" which could substantially lower costs and therefore prices, while substantially increasing profitability.

RECOMMENDATION NO. 2—A PRODUCTIVITY INFORMATION CAMPAIGN FOR THE BUSINESS COMMUNITY

From its essentially disappointing experience with the private sector in productivity matters, the Price Commission has become convinced that a major Government effort to inform the private sector about what productivity is and can be, how it is and can be measured, and how it is and can be improved, is both critically important and long overdue.

It is proposed that a reputable communications organization be retained, perhaps by the NCOP, to develop and produce a comprehensive in-depth productivity information campaign, including films, traveling seminars, pamphlets, and brochures for business, and a series of planned articles, films and mass media television shows designed for the public. The objective should be to inform the American public and the American business community of the critical importance of significantly increased American productivity, and to suggest ways to achieve it.

As suggested in Part I of this statement, it is recommended that such an information effort include both psychological and sociological factors along with economic factors in the assessment of increasing productivity in the United States; it should be, as proposed earlier, an *interdisciplinary* undertaking.

It is further recommended that in mounting and organizing such an informational campaign, efforts be made to provide feedback from each seminar and encounter, to provide the Price Commission, NCOP, and other interested agencies, with new data on productivity innovations discovered in the field, material which can also be usefully fed into continuing seminars and informational activities.

The overall objective of the proposed campaign would be to intensify and fortify private sector and public awareness of what productivity is, how we can improve it, and its importance to our national economy and national future.

RECOMMENDATION NO. 3—AN INFORMATIONAL CAMPAIGN TO THE LABOR COMMUNITY

As noted in Section I, the willing and active participation of labor in effecting significant productivity gains is not only desirable, but mandatory. Far too often today, labor correctly judges the term as synonymous with "speedup" in management's eyes. Labor's willingness to understand the true meaning of productivity and labor's critically valuable role as partner in its improvement, through job enrichment, personal involvement, and other factors, could significantly contribute to opening important doors to advances in American productivity gains.

An informational program like that of Recommendation #2, but directed, with labor leadership, cooperation and support, to and through union locals, and beyond organized labor to the 75 percent of the American work-force which is not organized, could prove extremely beneficial to workers to the companies for which they work, to American profits, and therefore to the long-range economic revitalization of the American economy.

RECOMMENDATION NO. 4—ESTABLISHMENT OF PRODUCTIVITY COUNCILS

Implicit in all the foregoing is the Price Commission's conviction that a new kind of important dialogue between management and labor throughout American industry (and especially in the service sector) can become of major importance in creating new breakthroughs in productivity enhancement. As noted, while older techniques such as productivity bargaining may be important first steps, they tend to perpetuate, rather than erode, the anachronistic adversary

relationship between worker and manager, and are therefore at best temporary in value.

As a forward step toward finding workable new cooperative endeavors which include worker and manager in common effort to increase productivity, it is strongly recommended that the National Commission on Productivity be urged to inaugurate a carefully-planned new program to establish *in the private sector* as many privately-run, and privately-organized Productivity Councils as possible. It is recommended that the Commission prepare, and then furnish organizational planning kits for Productivity Councils to private firms, explaining and recommending techniques for the creation and development of such Councils, not only in manufacturing plants but in every kind of workplace, including office workplace, involved in the production of American goods and services.

Such Councils, as herein recommended, would work outside older, standard labor-management channels and would involve a new direct, cooperative effort by line workers and managers to study and improve productive output of each producing unit of the firms adopting the Council technique. Were it possible for the NCOP to make an organized effort to encourage, at even push, the private sector to move in the Productivity Council direction, it is not impossible that a major new instrumentality for productivity betterment in the United States could be inaugurated.

Chairman PROXMIRE. I might say that the administration does not seem to be sufficiently conscious of the relationship between unemployment and the very great difficulty of negotiating productivity improvement. As long as a firm is in a position where there are many people who have been laid off, as long as the union leaders know their constituents are primarily concerned with job security they will not impede the kind of changes, the ending of featherbedding, the innovation of new machinery, and the speedup on the line that would reverse diminishing production and a diminishing work force.

Does the administration really appreciate this? There is this consistently high unemployment. Can't you do something about this? Can't you work with the administration to recognize that you can't do your job unless they do their job in this area?

Mr. GRAYSON. The only way the Price Commission has a responsibility in this, Mr. Chairman, is through not impeding the recovery of the economy in such a way that unemployment can't be reduced.

Chairman PROXMIRE. But there is the concept I am advancing. You say the heart of your problem, as you have well said, is productivity. You just are not going to be able to get effective productivity improvement in an atmosphere of high unemployment. The administration must recognize this. It is not going to be a matter of not impeding the progress of economy.

I realize it isn't in your area to stimulate the economy. But it is somehow to work with the administration figures, with Secretary Conally and others, to say we have to get unemployment down if we are going to do this job. That must be a top priority.

Mr. GRAYSON. I am willing to do my part. The limit is obvious. We can't get in the way of economic recovery. The only way I know of stimulating it is by forcing the firms not to get in prices any increases unless there is a full productivity offset. Then they have to turn around inside the firm and try and get that increased productivity.

Here I don't mean resorting to speedups, but working with the workers. Outside of that I can only add my voice to try and urge firms across the Nation to do that.

Chairman PROXMIRE. Two days ago you announced the rejection of an appeal by the Ford Motor Co., for a 4.45-percent price increase. I

was encouraged by that. I was asked to comment on that in Rhode Island and I said this was moving in the right direction and you deserved credit.

I asked Ralph Nader about that yesterday and he said maybe a game was being played. He said the Ford Motor Co. is out of their mind to ask for that kind of a price increase. They know they will not get it. It is a ploy. When it is turned down it makes the Price Commission very good, the administration very good. But it puts Ford in a little better position, perhaps, to get part of it or something else a little later along the line.

This is a game they are playing. Anybody who really knew what was going on would recognize this wasn't a bona fide proposal for an increase. What is your answer to that?

Mr. GRAYSON. Mr. Chairman, it was, in terms of the costs they had, a justified increase, purely in terms of the costs they could exhibit. However, we denied it because we felt that the profits that would result from this price increase would carry them over their profit margins, which is not correct.

Because we felt there was a danger they would be over the limit, we denied it. I don't think Ford was playing a game with us and we certainly weren't playing a game with the Ford Motor Co.

Chairman PROXMIRE. That sounds like a reversal of what you told us on productivity. If this was the case, carrying over their profit margins, it was being denied on productivity. You say the costs would permit it?

Mr. GRAYSON. The increase costs, in a sense, with productivity, must be shared with the consumer over the base period profit margin, so the prices cannot go up. The consumer is getting the benefit of the increased productivity in this moment.

Senator PERCY. Mr. Chairman, would you yield for a moment?

Chairman PROXMIRE. Yes.

Senator PERCY. I think the chairman may be referring to a game he sees played constantly in Congress. Authorization bills are always jacked way above what we think will come from appropriations, and always in a conference you ask in the Senate far more than the House is going to be willing to give so you can strike a bargain and come out with what you really think is needed even if the House only comes halfway. That game is played in labor-management bargaining as well. We know that. They always demand more on both sides than they realistically think they are going to get.

How do you get away from that kind of condition when you have a controlled economy and an agency that has to sit in the center?

Chairman PROXMIRE. As the Senator has had great experience with management, I think he states the case very well.

This is a new game with the price control. Business is not used to it. But it is used to negotiating with unions and business comes in with an offer which they know is low and then expects to and does take a compromise position.

Are you so sure that firms are not playing this old game with you now?

Mr. GRAYSON. I am a CPA and I have tried to hire as many good accountants and economists as I can, the best. Sure, they have good accountants and economists in any of the major companies. I am

going to ask the CPA's in this country if they will be willing to go in and make some kind of attestation to the quarterly profit margins, which they normally do not do now.

I am going to try and do my best to see this game isn't played. If it is played and they are incorrect on their assumptions of costs, then it will show up later in their profit margins and they will have price reductions.

Chairman PROXMIRE. Also, we have had a number of complaints from witnesses last Friday, when we were still operating in the area of the price control system, who say they cannot get answers from the Price Commission, that it takes a long time to get them.

I have a copy of a request from a private citizen for some information from the Price Commission, and a letter from the Office of Price Administration denying the request. It was for the weighted average of productivity increase figures of Ford Motor, Chrysler, and General Motors.

This gentleman who made the request was here yesterday as a witness with Ralph Nader. The reasons given for the denial for giving this information would violate confidentiality and it is administratively infeasible for you to process the data.

We have criticized very strongly the secrecy with which you are operating, as you know. I think it is unjustifiable as well as mistaken. Neither the reasons you give, that is, the information would violate confidentiality, or administratively infeasible, seem to me to be valid. A weighted average of the productivity estimate by four firms certainly deserves confidentiality. That is what he is asking for, an average.

The person requesting the data pays the handling costs. If you are not set up administratively to analyze the productivity estimates of these four firms in the automobile industry, what can you do? Productivity, as we have said again and again, is the name of the game, and these are four of the most important firms in the country.

Your letter says that the request does not fall within the scope of part 311 of the Price Commission regulations. Are the regulations consistent with the Economic Stabilization Act?

Mr. GRAYSON. I denied that request for two reasons. One, is it is not an identifiable record, one record. Sure, with four firms it would not be a great effort to do this. We do not have this computerized, by the way, the productivity data. But, also, I did it on the basis that to give these companies' productivity even on an aggregate basis would be very easy to disassemble.

Chairman PROXMIRE. Even if they do have 50 percent, any assumption that they are half that average, it seems to me would be invalid.

Mr. GRAYSON. They could come within very close percentages as to exactly what it would be. If this is data that the company regards as confidential, until such point as we have made the determination—

Chairman PROXMIRE. Let me interrupt you a moment. We are talking about the entire industry. What damage would be done to American Motors or General Motors or any of them if the entire industry figures are known?

Mr. GRAYSON. This has been one of the points which the companies feel is an important productivity number they don't want to reveal for collective bargaining. I am looking at what data I feel should be

regarded as trade secrets and should be. This is one of the areas. I will look into this one. We are publishing the figures we are using for the automobile industry which will be in these data and we will use these for the automobile companies as an offset. So here is one look at the automobile company data by looking at the BLS data.

Chairman PROXMIRE. Will you supply the information to this committee, that is, the average weighted productivity gains reported by the four auto makers for the record of this hearing?

Mr. GRAYSON. I would like to ask the General Counsel if he feels I would be in violation of the requirement of confidentiality or the Freedom of Information Act by so doing. I do not have any objections to trying to help this committee or the Nation in getting the productivity data.

Mr. SLAWSON. Senator Proxmire, the same requirement as to confidentiality apply to disclosure even to the Congress as would apply to a public citizen.

I think we could certainly look again, in good faith, and make doubly sure we were right that there is a substantial risk of disaggregation here.

Chairman PROXMIRE. I hope you do. This, after all, is one of the three or four top industries in the country. It is an industry where it is known there is pricing power which is above the marketplace. It is an industry which is right at the heart of the anti-inflation program. If we can't get this kind of information, if the Members of Congress cannot get it, it seems to me maybe what you are asking for is you want the law amended.

Senator Nelson had a more far-reaching amendment that would have really challenged the confidentiality aspect in greater depth. Give us whatever you can because I think if nothing else maybe we will have to make a legislative challenge to this on the Floor of the Senate.

Mr. GRAYSON. Where I am clear this is not a violation of the confidentiality, I will make it available.

Chairman PROXMIRE. Will you take a minute to spell out what possible public interest is served to keep interested citizens like this in the dark about this kind of information? How can it possibly serve the interests of the country to have this so-called confidential proprietorship protection provided for huge companies? Why should they have it?

Mr. GRAYSON. One of the reasons that I do support the bill which talks about confidentiality is that I still respect private property and a person is still a person in a corporation. It is regarded in the act that certain kinds of data are confidential as part of the private property of the corporation. So the individual productivity data I still want to respect. When I say I am hesitant about giving aggregate numbers in an industry dominated by a few companies, it is only because I worry about the disaggregation so it is clear what the individual company's productivity data is, not the protection of the aggregate.

Chairman PROXMIRE. Will you supply as much detail as you can? Will you go into some further explanation of why you think this is in the public interest and consider the counterarguments, too, that we would have a far better support system with full disclosure. Usually the cleansing sunlight of disclosure can be very, very helpful.

It seems to me it would help your negotiations between labor and management.

Mr. GRAYSON. You will have that for the record as soon as I can supply it to you.

(The information to be furnished follows:)

MAY 19, 1972.

Hon. WILLIAM PROXMIRE,

Chairman, Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During my testimony before the Joint Economic Committee on April 18 you requested that the Price Commission provide aggregate productivity data for the four major automobile manufacturers to the Committee.

Section 205 of the Economic Stabilization Act of 1970, as amended, provides that the Price Commission must hold confidential any material which falls within the provisions of Section 1905 of Title 18, United States Code. The General Counsel has advised that confidential productivity data would be included under this section. Consequently, the Price Commission could legally provide such information to the Joint Economic Committee only if this data, which is necessarily computed on a weighted average basis, could not be disaggregated and identified by individual company.

A study of this data by the staff of the Price Commission has concluded that it would be highly improbable that an outside party could disaggregate the data. However, it would be possible for individual automobile companies, knowing their own productivity figures, to disaggregate and compute the productivity figures for their competition.

Since the intent of Section 1905 of Title 18, United States Code is clearly to prevent the disclosure of confidential company data to a competitor, the Price Commission must respectfully decline to furnish this data to the Joint Economic Committee. I am confident the Joint Economic Committee will understand that the Price Commission's position on this matter is mandated by law pursuant to an Act of Congress.

Sincerely,

C. JACKSON GRAYSON, JR.,
Chairman, Price Commission.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. I support the principle of confidentiality. There ought to be some protection for certain information. In the automotive industry it is hard to feel that it could be totally confidential. I believe years ago when Ford started to rebuild after the war, they took around 200 executives away from General Motors.

When you have that much transfer between two principal companies, it is hard to keep much confidential. Possibly one avenue might be the same way we handle confidential classified material of a top secret nature. We are all cleared for top secret. It might be done in executive session, which would force the burden on us not to disclose certain information.

If there can be no other way, it might be one way of getting information we need for the policy guidance of the country.

Chairman PROXMIRE. Jack Anderson, being who he is, and other very alert and persuasive members of the press corps, some of whom are sitting right behind you, being who they are, and our staffs being infallible as they are, and we being infallible as we are, I have always refused to take any classified information from the Pentagon for this reason. Somehow I am just afraid it will get out. I never use it in debate or in argument.

I think Senator Percy has a constructive suggestion and I think it should be considered.

Senator PERCY. I think each Senator has to decide. When I accepted a classified briefing from CIA, I make it perfectly clear to them

that I am going to be the judge of what I use and do not use and that is in accord with their game rules. It is our responsibility because we are judged every 6 years. It may be a middle ground that would provide some assistance for what we hope is a very temporary controls situation.

I would like to ask, Mr. Grayson, if you would clarify what you mean by productivity. I have tried to make it very clear but it is more important that you clear it for the record. We are not talking about something that should cause fear and trembling in the heart of the worker who is already working very hard.

We are not talking about speedup, piecework, cracking the whip harder.

What we are really talking about is working smarter rather than harder.

Can't you clarify for the record what you have in mind as productivity increases that you are trying to encourage?

Mr. GRAYSON. I do. To define it by one sentence is almost impossible. Someone compared productivity to the Lochness monster. A few people claim to have seen it.

It is something like that in trying to put it into words. The measurable in classical economic terms is output per unit of man-hour. But that leaves out the heart of what I said in my prepared statement and what you have said, that it is more than that. It is a meaning in work. We are too concerned in this country that somehow the word "work" is something to be avoided. But if work can be thought of in terms of productivity where it means a better way of life and a better standard of living, both in real terms as well as in a socio-psychological sense, then that is the definition of work that we are aiming for.

In education, that is what I spent part of my life doing, and here I would like to revise the concept of productivity, revise the work structure, revise the work rules, put the burden not on just labor, but also on management. It ought to be that there is a meaning in achievement.

If I could find a word that is the closest to my definition of what productivity means, it is achievement, searching for something that is better.

Senator PERCY. Very good. Also, could you clarify for the record your belief as to whether productivity costs Americans jobs or really creates jobs in the long run? Some labor leaders and some workers are fearful that if you increase productivity you are going to reduce American jobs.

Is this a fallacy or not?

Mr. GRAYSON. It is a fallacy. The history of this country has been built on the fact that increased productivity leads to a better standard of living. That better is in search of redefinition. Look at the history of this Nation and any other nation. Japan was mentioned by the chairman. Moving up in terms of increased productivity means more jobs, not less. It does not mean firing people. It means keeping the same number of people with a better output. I would deny it means less jobs and less employment.

Senator PERCY. Mr. Grayson, what do you expect will happen when you switch from the productivity figures the firms have been

using hitherto to the new figures which the Price Commission has recently formulated? Will there be a downward or upward bias compared with the earlier statistics the companies have been presenting?

Mr. GRAYSON. There will be a greater subtraction from the allowable costs and thereby less price increases.

Senator PERCY. What do you believe should be the breakdown of the productivity increase? How much to the firm in increased profits? How much to the consumer vis-a-vis lower prices? How much to the employees? How do you split the pie? Is there any magic formula you have for that?

Mr. GRAYSON. You have asked one of the imponderable questions. That argument will only be settled by individual firms at the bargaining table. But I would say that one has to be a sharing of productivity to labor, to capital, and to the consumer. The consumer can't be ignored, productivity must be passed on.

Senator PERCY. Then do you agree with Secretary of Commerce Peterson in his testimony yesterday, and with Jerome Rosow, who is testifying today, that there is a need for productivity bargaining. What can the Price Commission do to promote it?

How can the Commission judge what part goes into lower prices and what part goes into higher wages?

Mr. GRAYSON. We do that by the profit margin ceiling in a sense. It is indirect, but we say you can have your productivity above the industry average for sharing with capital, labor and with the consumer, up to the point of the profit margin ceiling. From that point on, profits are not to be captured in increased prices. So we are entering into that argument but we are not determining it.

Senator PERCY. What role has the Productivity Commission had in developing Price Commission productivity standards? Does the Productivity Commission accept these new standards? What does the Bureau of Labor Statistics think of them?

Mr. GRAYSON. We have not had a lot of contact with the National Commission in their startup efforts to date because they have not gotten organized enough to be of sufficient help to us in our endeavor to get the industry figures.

We have worked with the Bureau of Labor Statistics, however, and other agencies, and consultants to come up with the figures that will be published. Those figures are Price Commission figures, by the way. They are not Bureau of Labor Statistics approved. But BLS has had a lot to do with sharing with us what data they did have. We have worked closely with them and will continue to do so.

I think this is a real step forward to get into the public domain, which this will be, the industry productivity for over 400 firms that will be published and will be revised as time goes by.

Senator PERCY. Have you had enough contact with the Productivity Commission to recommend areas of improvement in the Commission, itself?

Mr. GRAYSON. In my prepared statement which I have submitted for the record, there are three areas in which I have recommended that they initiate work. These three areas are specifics, where I know it will be helpful if they would do these things. We would be benefited and so would the firms.

Senator PERCY. What is the most important?

Mr. GRAYSON. One which I highlighted at the beginning is the services area. As everyone knows, that area does need increased productivity and the measurements are poor.

Senator PERCY. How about productivity in Government which is noticeably low in some areas?

Mr. GRAYSON. I included that in services broadly. I mean that for the Government area, where it is assumed as being zero. But I think it is not zero. I do think a greater stimulus must be applied to Government productivity.

If you look at the expenditures that are being made in the Government sector, I believe about 16 percent of the workers are in the whole governmental area, if their increase in wages is to move up in accordance with the high productivity manufacturing sectors, we have to have productivity that goes up.

Senator PERCY. I wish I could take a sabbatical for 1 year and take that and shake it from its roots up and get going, to put an action-oriented organization behind it and not just a lot of studies. I am not a study-type person when I see a problem like this. We need action. We know what to do. We ought to get out and do it.

How important do you think it is to recreate productivity councils and commissions across the country, citywide, regionwide, industry-wide, plantwide, departmentwide?

Mr. GRAYSON. Senator, I am trying to control my answer and that touches right to something I believe in. You have to take action. You cannot sit down and plan for everything. The Price Commission would have never gotten off the ground had we not just taken action.

That means doing something tomorrow or today, preferably, and not planning to do it 6 months from now or a year from now. Enough plans are around. You can pick them up anywhere, in universities, and so on. But they need to start doing something right away.

Senator PERCY. If you could find a twin brother for George Romney with an evangelical zeal or mission in life, a man who can organize and delegate responsibility, fire people up, someone who could be practical and realistic, let Pete Peterson know.

Mr. GRAYSON. All right.

Senator PERCY. Thank you.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Last week when you were here, Mr. Grayson, we had a perfect meeting of the minds. We were discussing the hundreds of large corporations which apparently violated the price control law in getting excess profits. You spelled out for me, and I surely agreed with you, a three point program. One, where you can, roll them back; two, where you can find the consumer who was bilked in the interim, make a refund to the consumer; and three, where you can't, and that will be in a great many cases, avoid a windfall by compelling the payment of the overcharge to the Treasury.

I was delighted to see you carry that program to the public between our hearing last week and now. My question is this: I didn't see in there any clear statement of the third point, namely, compelling payment of the overcharge in order to avoid windfalls to the Treasury.

It seems to me that is an essential part. How do we stand on that? Do I but dream?

Mr. GRAYSON. Dreams begin reality. We are now checking with the Justice Department on a daily basis to try and determine the extent of our legal powers to do so. Mr. Slawson is in touch with them. We do want to create fines and penalties or payments into the Treasury where it is clear that is in the best interest of the Nation.

In some cases we think it would be in the best interest to make a reduction so that the consumer gets lower prices. But that doesn't mean we would avoid payments and fines when we think it is willful and we have the legal power to do so. When we have determined that we think we need that power, if we don't have it, to come back to you.

I am mindful of that invitation and appreciate it. At this point we are not far enough along to know what the extent of the powers that are available.

Representative REUSS. It would seem to me that, of course, you ought to compel refunds to the consumer first. Take the Woolworth Co. case that I read about in this morning's paper. You just aren't going to get the thousands of people who have been eating at the lunch counter to go and get a refund on the hamburger for which they were overcharged. Yet, it would be, I think, a travesty on the price-wage control system to have the Pay Board be tough on wage controls and at the same time allow somebody on the price side to make a windfall, an illegal profit, and keep it.

I would think you have no option but to compel a refund to the consumer if you can, or the Treasury if you must.

Mr. GRAYSON. One of the ways this can be done to the consumer is not only to have the price reduced in order to reflect the amount by which they have gone over the margin or incorrectly raised their prices, but to cause them to go below that point in order to refund an amount of money back to the consumers, to compensate for the amount that was, in a sense, overcollected. In addition, we will look at the other aspects.

Representative REUSS. It seems to me it all depends on the nature of the seller. If he is selling turbines, then the consumer probably knows all about it, being a fairly big fellow himself, and will not need too much help from you to get his refund. But in the case of a consumer good, I would think that the only fair thing to do is to help out the hard pressed Treasury and let them get the windfall rather than the illegal seller—with which you agree, I gather.

Mr. GRAYSON. Yes.

Representative REUSS. In your prepared statement this morning, which I feel is a real contribution to our hearings, I was delighted to see that you included the Government in the group of gold bricks who ought to be doing more about productivity. You come out forthrightly and point out that since you have come to Washington you have found plenty of offices and bureaus that seem to fall all over each other.

Don't you think you could usefully take a walk through, let us say, the Department of Agriculture, the Department of Commerce, the Department of Labor, the Department of HEW and plow under about every third bureaucrat inside?

Seriously, couldn't we get the work done better if we farm those people out to more useful employment?

Representative CONABLE. Why did the gentleman stay away from the legislative branch?

Representative REUSS. I was coming to that. I was coming to the Senate, in fact.

Senator PERCY. There is a fellow who has a job downstairs pushing a button, but he is so busy reading all day long that when you come there he doesn't see you coming and he forgets to push the button, We will see if we can eliminate that job.

Representative REUSS. I was coming not just to employees but maybe to the Senate. Why not one Senator from each State?

Senator PERCY. I would be in favor, providing I can decide which one.

Mr. GRAYSON. Congressman, I put that in the record because I believe that. I see innumerable overlapping jurisdictions, with countervailing tendencies and so on. I cited them as generalities. But for me to take on the assignment which you ask, and which is a correct one, I don't know when I will find the eighth day. I will do my part to raise my voice to indicate when I see these things occurring, and I intend to do so.

I think Senator Proxmire has asked me, on occasion when I see certain kinds of structural things which are impeding, in terms of my responsibility, which is to try to hold down inflationary tendencies, I will say something about it. I am collecting files of things that I see which are impeding and I intend at some point to come forth with statements about these things. But for me to go through and find out whether it is one out of three or four, I share with you that desire, but I don't know how I will have that as one of my responsibilities.

Representative REUSS. If you do find time, I hope you do. If you succeed, there are still a few places to erect an equestrian statute to you.

Chairman PROXMIRE. I have been pressing this hard, and we have some success. That is the study of measurement and improvement of Federal Government productivity. GAO, the OMB and CSC have amassed a great deal of information. They reported about 2 months ago on it. They will come before this committee in a hearing in June when we will go into great detail.

I think what Congressman Reuss is pursuing has great prospects. The first thing to do is to recognize how to measure Federal Government productivity. Once we do that we can begin to exercise the kind of policy pressure that will secure improvement.

Mr. GRAYSON. There is a State and local government niche as part of the whole stabilization program. I have asked them to do what they can to begin looking at State and local governments to increase productivity. They have begun a modest effort. I think maybe it should be made as the Federal, State, and local committee.

Chairman PROXMIRE. Kermit Gordon made a study of this. He studied six departments. One had an increase in productivity of over 30 percent in a year because they introduced computers. The increase in productivity in the Internal Revenue Service is almost as great as in the telephone industry because they use computers and other devices.

Congressman Conable.

Representative CONABLE. Mr. Grayson, does it ever seem to you that this whole productivity effort may wind up being counterproductive? We have traditionally put our reliance on the interaction of competition and the incentives in our system.

Do you see any danger that having somebody looking over every shoulder in an effort to increase productivity may itself become quite a drag on the natural forces at work in the free society?

Mr. GRAYSON. I am more disturbed in the other direction. I am disturbed that it has gone the other way, that productivity has fallen off. I would rather risk the other alternative, of looking over the shoulder too much, because I think the stimulus is needed. In a truly competitive market, and in economic theory, productivity is automatically shared. You don't have to worry about it. It is automatically shared. I am just saying I think the stimulus has decreased.

Representative CONABLE. Then it is your conclusion that productivity has fallen off as our economy has progressed. There is an element in the demands of large-scale organization which conflicts with productivity in some way.

Mr. GRAYSON. That is a possibility. There is a thesis by a professor at Harvard University who says that many societies in the past, Greece, Rome, others, have lost their way because they have not kept up, as he calls it, the achievement motivation, which is related to productivity. Here one of the theses is that that can occur with a mature society and a mature company.

I would hope that this can be a focus of the National Commission and our Price Commission, to look at those cases where it seems to be lagging.

Representative CONABLE. I would like to point out that if bigness were a factor we would automatically assume that the Senate is more productive than the House. That would be a strange assumption.

You think, then, it is a maturing set of economic motivations, not necessarily bigness in and of itself, that reflects productivity.

Mr. GRAYSON. Not necessarily. That is one of the areas to which you naturally look because economic theory talks about diseconomies of scale as well as economies. I think that is an area where you would want to look to see if there are diseconomies.

I don't want to get too philosophical on this question of productivity, but I think this is one of the areas where the young people certainly are paying attention and saying why work harder, where does it get you in the establishment, in the system.

This is why I put in my remarks, in the opening statement, the emphasis that that question must be answered. You go into the whole thing of top letter and future shock. The rate of change in this country has accelerated so much that many of our institutions, business, government and labor, have fallen behind in their adaptation to the rate of change which does influence productivity.

Representative CONABLE. Does it ever seem to you that we play a statistical numbers game in this area? We talk a great deal about increases in productivity and the relative increases in Japan and the Common Market and the United States. Rarely do we refer to the fact that they all start from a different base, with a different capitalization of their productive structure. Don't we mislead ourselves a good deal by this sort of statistical numbers game?

Mr. GRAYSON. You certainly can. They do start from a lower base, or GNP. But if you limit that, I think the rate of change even after you try and allow for that, it still, as a relative measure, even if the statistics are rough, it still indicates a rate in this country that I think is slowing down.

Representative CONABLE. Of course, it is bound to slow down, is it not, for instance, if it requires a greater marginal capital investment per job, unless our capital increases in direct proportion to the number of jobs we have to fill? You are bound to have some falling off in the productive impact of increased investment.

What you have to say is are we doing as well as we can do, not must we maintain a percentage increase relative to, let us say, Japan, assuming that we are both starting from different points.

Mr. GRAYSON. I still think that we can't make the assumption that we have reached a stagnant, mature society. I just don't buy that, that we can't get any more productivity gains. I think that would be a dangerous assumption for us to make, because that would be self-enforcing.

I am not trying to ring alarm bells and say that this economy is decaying, but I think it is time that that sound be made, that you don't have to have the tapering off of the curve, that we have reached the limits of technology.

I am not a go for broke person. I believe you can make capital investments that can return a better standard of living to the country. I am not discouraged by the fact that there are people who say we have reached the limits of technology or the limit of growth.

Representative CONABLE. Recently you gave a speech stating, in effect, that price controls were to be removed when America's productivity improved. At least, that seemed to be the major point you were making.

Could you elaborate any further your views on this issue? Are we making progress toward the removal of price controls, or do you feel we have a great deal further to go?

Mr. GRAYSON. We have a great deal further to go. I won't say we have gone far enough, and I won't say that the productivity stimulus is awake yet, that I would like to see awakened. But I think the attention has been focused on productivity, for one thing to sort of hit the firms on the head with productivity offsets, so it is not something they can ignore. It is bound to be influencing those companies into turning around inside and asking about their own productivity estimates and measurements.

I have said productivity is the long-range solution to the problems of controls. My belief is that I would rather trust the productivity and the competitive system as such rather than to try and prolong the control mechanism as the stimulus. That is my personal view.

I would still believe that the way to get me out of a job is to get the productivity up so that those inflation numbers will come down, so that we can disband and hopefully that machinery of productivity is in place sufficiently so that we won't have to invoke this again.

Representative CONABLE. Thank you.

Chairman PROXMIRE. Mr. Grayson, where I differ from you and Senator Percy, I think, is not in the importance of productivity. I am all for it. We have to have it. We have to have it if we are going to be competitive in the world. Where I differ is that I don't buy the assurance that improved productivity would necessarily, and I stress the word "necessarily," increase employment. Sure, it would do so for Bell & Howell if it has an elastic demand curve, that is, when it lowers its price it sells more, and then productivity permits it to

reduce its costs and increase its production. But this is not a universal law of economics. It is not always true. In many cases when you reduce your price you don't sell much more, if any.

Under those circumstances, greatly improved productivity means fewer jobs and this is what is at the heart of the resistance on the part of labor unions. It is not insane. It is not completely wrong. There is an understandable human factor here.

This is why the Federal Government just must recognize if we are going to improve productivity we have to have a growing economy. We have to make the Employment Act of 1946 mean something. That seems to me to be at the very heart of this whole thing. I think you and Senator Percy—and I hesitate to say this because you are two able men and know a lot about this subject—I think you are missing the point I am trying to make.

Senator PERCY. Mr. Chairman, would you mind my taking a further second to ask you the question: Can you name a single major product used by consumers that does not respond to price fluctuations, if you did not reduce the price significantly you would not reduce the demand? Name a single product.

Chairman PROXMIRE. Take bread.

Senator PERCY. You are implying that this only applies to Bell & Howell cameras. That is less responsive than most other items. Name a single product.

Chairman PROXMIRE. I said it. B-r-e-a-d, bread. You have some products which if you reduce the price you will sell perhaps a little more, but it has not the elasticity of demand that is equivalent.

If you reduce the price, the amount of dollar sales actually decline. Some economists have seen that as the price of bread goes down, people have a better real income and they are able to buy other things that they might prefer to bread.

Senator PERCY. In this particular case there is an increasing number of people, American families, who will testify that they are baking their own bread at home now for the first time in many years because of the very high cost of bread in the marketplace.

The Percy family doesn't necessarily do it for economic reasons, but our daughter always bakes our own bread. I am happy to point out that our minority counsel of this committee has begun the policy. His wife bakes her own bread in protest against the high cost of bread at the marketplace.

Chairman PROXMIRE. This is an example of why Senator Percy gets re-elected again and again. He is the most responsive man when he wants to be, but he can be mighty confusing.

The point I am trying to make is that even if production goes up, maybe by using increased productivity you can double, you can increase your units of production from 10 to 20, but on the other hand maybe the cost will go down so that you increase your sales by one. So to produce 11 you can do it with fewer people. This is a fact of life that happens.

I think you know that this is one of the hard truths that explains the resistance of organized labor to productivity improvements on some occasions. Sometimes they are all for it. We have to recognize that. If we do, then I think we can begin to make real progress.

Mr. GRAYSON. There are several points to make. One, I agree with you, obviously. There are various elasticities in production, some more active than others. Two, the firm's efforts to increase its productivity certainly can result in some layoffs, no question. A firm may decide one way to get rid of cost is to get rid of people. It can, but not necessarily, to use the same word you used a moment ago.

Third, to go back to my basic belief, I believe there is the competitive model, which is still the better one, given its imperfections and the fact that it is not a pure competitive model. If those people are able to move out of an industry which can get increased productivity by some reductions, there will be other industries for which people will be needed.

The mobility of people to different jobs and to different industries has been impaired to the point where you get inefficiencies by the reverse of what I just said. That is, the worker is retained when he is not being productive. Therefore, the prices have to go up and thereby we lose the world competitive position and we are therefore going downhill in terms of the unemployment figure over the long run.

That is a lot of theory but I believe that is the way the system works.

Chairman PROXMIRE. It may be in your statement or one of the other statements that you emphasized that the real problem is in the private sector. The private sector is where the game has to be won. This isn't primarily a public job. The public has its own problems.

We are talking primarily about improvement in the private sector. The main contribution I think the Federal Government can make to this is to create an atmosphere, because only we can focus on aggregate demand. Only we can give the impetus and leadership and so forth to provide more complete employment and less unemployment.

If we can do that, then we have made a major contribution to improving productivity. Do you agree with that?

Mr. GRAYSON. Yes, I do agree.

Chairman PROXMIRE. That is all I am trying to prove. You waxed eloquent, and I think if you weren't smart enough not to use classical illusions, when you were talking about productivity, you were really talking about Aristotle's notion that every man has an immense potential, a telos. Like a little acorn he can become a great oak. Very few acorns do, but when they do, they reach their end purpose.

You seem to endow productivity with this overwhelming concept. When you do that, it seems to me maybe we lose its meaning. We had very fine testimony from Ralph Nader yesterday, and I think others, raising the fundamental question which you raise in your prepared statement when you talk about younger Americans increasingly dissatisfied with work, per se. They may say why shouldn't they be.

Mr. GRAYSON. I am not talking about dropouts, the so-called hippie, which is getting to be an ancient movement, that fun means disengagement or the opposite meaning of life. I tried to create a business school at SMU where you were allowed the freedom to do things but not just sit and shoot craps or do nothing, that the meaning of this was that you engaged in something that was an achievement, that you engaged in something that was an achievement, that was something better for you in your definition.

I don't support the so-called copout idea that work is nothing. We could get into this philosophical engagement but all I want to do

is get across the meaning of no, I don't mean engaging in fun. I am talking about a man can be very gainfully employed producing goods and services, where he is helping not only himself but others.

Chairman PROXMIRE. You are not substituting productivity for a whole system of value, are you? If workers don't want to be productive, they may pay the price for the courage of their convictions.

There is one other point that was well made yesterday, and I want to thank the man who is associated with Ralph Nader, Mark Frederiksen, who came in and gave me this. I would like to ask you about it.

He said:

I would like to reemphasize the significance of the procedural process which was brought to life by the General Foods term limit price increase. The Price Commission stated it had held many negotiations sessions with General Foods before any request was formally made. Once more the Price Commission seemed to think that these discussions are binding on itself but not on the company involved.

In the case of General Foods, the rules change was duly made before the actual request for an increase was made. I believe that the point of negotiation begins when the formal increase is submitted, as this is the first time the public is notified of the requested increase and thus, is its first opportunity for participating in the decision-making process.

The Price Commission would prefer that the agreement be hammered out in the back rooms, out of sight of the public, as was done for over a month and a half with the General Foods case, and is currently being done with the increases for next year's auto prices.

For the company these back room negotiations not only have the advantage of secrecy but they buffer the company from any future rules change not to the company's liking as the Price Commission will not apply the rule change ex post facto upon a company which has entered into no binding agreement with the Commission.

If such procedures are to continue all companies would do well to discuss with the Price Commission as soon as possible any increase proposed for the distance future. Thus, if the rules change comes along the company would retain the option of choosing which regulation, old or new, would best suit the company's purpose.

The concept of prior discussions free a company from the effects of a rule change and should send shivers down the spine of any administrator with a semblance of obligation to his duty.

In the General Foods case the company formally requested an increase under a rule which had been changed two days previously. The simple argument the Price Commission had been talking to the company is hardly a rationale for granting the increase under the older or more liberal rule, and saving to the public over \$4 million.

I believe this committee would be wise to investigate the Commission's process for hammering out negotiated increases made before the public has been given the chance to participate. Certainly the increase in the auto industry with a significant impact on the economy must not be handled in this way. Also, in light of the General Foods case it seems that the company should be handled like any other that files for a TLP increase.

Finally, there is the issue whether the company should pay increases in excess of \$479 million granted by the Price Commission based on false productivity data provided by the company. A mistake of this magnitude cannot be chalked off to experience but must be rolled back. This, coupled with the Price Commission's bankrupt company policy allowing companies to gain further profits from price increases has cost the consumer over \$1.2 billion in overcharges with no relief in sight.

Mr. GRAYSON. I am glad to have the chance to set the record correct. I did hear that he made these statements.

Chairman PROXMIRE. This is a new statement that he just brought in this morning.

Mr. GRAYSON. Before coming here, I asked for a narrative of what occurred relative to General Foods and the whole change of the Com-

mission's policy. General Foods was discussing with the staff members in February various possibilities for price increases and actually filed for the submission record various PC-I's, which are requests for individual price increases. Those were on the list so people did know that General Foods was talking to us about increases in prices. The Commission itself met on March 7 and as part of an overall review in which the name General Foods was never mentioned in that room.

We decided to reduce the TLP agreement from 2 to 1.8, except those companies which were in direct negotiation with the staff would not be precluded from getting the 2-percent increase at a maximum if they so justified by their costs. No mention of General Foods, I want to emphasize, was made in that room because there was a statement yesterday made that perhaps there was a member of the Commission, Mr. Wilson Newman, who was somehow influential in that decision when he is associated with General Foods. He did not know that General Foods was in for a discussion. The name General Foods never came up in that meeting.

Chairman PROXMIRE. To make the record clear, Mr. Newman is a member of your Commission, and he has a vote on it. He is also a director of General Foods. It seems to be a conflict of interest but he is exempted by the statute.

Mr. GRAYSON. He is exempted by the statute because they felt they could not get members to serve if they did not exempt them. He has filed with me, as have all members of the Commission, a complete statement of all the financial holdings that he and the immediate members of his family have.

Chairman PROXMIRE. But he voted on this change that helped his company of which he was a director.

Mr. GRAYSON. He did vote on this. He did not have knowledge that General Foods would be one of the companies affected because the name has never been mentioned.

If a name of a company is mentioned in one of the Commission's meetings, or an industry, then immediately the individual Commission member notifies me that he has a connection and asks me to rule whether he should, one, discuss any further, leave the room, and I must rule on that.

Further, if I do rule that he can have a voice in the discussion at all, then I also must further rule whether or not he can vote on a particular issue. That is a matter of the minutes.

But I do want to emphasize Mr. Newman himself said he would be glad to appear before this committee if so requested. I am trying to say what actually happened in this case.

The Commission decided on March 7 that any firm which was in direct negotiation at that point could proceed under the rules of getting 2 as a maximum. From that point on there were various negotiations conducted with General Foods and other companies who had already entered the procedure of negotiations.

At a point on March 17 there was a formal submission of TLP request by General Foods and the decision was not made until April 13 that General Foods would receive the TLP under which they had requested and they were under the rules at 2.

But the Commission as a policy had decided that, not as a specific case of General Foods. I just want to set that correct.

Chairman PROXMIRE. My time is up.
 Senator Percy.

Senator PERCY. While you were talking about productivity, I couldn't help but notice yesterday the procedure used for recording our hearings yesterday. A man sat right here listening to what was said by the witness and speaking into a muffled microphone, repeating. He couldn't possibly be as accurate as a person just directly tape recording.

You can have a high school student who is not trained in stenography just recording what you have and changing the tapes occasionally and taking them back.

But we go through what I consider to be a rather expensive procedure which certainly is highly costly and the taxpayers are paying every penny of it. It is going on in every single office, every single hearing room, and in the Senate, until someone gets enraged about it and does something about it. The productivity will not increase.

Chairman PROXMIRE. You don't want this fine young man out of a job, do you? Your productivity will be putting him out of a job.

Senator PERCY. I would like to find a better way. For 18 years I had a rule at Bell & Howell that nobody was ever allowed to fire anyone in the company because of a productivity increase. They were guaranteed a job, every one of them. And we tried to find a way to improve their job so that if they were on the job we could give them the training and the opportunity to go to school and pay half the tuition fee they could improve their skill.

That removed all the fear, all the resistance. No one ever lost a job because of a new machine. That is done in Japan—where people typically aren't fired.

We will develop this regimentation unless we find ways to make rules voluntarily that are right for society and right for the fine gentleman whose job I am not trying to cost. I just want to find a more interesting one for him.

I would like to comment on work fulfillment because I think it is so important. I can't believe that this gymnast downstairs feels his work is worthwhile. That man would feel so much better if he were given a worthwhile job and could go home at night proud of what he has done.

Chairman PROXMIRE. Chuck, he is a great guy and everybody is a great guy but everybody is not like you. It is like General Bullmoose.

Senator PERCY. Why are people using drugs in this country? Youth cop out and use drugs because they don't feel worthwhile, somehow the problems seem too big. Old people use them because they feel left out and abandoned and embittered. We all want to feel useful and worthwhile.

I am talking about human nature. What drives you? Of all people to talk about not feeling worthwhile. If you didn't come here and do something you consider worthwhile—if you didn't feel you were really accomplishing something, you would disintegrate.

Even to our utter horror and shame you do it over the Christmas holidays, making us feel like sloughs when we are home on Christmas holidays and you are holding hearings. Of all people to talk about not feeling there is a necessity and a drive inside all of us to feel needed, wanted, and worthwhile.

That is all we are trying to accomplish and do by these hearings, to make everyone in society feel as though there is a useful place for them.

I would like to comment also on the sensitivity of things in prices. I can't name anything that hasn't some relationship to pricing in some direct or indirect transit. Let's take mass transit, for example, a field that you have a direct responsibility for, Mr. Chairman, in banking and urban affairs.

In every city in the United States, as soon as you raise the price of mass transit, down goes the number of people who use it. Take the brilliant example of the Bay Bridge where they increased productivity by lessening the car lines. By lowering prices for cars with three or more people in them, suddenly people are jamming into cars because they find an incentive to increase productivity in passage and reduce the time wasted sitting in the traffic jams on that bridge which have gone on for years and years.

We have only two really profitable mass transit systems: the Metroliner and the Chicago & Northwestern Suburban.

What do they do? Instead of jacking up costs and prices, they reduced them. They improved efficiency. They now are putting more and more cars and trains on, improving the service. Everything is responsive to that.

The only profitable line, the Metroliner right here, carries passenger service, and the Chicago & Northwestern, has been turned over entirely to the employees—100-percent profit sharing.

Mr. Grayson, I find that the most interesting part of your testimony is that dealing with sociological factors. You state that these factors are measurable and must be included in the plan to improve American productivity.

How do you believe we can best approach these factors? What can we do about them? Will district, local, plant-by-plant productivity councils perhaps help capture some of this?

Mr. GRAYSON. That is what I meant earlier when I said the dialog would start between labor and management. There is encouraging work with the steel workers. There are other councils that are starting other industries and companies. England has had some experience and success with productivity bargaining.

I think maybe the answer is not only productivity bargaining which has still a little element left in it in adversary relationships, but the profit-sharing concept which you mentioned which are cooperative arrangements.

In terms of measurement there are some breakthroughs in psychological measurements which should be looked at. I have already cited one which I found to be useful. That was before I came to Washington. That was looking at achievement motivation. I return to that as a term and also as a concept and somewhat of a measurement technique.

Professor McClellan at Harvard has done this in significant areas of the world. He has looked historically into this. He has looked at different cultures. It is not culture bound. He has looked across the world and he has done it in the United States with groups that were disinterested, were not interested in their jobs, and has been able to point out to them ways in which they can become more motivated, can find more meaning in their work, and added in economic terms

to the output. It has been sociological in terms of their satisfaction within themselves. That concept, and there are others, exists.

Pittsburgh has looked at jobs, dissatisfaction and satisfaction, realizing there are not continuums. This work has been ignored and left on the side as though it were not pertaining to human beings but pertaining to rat sociology. It can be useful.

Senator PERCY. In what appears to be a reference to Edward Dennison, you state that your analyses have revealed a clear gap between the important work done by economists and that done by psychologists and sociologists.

Would you comment further on Dennison's prepared statement and approach? Did you have a chance to read that prepared statement?

Mr. GRAYSON. No, I did not read his prepared statement, but from what I just heard I would say it tied in closely to what I have been saying, that it can be measurable. It is rough to measure. Measurement in the social sciences is one of the hardest things to do. But some progress has been made. I have been looking at that myself before I ever came here.

Senator PERCY. The Price Commission's intention to offset average industry productivity increases against price increases requested by individual firms within an industry has resulted in a good deal of controversy. Of course, all of our congressional offices have heard about this controversy. One question is whether the industry productivity average is correct. For example, the radio and television transmitting and signalling equipment industry includes everything from atom smashers to electronic highway signals. Does application of an average productivity rate for such a broad grouping create an inequity for a single firm within that industry when it applies for a price increase?

Mr. GRAYSON. One, we have one down to the four digit level. That is pretty far down in the SIC Code and we have these numbers. I am sure there are some that are not fair. We will have an exception procedure if it is necessary in instances. But I want to be pretty firm about trying to provide loopholes when firms are merely trying not to come up with the average.

Second, if an industry feels that these numbers are not fair, then they can propose to us, or to BLS or any objective agency a methodology whereby they can attempt to prove that those numbers are not correct. But we want to assert very strongly for the first pass that these are hard numbers and we are going to try to make them stick.

Senator PERCY. Recently you gave a speech stating, in effect, that price controls would be removed when America's productivity improved. I have felt that would be certainly the bench mark—a clear signal of the time that we could afford to do it. We would all like you to be precise as possible about when.

Could you state more precisely what your views are on this issue and also do you think we are making progress toward this goal sufficient—do you see the light at the end of the tunnel and the end of price controls?

Mr. GRAYSON. One, there are some encouraging signs. I was very happy to see the consumer price index come out at the rate it did. I also said quickly, let us not claim a victory. Do I see some light? Yes, that was some light.

But I think one indicator does not a program make, so it is not conclusive that the WPI or CPI for March would indicate that that is a trend. But you must count that with other data which occurred in January and February which was not.

The way we will know that productivity has taken over is primarily by finding that the rates of inflation have decreased and that in our view there is not a volcano underneath it. One of the last things we want to do is to create the possibility of an explosion following the reduction of the controls.

The thing that will hold that down is increased productivity. I think when we look at the indicators and the number of firms sitting there at that profit margin ceiling we will know whether or not there is likely to be an explosion.

Chairman PROXMIRE. I have a brief comment and then I would like to ask you a question. The trouble with some of our discussion is that we just make the assumption that everybody wants to be like us.

Why can't everybody be like me? I can't understand why people smoke. Talk about not being productive. This is about as stupid a habit, as debilitating a habit, as I can imagine.

Why do people get boozed up? It doesn't make sense to me. It did until 2 years ago when I decided not to.

Why can't everybody be like me? Well, maybe we would have a little less exciting world if everybody was alike than if they were the way I am.

Mr. Grayson, there is a direct conflict between what you told the committee and what appears in the minutes of the meeting to which you referred.

The Commission minutes in other cases, incidentally, show that Commissioners state their possible conflict of interest. In this, Mr. Newman made no mention of a possible conflict of interest. The minutes show no mention of the company in direct negotiation. The company did talk with the Price Commission. So what? They talked with the Price Commission. They didn't submit their data that would bind them in any way. They are not bound by it. The Price Commission feels bound.

How about this? You testified that Mr. Newman disclosed, as I understand it, his conflict of interest in the minutes and it was publicized.

Mr. GRAYSON. At the beginning, when the Commission started, the members did file with me as a matter of my files——

Chairman PROXMIRE. That was not made part of the public record of the minutes?

Mr. GRAYSON. Not their particular financial holdings which they are not required to disclose. That was filed with me and with the President's legal adviser.

Chairman PROXMIRE. I would assume from your response what happened was that Mr. Newman did disclose that he was a director of General Foods at the meeting and that was disclosed to the public in the minutes.

Mr. GRAYSON. Not at that particular meeting, but he did disclose this in his files with me and the White House.

Chairman PROXMIRE. How about the question as far as the consumer is concerned? I asked about that \$475 million. Are we going to get that back? Is there going to be any rollback of that?

Mr. GRAYSON. That is a difficult question. Let me tell you where we are.

Chairman PROXMIRE. Please proceed.

Mr. GRAYSON. When we started this, we did the best we could with the productivity data we had. No one had individual firm productivity data and no one had complete industrywide productivity data, and in the depth of the four digit codes we are coming out with. We did the best we could working with the firms to try to get them to give us accurate productivity data.

Some of those firms estimated, and we bargained with them in many cases—this should be known—and in many cases we were able to reduce by forcing the companies to try to search for higher productivity measures less price than they could have justified if we had not gotten productivity offsets. So we did our best to get accurate numbers.

I learned yesterday a statistic that I didn't know, that in the negotiations with the firms to get their forms correct and in compliance with our regulations, and to get the accurate productivity figure on it, about 50 percent of the time was concerned with productivity numbers in discussions. I didn't realize it was that high. It was 50 percent of the time. So a search was definitely made to get the best numbers we could. But we recognize the arguments you cited earlier this morning, with which I agree, that the industry figures are better. So we started immediately to get those industry figures. We now have them. We now look at the industry figures and the firm figures very roughly in our own files, and these industry figures are higher. Had we used them overall we would have had less price increases, had we known that, but we didn't.

Chairman PROXMIRE. What you are saying now to me, as I understand it, is that the \$475 million does not represent a violation or an excess of what your rules had been.

Mr. GRAYSON. That is correct.

Chairman PROXMIRE. It would have been if your new rules had been in effect.

Mr. GRAYSON. That is correct.

Chairman PROXMIRE. Therefore, a rollback would be a retroactive action and you don't think it would be fair. Therefore, you are not going to roll it back and the consumer will not get the benefit, is that right?

Mr. GRAYSON. We do not know yet what we will do about that. For the moment, my questions of fairness worry me, that this was the best both parties could do at that point in time. There is this check on the other side of the argument that you are making, that the consumer suffered thereby, but we do have the upper bound on that, the profit margin ceiling; that no matter how much we did not subtract out, that, nevertheless, they are held by the profit margin ceiling. So there is some check.

But I will look into that and see whether or not in my judgment that is fair, given that both parties under the regulations did what they did.

Chairman PROXMIRE. Ralph Nader and Mark Frederiksen have done such a great job that I feel delinquent in not following up their work. I will ask them to give me more information on this and submit it to you for comment.

Before we call up our next witnesses, and I apologize because the hour is very late, Senator Percy has a comment he would like to make.

Senator PERCY. What we are talking about in these hearings is what kind of a nation we want to have—what kind of an economy we want to have. I am very sensitive to the direction or route on which you are trying to carry us to provide incentives for increased productivity.

We can go down that traditional route, which has carried us to economic eminence or we can go down another route. I am sensitive to the amount of thought and planning being put in that other route now; phases II, III, IV, and V may well be much more regimented and bring a controlled economy with the wisdom all at the top and decisionmaking less and less dispersed.

That is the type economy which we find abhorrent, and which we are fighting in Southeast Asia.

The Wall Street Journal has become extremely progressive in recent years in its reporting and editorial policy. In this morning's edition I noted an article entitled "Beyond Phase II" that pointed out the choice we face in this regard—whether we are going to take one route or the other.

I quote:

In a speech the other day, Charls Walker, Under Secretary of the Treasury, offered his view of the aftermath of Phase II. Although he seemed to find the outlook fairly bright, we find this forecast a gloomy one, indeed.

Under his approach, business would become less competitive domestically so that it somehow could become more competitive internationally. Washington would provide guidance to important industries. The government in general would push deeper into planning the economy. Many young people would be diverted from universities into vocational training and unions would be persuaded or compelled to avoid lengthy strikes.

The plan for a guided economy can easily be faulted on grounds of principle. In a nation supposedly founded on principles of human freedom, do we really want a super-authority telling us what is "fair" and even where our children should go to school? Even if a government-labor-business cartel weren't so repulsive in principle it would be likely to fail in practice.

Communist countries who carried the idea that central direction as far as it could go have for years been trying to find ways to inject more competition into their domestic economies.

While Mr. Walker thinks that big businesses could agree on price policies, that it would be fair to the consumer, that sort of price fixing in practice has always produced only prices that the businesses felt were fair to themselves. It is unrealistic to argue that U.S. businesses given freedom to collude would tighten their belts, trim down their costs, innovate energetically and become much more competitive with foreign companies.

Instead, there would only probably be an intensified drive for Federal help in meeting the competitive threat from abroad.

Before continuing, Mr. Chairman, I would like to place the entire article in the record at this point.

Chairman PROXMIRE. Without objection, the article will be entered in the record at this point.

(The article follows :)

[From the Wall Street Journal. Apr. 26, 1972]

Beyond Phase 2

In a speech the other day Charles E. Walker, Under Secretary of the Treasury, offered his view of the aftermath of Phase 2. Although he seemed to find the outlook fairly bright, we find his forecast a gloomy one indeed.

When wage-price controls end, Mr. Walker said, "the prospects for getting representatives of labor, business and government to sit down at the table and attempt to agree on wage and price policies that result in stable unit labor costs and a stable price structure that is fair to the consumer—the prospects for some sort of social compact—look pretty good to me."

This idea, that big government, big labor and big business should gang up to decide what's good for the rest of us, isn't unique to Mr. Walker. As Richard Jansse reported in this newspaper this week, other Nixon administration officials are talking up the same approach.

Under this approach business would become less competitive domestically so that it—somehow—could become more competitive internationally. Washington would provide varied aid and guidance to important industries. The government in general would push deeper into planning the economy. Many young people would be diverted from universities into vocational training, and unions would be persuaded or compelled to avoid lengthy strikes.

The plan for a guided economy can easily be faulted on grounds of principle. In a nation supposedly founded on principles of human freedom, do we really want a super-authority telling us what is "fair," and even where our children should go to school?

Certainly vocational training can and should be improved, and probably secondary schools could offer students better career advice. Yet students and their parents, in our sort of society retain the right to make mistakes; their mistakes are not likely to be any more numerous or painful than those others make for them.

Even if the government-labor-business cartel weren't so repulsive in principle, it would be likely to fail in practice. Communist countries, which carried the idea of central direction as far as it could go, have for years been trying to find ways to inject more competition into their domestic economies.

The present antitrust laws admittedly are far from perfect. Some industries, such as textiles, are probably too highly fragmented for anyone's good; if the present statutes don't permit larger firms to absorb weak and financially troubled companies, perhaps there is a case for easing the laws in that direction. And bigness is not necessarily badness.

Sometimes, though, it can be bad indeed. While Mr. Walker thinks that big businesses could agree on price policies that would be fair to the consumer, that sort of price-fixing in practice has always produced only prices that the businesses felt were fair to themselves.

It is unrealistic to argue that U.S. businesses, given freedom to collude, would tighten their belts, trim down their costs, innovate energetically and become much more competitive with foreign companies. Instead there would only too probably be an intensified drive for more federal help in meeting the competitive threat from abroad.

The Nixon administration men, in fact, are pointing in precisely that direction, with their talk of various sorts of new governmental help. Included is the possibility of direct federal subsidies to businesses engaged in foreign trade.

If a company is still having trouble running its business, there's a hint that the government may show it how. That idea is likely to find wider acceptance in the business community if the government ever begins to show more competence in running its own affairs.

Perhaps unintentionally, Mr. Walker points the way toward a more attractive future. If big business and big labor unions don't agree to sit down with government to run the economy "sooner or later the American people will insist upon fundamental legislative and regulatory actions to effectively reduce the abuse of economic power."

Attacking excessive power where it exists, in labor unions or business, wouldn't be easy, of course. But we would be happier with a government that tried that approach than we would be with one that left our fate to a friendly group of power brokers.

Senator PERCY. I would like to close my remarks at this point with the reasons for my personal feelings. Twenty years ago I testified as a businessman with all the vehemence I could against the protectionism urged by the trade association for the photographic industry. I didn't want tariff walls protecting us from cameras in from abroad where they have so-called cheap labor. Such a policy would undercut everything I was trying to do—to make an efficient company based upon economics, not politics.

Any time we come out with these supersimple approaches of tariffs, quotas, controls, and regulations—when business thinks the panacea is to have a nice regulatory board forcing down wages so they don't have to bargain with all those nasty union leaders—when we get into that kind of a mentality in business we have had it, so far as a free economy.

I just say to the NAM they must look closely at the policy of supporting wage and price controls for an indefinite period of time. I certainly hope they will not support such a policy.

We are going down a rocky road to I think economic devastation in this country if we tend to think we are smart enough to be able to outwit the free market by controlling and regulating it.

We are playing the Communists' own game just as they are moving away from it, realizing it simply isn't working. Why should we be moving in that direction? We have holes in our head if we think we should do that.

I commend you for being in the central spot, in the heart of the storm, but fighting to battle your way out and keep this a free economy.

Chairman PROXMIRE. To that I say amen, I couldn't agree more. I want to say as hard as it was this year to get a unanimous position between Democrats and Republicans in an election year, I think it was due largely to the efforts of Senator Percy and Senator Javits. We did agree on not the usual three or four pages, but about four short lines of thinking.

One of the agreements was that we opposed quotas, we believe in free trade, and we believe in foreign competition. I think what Senator Percy just said certainly expresses the view of not only his own position but of the committee.

Thank you, Mr. Grayson, for a fine job.

(The following information was subsequently supplied for the record:)

RESPONSE OF HON. C. JACKSON GRAYSON, JR., TO ADDITIONAL WRITTEN QUESTIONS
POSED BY CHAIRMAN PROXMIRE

Question 1. The price Commission's decision to use the productivity statistics of the Bureau of Labor Statistics, rather than statistics provided by the company in question, seems advisable in light of the fact that 95 percent of the companies reported productivity figures below the industry average in order to gain greater increases. If this proposed policy had been in effect since the beginning of Phase II, the price increases granted would have been considerably less. In the circumstances, what is the Price Commission going to do in order to recoup the excess increases granted by the Price Commission on the basis of inaccurate information submitted by the companies?

Answer. The Price Commission will not apply the new industry productivity rule retroactively. This decision was made for two reasons. The first is extreme complexity of reassembling the data for cost conditions sometime in the past.

Secondly, there would be great inequity involved in changing decisions retroactively. Many firms have made major business plans on the basis of prices previously approved by the Price Commission.

An important factor in this regard is that many firms chose to request a lower price than their costs would have justified. If the companies had known that higher productivity subtractions were to be made, they would have included more of their allowable costs in their requests. Thus, to apply the new rule retroactively would mean that the Price Commission would have to reconsider every single price decision made over the last 6 months. This is not administratively possible.

Question 2. Information compiled by the Department of Agriculture continues to show widespread violations by meat retailers of an incredible magnitude. The Department's report, Price Spreads for Farm Foods (April 26, 1972), shows that while farm prices for beef have been declining, the costs added by grocery stores have increased over 30 percent since December of 1971. The regulations stipulate that retailers must not increase their percentage markup. Hence, if wholesale prices go down, the retailers must decrease their prices to the consumer accordingly. The figures show that in December, the costs added by the retailer accounted for 26.1 percent of the retail price. In all of March, the retailer's proportion of beef prices was 31.8 percent. The elusive "middleman" (the meat packer), to whom everyone was pointing during last month's meat controversy, actually accounts for less of the retail price than he did in December, or even a year ago. These figures appear to indicate that the grocery retailers are violating the Price Commission's regulations. To what extent are the markups in beef characteristic of other commodities? What is the Price Commission going to do about this situation?

Answer. The price of food is the subject of continuing close study by the Price Commission. We gained much evidence from our own two days of public hearings on food prices and we are working closely with the Department of Agriculture to develop a complete understanding of the food pricing situation. To answer your specific question, beef and pork behave alike as to price and margins behavior during price changes from retail to farm. They are different from other "volatile" perishables in these characteristic ways:

(a) Beef and pork price rising trends are followed more slowly by retailers than for other perishable commodities (fresh fruits and vegetables).

(b) On downward trends, retailers respond more slowly to farmer-wholesaler decreases than is characteristically observed for other volatile perishables.

In the Phase II period these trend characteristics were not evident. Retailers price rise trends on beef and pork did not lag several weeks. We believe that the reason for this disparity was pressure from other than meat cost increases (labor, packaging, etc.) which are a part of the retailers customary margin and cause the retailers to make immediate upward adjustments to rising carcass prices during this price-bulge period. The longer lag time for retailer response to price declines that is evident in the February-March period may also be a further adjustment to Phase II circumstances. More evidence of shift in the normal lead-lag behavior of price spreads for meats will be known when the upward trends for May farm value and carcass prices are adjusted for at retail.

Our Office of Price Policy studies and evaluates these and other factors affecting food prices. In addition, we have recently established an Office of Compliance and Enforcement. If we determine that food retailers are violating our procedures you may be assured that the Price Commission will take appropriate action, either administratively or through the courts.

Question 3. Aggregative statistical information relating to costs, profits, and productivity on particular product lines should be made public. For firms to claim blanket secrecy for all such information is directly contrary to the expressed intent of the Congress. What criteria has the Commission established to insure the fullest disclosure of information submitted to it? What measures has the Commission taken to develop such statistical information? If additional resources are needed to develop an adequate statistical program, please indicate the amounts involved.

Answer. A comprehensive report on confidentiality is being sent to Senator Proxmire under separate cover. On the question of aggregative statistical data, the Price Commission has developed relatively little of this type of data. This is a result of our policy of handling each company on an individual basis. We simply have no need for such statistics.

However, where the sample is large enough so that the figures can not be disaggregated, I would fully intend that such data be made available for public inspection. This has been our policy in the past and it shall continue to be our policy whenever such records are produced.

Your request for an estimate of additional resources needed to develop a statistical program is very difficult to answer. As I have noted above, such a program is not needed by the Price Commission to carry out our function. If the Administration and the Congress were to determine that the Price Commission should have an added function as a research operation we would, of course, undertake that mission. However, without knowledge of our specific mandate and guidelines, it would be impossible to give a realistic estimate of how much such a program would cost.

Question 4. What plans does the Price Commission have to insure the proper rebates by companies that have exceeded their profit margins? The recent news that Ford will reduce its prices on new cars is of little use to the millions of customers that have already been overcharged.

Answer. The Price Commission has developed specific procedures to ensure that ordered rollbacks and rebates are carried out by the companies involved. Basically, once an order is issued, a firm has to:

(a) Take immediate action to rebate the excess profits to the customer if identifiable,

(b) Submit to the Price Commission certification that rebates have taken place, including a list of those receiving the rebates,

(c) File a monthly update of the Quarterly Profit Margin Report, and

(d) File a plan within three weeks describing efforts to meet the provisions of the Price Commission's Order and projection of the financial impact of such efforts on the firm's cumulative profit margin for the present fiscal year and the revenues accruing to it as a result of having increased prices above the base price.

The Price Commission has several avenues to use to ensure that the company has taken the correct action. We can evaluate their submissions and check them against financial statements, news releases, etc. We can request an investigation of the firm by the IRS. And, we can assign the firm for general monitoring by our Office of Compliance and Enforcement.

With regard to your specific question about the Ford Motor Company, this was a price reduction rather than an excess profit rebate on new cars. We have, however, initiated action to check out a sample of Ford dealerships across the nation to insure that such price reductions have been effected and that the consumer is made aware of the reduction by the dealer.

Question 5. The revelation that the Price Commission habitually "negotiates" price increases with firms long before the public is aware of any formal request (over one and a half months in the case of General Foods) casts further light on the Commission's disinterest in public participation. You gave no justification to the Committee for why there had been no public hearings on individual cases. Is the Price Commission now ready to outline the conditions under which it will meet its obligations to the law and hold such hearings?

The increases of the auto companies, for example, are of obvious significance to the economy, and clearly fall within the purview of the Economic Stabilization Act's stipulation for holding public hearings. Does the Price Commission intend to hold public hearings on this matter?

Answer. The Price Commission fully intends to comply with Section 207 of the Economic Stabilization Act which provides that to the maximum extent possible, public hearings should be held on increases which may have a significantly large impact upon the national economy. However, Section 205 of the Economic Stabilization Act specifically requires the Price Commission to hold confidential almost all of the information that is relevant to a request for a price increase. For instance, a hearing examiner could not ask publicly more than 90% of the questions upon which to base a price decision. In our view holding a public hearing on a specific case under these circumstances would be grossly misleading to the public. It would appear that our decision was based on testimony taken at the public hearing when that was not at all the case.

Therefore, the Price Commission has determined that our resources would be better spent on public hearings of a general or policy nature in which we could hear testimony of a non-confidential nature and also apply this information to our policy-making process. We have held public hearings on utilities, food and rents, and general public hearings in Washington and other geographically-dis-

persed parts of the country such as Boston, Chicago, Atlanta, and San Francisco. The general hearings have been very helpful in that they give the Price Commission an opportunity to learn directly from consumers and other segments of the economy what they think about the program.

We have not yet made a decision on the question of public hearings for the auto companies. However, I would note that this would also be a case where the Congressional mandate to hold this data confidential would make it extremely difficult to take any meaningful testimony.

Question 6. It would be useful to the Committee if the Price Commission provided a detailed outline of the process by which price increase requests are handled, including any presubmission negotiations. In addition, how extensive a review does the Price Commission give to the data submitted to it? What basis do they use for questioning the data? Is there any provision for public participation in the review of a company's request for an increase?

Answer. A detailed outline of the procedures for handling price increase requests is attached at Tab A. With respect to the basis for questioning data, many resources are available to the Commission staff. We can undertake comparative analysis between a present submission and prior submissions, or use public records such as annual reports and Dun and Bradstreet Reports. Also, our staff analysts are assigned to functional divisions where they are continually developing increased personal knowledge of company or industry pricing practices. They are strongly encouraged to search for discrepancies.

Basically, except in the case of Term Limit Pricing agreements, no presubmission negotiations are undertaken. Companies do make frequent inquiries as to how, what, and when to file or have specific questions on instructions on how to fill out the form. In such cases assistance is given. In the past, Term Limit Pricing agreements were frequently negotiated with the individual company. This is no longer the case since we have gained sufficient experience with the TLP concept to be able to formalize and publish instructions for this procedure. Companies must now conform to a specific set of guidelines in order to qualify for a TLP agreement.

In regard to public participation in the review of a company's request for a price increase, the Price Commission publishes on a daily basis a submission report which shows all companies requesting a price increase, the product line involved, the amount of the requested increase, and the impact on total revenues. This report is distributed to the media and a copy is sent to each Member and Committee of Congress.

Our regulations provide that any person can file a statement as a third party intervenor objecting to a price increase. This statement is made a permanent part of the file and is considered by the staff analyst and the Review Committee in determining whether to allow, modify or deny a price increase. I should note that there is no provision for direct public participation in the sense of making the company's filing available to an intervenor. Again, this type of action is precluded by the Congressional mandate on confidentiality as expressed in Section 205 of the Economic Stabilization Act.

Question 7. Would you please provide the Committee with the names, positions, and previous business or other associations of the top 25 people on the Price Commission staff?

Answer. I have attached at Tab B a list of the top 20 people on the Price Commission staff. These represent the senior and sub-senior staff of the Commission. You will note that the majority of our senior staff has been drawn from other government agencies, with the remainder coming from academic and business associations.

TAB A

PROCEDURES FOR A PRICE INCREASE REQUEST

PROCESSING

(a) The Form PC-1 will be handled identically whether submitted by a Tier I pre-notifier or a Tier II post-notifier company. The form(s) will be received, time stamped and logged by the Correspondence Branch of the Management Information and Control Division (MICD), Office of Program Operations.

(b) MICD will determine the size of the firm, i.e., Tier I or Tier II, the type of submission, i.e. PC-1, 10, 51, TLP and the SIC category for proper division assignment, i.e. wholesale-retail, utilities, manufacturing. Additionally, MICD will

assign a Price Analysis Control number, a SIG and a Dun and Bradstreet number to the Form PC-1. The form will undergo a pre-key punch edit and the information on the form will be entered into the computer. MICD will then conduct a post key punch edit. If the edit review process reveals substantive errors to the Form PC-1, MICD will return the Form to the firm for correction. A Form PC-1 which has passed edit review is sent directly by MICD to the appropriate analysis division for further processing.

ANALYSIS

Ideally one analyst will handle all PC-1 filings from a specific company. The Analyst is expected to determine whether the products for which a price increase is requested are manufactured by the applicant or bought and sold without processing. In instances where a portion of the products are bought and sold without processing, the analyst will consult Division 10 (Wholesale/Retail) before approving the PC-1. Such items should constitute an incidental portion of the PC-1 products (eg. sales of spare parts by a manufacturer of vehicles). When the products covered by the PC-1 are either completely, or substantially bought and sold without processing, the firm will be required to file the price requests on a PC-10, Report of Markups. The request should then be referred to Division 10.

If the analyst wishes to question possible errors, he may contact the firm directly. With the approval of his Division Chief, he may also request an investigation to verify the submitted data. Any time lag, i.e. clock stopping, will be reported by the analyst to MICD on a Status Information Sheet (SINS). After review and analysis based on established criteria, the analyst will make a recommendation to his division chief that the request be approved, modified or denied.

REVIEW AND APPROVAL

The request, along with the analyst's recommendation, is sent to the appropriate approval/denial authority who reviews the request and the recommendation.

If the request has less than \$1,000,000 impact (incurred increase) on the sales of a firm, the Deputy Director, Office of Program Operations, will have the signature authority.

If the requested increase is below 2½% and the dollar impact is between \$1 million and \$10 million, the review, approval/denial authority will be that of the Director of Program Operations. All cases exceeding 2½% and having an impact over \$1 million are to be reviewed by the Director of Program Operations with the PC-1 Review Committee. A Committee decision requires approval by the Director and two other Committee members.

If the requested increase is between 2.5% and 5% and the dollar impact is between \$1 million and \$10 million, the Director of Program Operations will sign the order. He will also have the approval authority if the request exceeds a 5% increase and has a dollar impact under \$5 million.

After Committee Review, if the percentage increase is over 5% and the dollar impact is between \$5 million and \$10 million, the Executive Director will sign the order and letter. He may also modify or reject.

All dollar impacts over \$10 million will be referred to the Chairman for review, approval and signature.

In each case, a Price Commission Order will be prepared bearing the signature indicated on the attached schedule. A letter will accompany the order in any decision wherein a modification or denial has been made to the request.

CASE CLOSING

In the event a modification is recommended, and approved by the appropriate signatory authority, or the approval authority makes a modification, the Analyst, upon receipt of the form from the approval authority, will be responsible for insuring that the revised data is noted on the Decision Form. A copy of this revised form will be sent to MICD for permanent filing. The analyst will forward the notification letter and order to the firm, informing the firm of the decision.

If a modification or denial is made to a price increase request or, in the case of a post-notifier (Tier II) price increase report, the analyst may suggest to his Division Chief that the company be monitored to insure compliance with the decision. In this instance a form request for an investigation is completed and submitted for screening (as needed) to the Planning and Coordination Division. Planning and Coordination initiates action by the investigating teams.

MICD issues daily statistical reports listing cases received and decisions made on the preceding day. These reports are distributed to the Analysis Division, Public Affairs, Cost of Living Council, the IRS, and other concerned Economic Stabilization Program offices, as requested. In addition, MICD prepares weekly status and "tickler" reports indicating the "age" of cases in house and emphasizing overdue or near-deadline cases.

APPENDIX

To: Program Operations Key Staff: This approval authority schedule replaces the January 20 schedule.

APPROVAL AUTHORITY FOR FORM PC-1s

Amount of price increase (in millions)	Price percent increase		
	Under 2.5 percent	2.5 to 5 percent	5 percent and over
\$10 and over	{ Reviewed by Chairman, Price Commission and Review Committee. Signed by Chairman, Price Commission.		
\$5 to \$10	{ Reviewed by Director, Program Operations.	Reviewed by Director, Program Operations and Review Committee.	Reviewed by Executive Director and Review Committee.
	{ Signed by Director, Program Operations.	Signed by Director, Program Operations.	Signed by Executive Director.
\$1 to \$5	{ Reviewed by: Director, Program Operations.	Reviewed by Director, Program Operations and Review Committee.	Reviewed by Director Program Operations and Review Committee.
	{ Signed by Director, Program Operations.	Signed by Director, Program Operations.	Signed by Director, Program Operations.
Under \$1	{ Reviewed by Deputy Director, Program Operations. ¹ Signed by Deputy Director, Program Operations.		

¹ On occasion, reviewed and signed by Assistant Director(s) at the request of the Director or Deputy Director.

TAB B

<i>Name and present position</i>	<i>Former association</i>
Grayson, C. Jackson, Jr., chairman	Dean, SMU Business School.
Lewis, William B., executive director	Regional Manpower Administrator, Department of Labor.
Carpenter, Peter, deputy executive director	Director, FAR Management Team, Office of Management and Budget.
Neeb, Louis, executive secretary to the commission	Special Assistant to Director, OEP.
Jones, Curtis, director, price policy	Director of Evaluation, Action.
Suranyi-Unger, Theodore, assistant director, price policy	Research professor, The George Washington University.
Al-Samarrie, Ahmad, assistant director, price policy	Professor, The George Washington University.
Wortman, Don, director, programs operations	Controller, OEO.
York, Ed, deputy director, program operations	Chief, Program Review, NASA.
Burton, Bernard, assistant director, program operations	Associate Director—Nonappropriated Fund U.S. Army Audit Agency
Small, Albert, assistant director, program operations	Associate for Program Coordination, Department of Commerce.
Daly, William, assistant director, program operations	Manager for Staff, planning and finance, Mobil Oil.
Leanse, Jay, director, exceptions review	Deputy director, Minority Business Enterprise, Department of Commerce.
Moses, Gregory, deputy director, exceptions review	Administrator, National Business League.
Slawson, W. David, general counsel	Professor, University of Southern California.
Corson, William R., acting director, Office of Compliance and Enforcement	Vice-President, Operations Research Inc.

Dickens, Jared, director, Office of Data Systems Support-----	Systems Analyst, Boise Cascade Corp.
Adams, John, director, Public Affairs-----	Associate Director, Public Relations, Investment Company Institute.
Hogue, James, director, congressional affairs -----	Deputy Special Assistant to Secretary, Department of Treasury.
Medley, Max, director, administration-----	Consultant, Fiscal Affairs Task Force Nelson Commission.

Chairman PROXMIRE. Our next two witnesses are Mr. Denison and Mr. Rosow.

They are well-known experts in the field of productivity analysis. Mr. Edward Denison was a pioneer in the area of productivity. He wrote two of the finest books I know about in this field, not only dealing with the United States but with other countries.

As I said before this meeting, he first came to my attention when I read the book by Servan-Schreiber "The American Challenge," which argued that America's predominance developed in recent years not on the basis of immigration or massive capital investment, which was true in the early part of the 20th century, but the tremendous emphasis on education.

The other witness is Mr. Jerome Rosow, Assistant Secretary of Labor in the Nixon administration. He is another fine expert on productivity.

Yesterday we heard testimony from Commerce Secretary Peterson. That testimony sounded very much to me as a downplaying of a liberal education, as a significant and contributing factor for the future.

We would like later to have your views.

Mr. Grayson, who has just appeared, talks of a substantially increased and vigorously pursued new attack to improve productivity. He said, "No other single national goal is more important to the Americans at present and future than new standards for revitalizing American productivity."

They are an echo of the words that the President said in setting up the Productivity Commission almost 2 years ago.

Last month the Commission issued its first annual report. I am sure you both read it. I would like you to tell us what you think of the work of the Commission in these 2 years.

Since Secretary Peterson has only recently assumed the Chairman's role, I found it difficult to question him in detail on the Commission's past activity. Perhaps you can fill us in. Why, after 2 years, has more not been done?

I put the question somewhat differently to you, Mr. Denison, are we now not barking up the wrong tree? Should we have expected more from the Commission.

STATEMENT OF EDWARD F. DENISON, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. DENISON. Mr. Chairman, to inquire into productivity is to investigate almost every aspect of economic life. The literature on productivity is voluminous. To it I have myself contributed two rather large books, and am well along on a third. Even my prepared statement examines only briefly just a few of the subjects I have studied

myself. The ten minutes allotted is very little, particularly since I think that the discussion this morning, though including some brilliant insights, has been partially based on a wrong understanding of the statistics. Let me try to make a few points.

Chairman PROXMIRE. Professor John Kendrick, one of the great experts on productivity, is in the audience today and I intend to ask him to comment on the testimony in these hearings later on.

Mr. DENISON. My first point is important, well understood by economists, but often a source of confusion in popular discussion. To interpret any productivity series it is essential to distinguish between short-term fluctuations, caused by changes in the strength of demand, and productivity changes that result from less transient factors.

Productivity is highest when demand is strong and expanding rapidly, as in 1965 or 1966, and lowest when demand ceases to expand much, or declines, as in 1969 or 1970. Because of the presence of very substantial elements of overhead, labor and capital in business establishments cannot be altered in proportion to the volume of business so that the intensity with which they are used fluctuates. This is compounded by the fact that labor is not instantaneously dismissed or added when demand changes.

In the past few years productivity series have behaved in an erratic, and to some a rather disappointing, fashion. This has given rise to speculation that something fundamental and lasting may have gone wrong. I find no support for this speculation in the data. I have analyzed them through 1969 just as carefully as I can. Once an appropriate cyclical adjustment is introduced, I find no tendency whatsoever for the rate of productivity increase to slacken.

The last 2 years cannot yet be examined as precisely, but I do not think the situation has changed. I do not wish to forecast the future because there are things that could go wrong. But I see absolutely no evidence as yet of any productivity crisis, but only the usual cyclical pattern.

I have made this statement without defining productivity because I think it is true by any of the usual definitions. Productivity is the ratio of some measure of output to some measure of input.

Rather than become involved in definitions I will discuss first sources of growth of output and let you decide for yourselves what you wish to count as productivity.

There are a huge number of determinants of the level of output at any date, and it is changes in these determinants that cause growth.

To list them is easy but not very informative unless one can indicate their importance. Let me try to do this by summarizing my estimates of the importance of various factors to past growth.

I shall refer specifically to the period from 1948 to 1969, but you will understand the number for other periods would be different.

In 1969 the national income measured in 1958 prices was 2.2 times as big as it had been in 1948. Its growth rate between these dates was 3.85 percent. However, 1969 was a year of much less intensive utilization than 1948, and the weather happened to be less favorable for farming.

Eliminating the effects of these irregular factors yields 4 percent a year as the growth rate that resulted from changes in other determinants. My estimates attempt to divide this 4 percent among the changes that produced it.

Of the 4 percentage points in the growth rate, between 0.8 and 0.9 percentage points were due directly to changes in the amount of work done. This calculation takes account of the age-sex composition of hours worked and some other changes in composition, but it is not much different from what a calculation based solely on man-hours would yield.

The figure is smaller than one might ordinarily expect an employment increase of the size that occurred to yield, given that there was little reduction in full-time hours. But much of the employment increase consisted of part-time workers, chiefly students and women.

The increased education of the working population contributed between 0.4 and 0.5 percentage points to the growth rate. The change in education has been massive. For example, of the men employed in the business sector of the economy—which includes everything except Government, nonprofit institutions, and private households—in 1948, over 44 percent had had 8 years or less of education. By 1969 this percentage had fallen to less than 22 percent, or by more than half.

At the other end of the range, the percentage who had completed 4 or more years of college more than doubled, from 5.7 percent to 11.7 percent.

The percentage with at least a completed high school education rose from 35 to 60. In addition, the average number of days during a school year that workers had been in attendance also rose substantially. These changes, of course, reflected changes introduced in the schooling of young people over a very long period of time.

Combining the two estimates cited so far, almost 1.3 percentage points of the 4-percent growth rate were due directly to the increased quantity and quality of labor.

Capital used in production has also increased enormously. Almost 0.3 percentage points in the growth rate were due to the increase in the stock of housing, which contributes to national income by providing housing services.

Another 0.5 percentage points were due to the increase in the stock of structures, equipment, and inventories used by business. A small amount was due to the increased earnings from additional investment abroad. Combining these figures, I estimate that the increase in capital contributed 0.8 of the 4 percentage points in the cyclically adjusted growth rate.

The items counted so far add up to 2.1 percentage points. This is the part of growth that I count as the contribution of the increase in inputs, but in many people's classifications part of this amount would be called an increase in productivity. In any case, it leaves 1.9 percentage points yet to be explained. I ascribe these to three major changes.

The most important is the adoption of new techniques and practices, made possible by advances in knowledge which enable us to obtain more output with the same input of labor, capital, and land, or the same output with less input.

To advances in knowledge, I estimate, goes the credit for 1.2 percentage points in the growth rate. Let me stress that I use the term "advances in knowledge" comprehensively. It includes what is usually termed "technological knowledge." It also includes what I call managerial knowledge, that is, knowledge of techniques of management, construed in the broadcast sense, and of business organization. It in-

cludes more efficient design of structures and equipment made possible by new knowledge. It includes knowledge originating in this country and abroad, and knowledge obtained in any way: by organized research, by individual research workers and inventors, and by simple observation and experience.

Advances in knowledge are the fundamental source of true productivity increase in the long run. The percentage rate of increase of about 1.2 percent a year at which I arrive appears to have been quite stable throughout the postwar period. This means that in absolute terms advances in knowledge were adding more than twice as much to total output each year in the late 1960's as in the late 1940's, because national income had doubled.

Let me point out that my estimates for the contribution of advances in knowledge are obtained, statistically, as a residual. This is much less satisfactory than an accurate direct estimate would be, but there is no way to obtain an estimate directly. No precision attaches to my estimate, but on the basis of research for various time periods and countries, I do think it is of roughly the right magnitude. I may also note in passing that in government, households, and institutions the method of measuring output does not permit advances in knowledge to raise measured output or productivity. For the nonresidential business sector of the economy alone, my estimate is 1.4 percent as against 1.2 for the whole economy.

The next component is improvement, as viewed from the standpoint of productivity, in the allocation of resources.

I have attempted to measure the gains from the two types of shifts which appear to be important. One, much the larger, is the reduction in the overallocation of labor to farming. The other is the reduction in the nonfarm self-employed and unpaid family workers in which I call the fringe group, those operating very small and inefficient enterprises, earning little and contributing little to output, but quite able to do well as paid employees in larger establishments. Together, these aspects of resource reallocation contributed 0.3 percentage points to the growth rate.

The last component is economies of scale. Growth of an economy automatically means growth in the average size of the local, regional, and national markets for end products that business serves. Growth of markets brings opportunities for greater specialization—both among and within industries, firms, and establishments—and opportunities for establishments and firms within the economy to become larger without impairing the competitive pressures that stimulate efficiency.

The message I wish to convey is that if you think in terms of deliberate actions to alter the long-term growth rate, think small but treasure small differences. One-tenth of a point is a lot.

The question used often to be put to me: If it is difficult to alter the U.S. growth rate very much by actions deliberately designed for this purpose, how have some foreign countries achieved much higher growth rates than we?

To investigate this question I made a detailed comparison of the sources of growth in the United States and eight Western European countries in which growth rates ranged from more than double ours, in Germany, down to a figure below ours, in the United Kingdom.

The study yielded a variety of interesting results, but no magic ways to secure growth nor even any major mysteries. It did not even show that there was any real or relevant sense in which it could be said that the other countries were doing more than we to obtain growth.

Those achieving higher growth rates than the United States did so only because they were operating in a different environment. Conditions were very different with respect to factor proportions; to the existing level of technology, management, and general efficiency to the use of resources; most importantly, to misallocation of resources and to economies of scale. I concluded that it was simply not the case that we could have matched the growth rates of the European countries if only we had done as the Europeans do.

Another part of that study did turn up a real mystery, however. I compared levels of output per person employed in the nine countries in 1960, and analyzed the effects of differences in all the determinants I could, including all of those I mentioned in connection with U.S. growth.

After the effects of all such measurable determinants were eliminated, a large unexplained productivity gap in favor of the United States remained. The remaining productivity gap between the United States and France or Germany was 23 or 24 percent, and that between the United States and the other countries was even larger—as big as one-third in the case of the United Kingdom.

Not much of this difference, which I have called residual efficiency and others the “*x* factor,” can plausibly be ascribed to unavailability in Europe of knowledge as to how to produce at low cost which we possess.

Knowledge is an international commodity and secrets are short lived. Various possible partial explanations have been offered, among them the probability that Americans work harder and that American management is better. I think an important reason is that competition has been stronger in the United States for a long time, and this has exerted greater pressure upon business to reduce costs in order to earn a profit or even survive.

I hope the mystery can be solved and other countries can use the solution to raise their living standards and close the gap. I also hope, of course, that the gap will not be narrowed by our adopting measures that will impair our own efficiency.

Thank you.

(The prepared statement of Mr. Denison follows:)

PREPARED STATEMENT OF EDWARD F. DENISON

Mr. Chairman and members of the committee, I appreciate your invitation to participate in this hearing. In doing so, you will understand, I speak only for myself and not for the Brookings Institution with which I am associated.

To inquire into productivity is to investigate almost every aspect of economic life. Time at our disposal permits only brief examination even of aspects I have studied. The literature on productivity is voluminous. To it I have myself contributed two rather large books, and I am well along on a third.

My first point is important, well understood by economists, but often a source of confusion in popular discussion. To interpret any productivity series it is essential to distinguish between short-term fluctuations, caused by changes in the strength of demand, and productivity changes that result from less transient factors. Productivity is highest when demand is strong and expanding rapidly,

as in 1965 or 1966, and lowest when demand ceases to expand much, or declines, as in 1969 or 1970. Because of the presence of very substantial elements of overhead, labor and capital in business establishments cannot be altered in proportion to the volume of business so that the intensity with which they are used fluctuates. This is compounded by the fact that labor is not instantaneously dismissed or added when demand changes.

In the past few years productivity series have behaved in an erratic, and to some a rather disappointing, fashion. This has given rise to speculation that something fundamental and lasting may have gone wrong. I find no support for this speculation in the data. I have analyzed them through 1969 just as carefully as I can. Once an appropriate cyclical adjustment is introduced, I find no tendency whatsoever for the rate of productivity increase to slacken. The last two years cannot yet be examined as precisely, but I do not think the situation has changed. I do not wish to forecast the future because there are things that could go wrong. But I see absolutely no evidence as yet of any productivity crisis, but only the usual cyclical pattern.

I have made this statement without defining productivity because I think it is true by any of the usual definitions. Productivity is the ratio of some measure of output to some measure of input. To measure output in the economy as a whole, I prefer the use of national income or net national product, measured in constant prices. GNP is more often used because it is more readily available. The choice has little effect on the growth rate of a productivity series, but use of GNP would exaggerate the importance of capital in an analysis of the behavior of productivity. Input is variously measured in productivity series. The Bureau of Labor Statistics estimates output per labor man-hour worked, and output per unit of capital is sometimes computed. So is total factor productivity, obtained by weighting indexes of man-hours worked, capital, and land to secure a comprehensive input measure. I go a step further and assign different weights to workers with different characteristics. But rather than become involved in definitions, I shall discuss the sources of growth of output, and let you decide for yourselves what you wish to call productivity.

There are a huge number of determinants of the level of output at any date, and it is changes in these determinants that cause growth. To list them is easy but not very informative unless one can indicate their importance. Let me try to do this by summarizing my estimates of the contributions of various factors to past growth. I shall refer specifically to the period from 1948 to 1969, but you will understand that the numbers for other periods would be different.

Estimated sources of the growth of national income, 1948-69

[Percent per year]

Growth rate of national income	3.85
Effect of irregular factors	-.15
Growth rate of national income, adjusted to exclude effects of irregular factors	4.0
Sources:	
Change in labor	1.3
Employment, hours, age-sex composition, etc.	.9
Education of employed persons	.4
Change in capital	.8
Dwellings	.3
Other private capital	.5
Advances in knowledge and unmeasured determinants	1.2
Reduction in the overallocation of labor to farming and self-employment	.3
Economies of scale	.4

In 1969 the national income measured in 1958 prices was 2.2 times as big as it had been in 1948. Its growth rate between these dates was 3.85 percent a year. However, 1969 was a year of much less intensive utilization than 1948, and the weather happened to be less favorable for farming. Eliminating the effects of these irregular factors yields 4 percent a year as the growth rate that resulted from changes in other determinants. My estimates attempt to divide this 4 percent among the changes that produced it.

Of the 4 percentage points in the growth rate, between 0.8 and 0.9 percentage points were due directly to changes in the amount of work done. This calculation takes account of the age-sex composition of hours worked and some other changes in composition, but it is not much different from what a calculation based solely on man-hours would yield. The figure is smaller than one might ordinarily expect an employment increase of the size that occurred to yield, given that there was little reduction in full-time hours. But much of the employment increase consisted of part-time workers, chiefly students and women.

The increased education of the working population contributed between 0.4 and 0.5 percentage points to the growth rate. The change in education has been massive. For example, of the men employed in the business sector of the economy in 1948, over 44 percent had had eight years or less of education. By 1969 this percentage had fallen to less than 22 percent, or by more than half. At the other end of the range, the percentage who had completed four or more years of college more than doubled, from 5.7 percent to 11.7 percent. The percentage with at least a completed high school education rose from 35 to 60. In addition, the average number of days during a school year that workers had been in attendance also rose substantially. These changes, of course, reflected changes introduced in the schooling of young people over a very long period of time.

Combining the two estimates cited so far, almost 1.3 percentage points of the 4 percent growth rate were due directly to the increased quantity and quality of labor.

Capital used in production has also increased enormously. Almost 0.3 percentage points in the growth rate was due to the increase in the stock of housing, which contributes to national income by providing housing services. Another 0.5 percentage point were due to the increase in the stock of structures, equipment, and inventories used by business. A small amount was due to the increased earnings from additional investment abroad. Combining these figures, I estimate that the increase in capital contributed 0.8 of the 4 percentage points in the cyclically adjusted growth rate.

The items counted so far add up to 2.1 percentage points. This is the part of growth that I count as the contribution of the increase in inputs, but in many people's classifications part of this amount would be called an increase in productivity. In any case, it leaves 1.9 percentage points yet to be explained. I ascribe these to three major changes.

The most important is the adoption of new techniques and practices, made possible by advances in knowledge which enable us to obtain more output with the same input of labor, capital, and land, or the same output with less input. To advances in knowledge, I estimate, goes the credit for 1.2 percentage points in the growth rate. Let me stress that I use the term "advances in knowledge" comprehensively. It includes what is usually termed technological knowledge. It also includes what I call "managerial knowledge," that is, knowledge of techniques of management, construed in the broadest sense, and of business organization. It includes more efficient design of structures and equipment made possible by new knowledge. It includes knowledge originating in this country and abroad, and knowledge obtained in any way: by organized research, by individual research workers and inventors, and by simple observation and experience. Advances in knowledge are the fundamental source of true productivity increase in the long run. The percentage rate of increase of about 1.2 percent a year at which I arrive appears to have been quite stable throughout the postwar period. This means that in *absolute* terms advances in knowledge were adding more than twice as much to total output each year in the late 1960s as in the late 1940s, because national income had doubled.

Let me point out that my estimates for the contribution of advances in knowledge are obtained, statistically, as a residual. This is much less satisfactory than an accurate direct estimate would be, but there is no way to obtain an estimate directly. No precision attaches to my estimate, but on the basis of research for various time periods and countries I do think it is of roughly the right magnitude. I may also note in passing that in government, households, and institutions the method of measuring output does not permit advances in knowledges to raise measured output or productivity. For the nonresidential business sector of the economy alone, my estimate is 1.4 percent as against 1.2 for the whole economy.

The next component is improvement, as viewed from the standpoint of productivity, in the allocation of resources. I have attempted to measure the gains from the two types of shifts which appear to be important. One, much the larger, is the reduction in the overallocation of labor to farming. The other is

the reduction in the number of nonfarm self-employed and unpaid family workers in what I call the "fringe group," those operating very small and inefficient enterprises, earning little and contributing little to output, but quite able to do well as paid employees in larger establishments. Together, these aspects of resource reallocation contributed 0.3 percentage points to the growth rate.

The last component is economies of scale. Growth of an economy automatically means growth in the average size of the local, regional, and national markets for end products that business serves. Growth of markets brings opportunities for greater specialization—both among and within industries, firms, and establishments—and opportunities for establishments and firms within the economy to become larger without impairing the competitive pressures that stimulate efficiency. Longer production runs for individual products become possible. So, in almost all industries including wholesale and retail trade, do larger transactions in buying, selling, and shipping. This is important, because the length of runs and the size of the transactions in which business deals are major determinants of unit costs. The opportunities for greater specialization, bigger units, longer runs, and larger transactions provide clear reason to expect increasing returns in the production and distribution of many products, and examples of increasing returns appear to be plentiful. My estimate, and I need not stress to you that it is an approximation, is that economies of scale were responsible for about 0.4 percentage points of the growth rate.

This completes my allocation of the 1948-69 growth rate of national income among the sources of growth. You will note that I have not included in the list a good many determinants of output which could have changed in a favorable or unfavorable direction. Among these are aspects of resource allocation other than the two described; various obstacles, usually imposed by government or labor, to the most efficient use of resources; the adequacy of government services, such as highways or courts, that are used by business, and conversely various costs imposed upon business by government; and the effort people put into their work. Changes in such determinants that I can appraise at all appear, individually, to have had only a trivial effect, if any. Obviously, much more research is needed. But my best guess is that the net effect of all unmeasured growth sources has been about zero, and it is for this reason that I identify my residual estimate with advances in knowledge. If this presumption is wrong, the figure of 1.2 percentage points for advances in knowledge may be too big or too small.

The estimates I have presented are subject to error, some possibly to substantial error. I do not apologize for offering them to you because they are the best I know how to obtain, and some quantitative idea of how we have obtained the growth of output and productivity in the past provides perspective that is essential for any useful discussion of these subjects.

In the past, when someone expressed interest in productivity it was safe to assume a desire to see it rise. With the popularity of the zero growth concept, one can no longer be sure that such an interest is not in finding ways to lower productivity in order to prevent output from growing. One in my field of research, fortunately, is unlikely to become unemployed either way. Steps to alter output and productivity are reversible. To aid growth, we work more or harder; consume less and invest more in physical capital, in research, and in improving our education and skills; provide an environment that encourages intellectual activity, the development of new scientific technological, and managerial ideas, and innovation; remove roadblocks to the use of the most efficient practices that are available; and allocate our resources in the most efficient and effective way. To impede growth we should impair incentives to work and to improve our skills; consume our capital; stifle intellectual curiosity, or divert it to fields without a potential for practical application; and seek out ways to block mobility and to produce inefficiently. I remain among those who believe the right course is to improve productivity so that we shall have the means to satisfy our private and public needs more fully, and I hope that you are too.

Let me now offer a few observations, general in nature but not unimportant.

First, the growth we get results chiefly from innumerable decisions and actions by private individuals and firms. The role of government is primary in the field of education, and, of course, in the government's own operations—where, however, we unfortunately cannot measure productivity. In other areas there is not a great deal government can do except, and this is of course important, to provide a favorable general economic climate for the private sector and, in the absence of good reasons for doing so, to avoid measures that prevent private enterprises from producing as efficiently as they can.

Second, measures to accelerate long-term growth involve costs. For the most part, these are very real costs taking the form either of more work and less leisure or of the sacrifice of present consumption for physical capital, education and training, research, and similar tangible or intangible investments that will raise future output. There are, of course, obstacles to high national productivity that could be abandoned without costs of this type—for example, fair trade laws, tariffs and quotas, restrictive practices of many sorts—but even these involve the sacrifice of a real or supposed advantage to some particular group; if they did not, we would not have them.

Third, and here there is danger of conveying the wrong message, any measures designed specifically to raise the growth rate above the rate we would have otherwise should not be expected to change the long-term growth rate very much. For example, to raise the growth rate by one-tenth of one percentage point over the next twenty years does not sound like a great deal. But it would put national income in 1992 more than 2 percent over what it would otherwise be; this is \$43 billion in today's prices if we would otherwise grow 4 percent a year. This is no trivial amount in terms of 1992 living standards. But, by the same arithmetic, to do this would require that some output determinant be altered enough to raise national income by \$43 billion in 1992. This would be a big change. I tried to estimate how big, for a wide range of determinants, in a chapter of an earlier book called "A Menu of Choices," and if you have free time for reading some day I think you may find it suggestive. It referred to the 1960-80 period, but little amendment would be needed to make it applicable to 1972-92. The message I wish to convey is that if you think in terms of deliberate actions to alter the long-term growth rate, think small but treasure small differences. One-tenth of a point is a lot.

The question used often to be put to me: If it is difficult to alter the United States growth rate very much by actions deliberately designed for this purpose, how have some foreign countries achieved much higher growth rates than we? To investigate this question I made a detailed comparison of the sources of growth in the United States and eight Western European countries in which growth rates ranged from more than double ours, in Germany, down to a figure below ours, in the United Kingdom. The study yielded a variety of interesting results, but no magic ways to secure growth nor even any major mysteries. It did not even show that there was any real or relevant sense in which it could be said that the other countries were doing more than we to obtain growth. Those achieving higher growth rates than the United States did so only because they were operating in a different environment. Conditions were very different with respect to factor proportions; to the existing level of technology, management, and general efficiency in the use of resources; most importantly, to misallocation of resources and to economies of scale. I concluded that it was simply not the case that we could have matched the growth rates of the European countries if only we had done as the Europeans do.

Another part of that study did turn up a real mystery, however, I compared levels of output per person employed in the nine countries in 1960, and analyzed the effects of differences in all the determinants I could, including all of those I mentioned in connection with United States growth. After the effects of all such measurable determinants were eliminated, a large unexplained gap in favor of the United States remained. The remaining productivity gap between the United States and France or Germany was 23 or 24 percent, and that between the United States and the other countries was even larger—as big as one-third in the case of the United Kingdom. Not much of this difference, which I have called residual efficiency and others the "X-factor," can plausibly be ascribed to unavailability in Europe of knowledge as to how to produce at low cost which we possess. Knowledge is an international commodity and secrets are short-lived. Various possible partial explanations have been offered, among them the probability that Americans work harder and that American management is better. I think one important reason is that competition has been stronger in the United States for a long time, and this has exerted greater pressure upon business to reduce costs in order to earn a profit or even survive. I hope the mystery can be solved and other countries can use the solution to raise their living standards and close the gap. I also hope, of course, that the gap will not be narrowed by our adopting measures that will impair our own efficiency.

Chairman PROXMIRE. Thank you, Mr. Denison.
Please proceed, Mr. Rosow.

STATEMENT OF JEROME M. ROSOW, DIRECTOR, MANPOWER PLANNING AND POLICIES, STANDARD OIL OF NEW JERSEY

Mr. Rosow. I will try to summarize a few points in my prepared statement and submit the full text for the record. I will limit my comments to some of the obstacles in productivity bargaining, some of the planning steps, and conclude by five public policy proposals which I think address themselves specifically to some of the concerns that Senator Percy and you raised this morning with regard to how to make productivity change possible without incurring an adverse effect in terms of employment.

There are several serious obstacles to productivity bargaining:

1. The biggest and least obvious obstacle is the lack of adequate competitive information. Few companies and few industries systematically collect data on how their competitors are doing with regard to unit labor cost of production. As a matter of fact, as shocking as it may sound, many companies do not have accurate information on unit labor costs within their own operations.

2. Unions and workers, whether organized or not, have little incentive to participate in this process. Their principal objective is job security, a reasonable rise in the real standard of living and periodic readjustments of wages, hours, and working conditions. Their posture is neutral to hostile in these matters.

3. Supervision within the plant from the first line through middle management is itself frightened by changes.

4. The efficient American manager perceives a limited amount of flexibility to make changes in the way in which work is accomplished. They believe that the union and the contract place great restrictions on management's right to make such changes. This, in itself, is a serious disincentive.

I will now discuss the planning steps that are necessary.

A checklist for the planning process for productivity bargaining involves five aspects: management insight, a long-term commitment, an investment psychology, participation by the parties and effective tradeoffs.

1. MANAGEMENT INSIGHT

Top management characteristically activates a process of major productivity change in the face of a sharp drop in profits or the inroad of critical competition which threatens the future of the business. Such events sink into the consciousness of top management and causes them to take a thorough look at their productivity, their costs, and their results. Under such duress a consensus for reform is achieved. This in turn can produce a commitment on the part of the management to face the painful nature of accelerated productivity change because the penalties of inaction are too great. One would hope that managements would have this insight without such shock treatment.

2. TIME

Since the process is complex and unpredictable it involves lots of time—not months but years. Obviously when management sees a need for change and develops a real insight it also develops a feeling

of impatience for results. If the objective is contained within a tight time frame it will probably fail simply because human behavior cannot be changed within a time vise. The process will involve many false starts and productivity change is not only an uphill job but one that can have downhill consequences at intermittent stages. The allocation of considerable leadtime also permits productivity bargaining to feed on itself; for successive achievements to build on prior results.

3. INVESTMENT

Productivity bargaining like other classic changes in the production scheme requires a long-term investment and a willingness to finance the changes. Whereas top management is familiar with capital investment decisions, investment in manpower change is less familiar. Unless the management is prepared to put real money on the table with long-term commitments to the people affected, it cannot trade to a successful conclusion.

4. PARTICIPATION

The change must provide in advance for an understanding that management at all levels, that labor leaders and individual workers in varying degrees will be involved in the process. Some assume that they can achieve productivity changes of major significance in private and then bring it to the bargaining table and integrate it into the next labor contract. This is contrary to the sound procedure.

5. TRADE OFFS

Productivity change involves a bargain. A bargain that can be made sufficiently attractive to both parties. Therefore, management places itself in labor's position to visualize the gains which they would find reasonable and attractive and also deal with their fears and problems.

6. UNION ATTITUDES

Typically the union approaches major productivity change with suspicion, doubt, and at best uneasiness. Whenever issue is raised it is difficult to separate it from its impact on the immediate labor force. Reduction in unit labor costs usually implies working faster and probably working fewer men. The union leaders require incentives to participate and some understanding of the results which management seek. Unions and workers hate to admit that there are any productivity problems in the plant because this would act to undermine their economic position in presenting wage and benefit demands for the next contract. Therefore, the burden of proof rests upon the management, not merely to prove that there is a productivity problem but to mutualize the interests of the company and the men in presenting the problem.

PUBLIC POLICY PROPOSALS

In order to advance productivity changes in the American economy we must link private and public manpower policies. The objective being to reinforce the capacity for manpower planning and collective bargaining to achieve change and at the same time responding to the human costs; namely, the problems of displaced workers.

Our present systems—private and public—fall far short of this need and this gap represents a major stumbling block to productivity progress.

A few key initiatives are:

1. Adopt a public policy (see National Productivity Commission statement "Productivity and the National Interest, August 1971") which balances the needs of efficiency with human needs.
2. Establish a national manpower readjustment fund to absorb the trade adjustment allowances and MDTA programs and to expand the overall base sufficient to moderate adverse effects of productivity change and smooth the redeployment of workers.
3. Consider revision of social security provisions to provide special early retirement below age 62 due to productivity change.
4. Create a Productivity Institute as a quasi-public resource to provide technical staff and know-how to facilitate productivity change in the management-labor arena. It could be funded initially with a public grant and services provided on a cost basis to entire industries or individual firms, or unions, or the public.
5. Federalize the Employment Service in order to increase its efficiency and effectiveness and reduce the degree of frictional unemployment. Rebalance its resource allocation to include a specific program of worker relocation arising from productivity and economic readjustment.

I will be glad to respond to questions.

Thank you.

(The prepared statement of Mr. Rosow follows:)

PREPARED STATEMENT OF JEROME M. ROSOW

Mr. Chairman and members of the Joint Economic Committee, it is a privilege to be invited to appear before this distinguished Committee and discuss productivity issues at this juncture in national affairs. As you know, during 1969-71 I served as Assistant Secretary of Labor in the Nixon Administration and also served as Vice Chairman of the National Productivity Commission for a portion of that time. My remarks today represent personal viewpoints and experiences and are my sole responsibility. They do not constitute the views of my present employer. I have submitted copies of my full text for the Congressional Record but will present an abbreviated version this morning to conserve the Committee's time for discussion.

In this decade U.S. productivity will face its most serious challenge so far. Productive muscle and competitive drives in Western Europe and Japan have become realities instead of theoretical threats; and they are gaining on us as we slip backward.

The early predictions of the 1960's, based on the runaway technology of the age of automation and all it implied, are ironic in retrospect. The United States has embraced the computer age but has not pressed forward to new technological frontiers. In a sense, it appears, managers have been hoping that machines would continue to make gains in efficiency, so that men would not need to do so.

But management in this country is finding that money and machines are insufficient to generate productivity gains. Gains in output per man-hour have slipped below the long-term trend of 3% per year, and unit labor costs have continued to rise as a result of inflation insufficiently offset by productivity gains.

Whether the economy can reverse the sluggish productivity trend of the late 1960's depends heavily on employer initiative. There are constraints on what employers can do, of course, but they are not completely containing; pleading them as an excuse for inaction is a copout that U.S. industry and economic society can ill afford. Productivity change can be accomplished at the workplace and at the bargaining table—without the long lead times needed in research, investment and education. Such direct changes are greatly assisted by productivity bargaining. Therefore, I have selected this very theme—simply because it has useful applicability and is greatly underrated by management.

DEFINITION—PRODUCTIVITY BARGAINING

In productivity bargaining, management and labor write an agreement that establishes a set of *quid pro quos* whereby (a) labor agrees to scrap old work habits for new and more effective ones desired by management, and (b) management returns some of the gains of modernization and increased efficiency to labor in the form of new and better work incentives. That is, in the course of the negotiations, management defines the changes it seeks and labor responds with modifications, delays, or trade-off prices, until a suitable bargain is reached. Usually an agreement covers an entire plant, although one major function or department can be given special emphasis.

Since the changes such an agreement calls for are bound to be deep and diverse, the agreement must specify the entire package of interrelated changes in work or production methods that the unions and management are willing to accept from each other. The gains must tempt both parties; everybody must play the game, and everybody must win.

Productivity bargaining is not the same as normal collective bargaining. Collective bargaining usually seeks to fix the terms of wages, hours and working conditions to continue the normal production process without fundamental change. The conventional agreement is a peace pact which fixes the price and duration of that pact so as to maintain the old style production. Occasionally the traditional agreement may incorporate minor or even quite significant productivity changes but these are not seen by the parties as fundamental goals aimed at changing the over-all productivity of the firm. In productivity agreements, change and efficiency are the basic objectives. It may change basic occupations including new combinations, elimination, or unique rearrangements of occupations. Since it deals with the classic problems of demarcation of work, it confronts the questions of union jurisdiction, job rights, status and opportunity, and established customs and traditions. Therefore, when management is launching a new productivity bargain, it is introducing new and highly unstable questions. Such rapid change can generate fears among workers and supervision, simply because the change is unpredictable and unsettling. It raises the spectre of possible unemployment, speed-up, or disruption of familiar patterns of work. These changes impact on the individual worker, groups of workers, the supervision, and even on the ultimate power of the unions in the plant and in the industry.

Top Management Role

Managers can be mightily effective in sales, production, and finance. Their efforts to improve sales and profits are universally understood, admired, and emulated. The improvement of productivity per se, on the other hand, is generally submerged beneath other goals, and managers generally have a weak record here.

This fact reflects the subtlety and difficulty of the problem productivity poses. Productivity gains are a consequence of the interplay of many factors working simultaneously—primarily capital, labor, and management. Since few managers have either the authority or responsibility for all the elements, they accept commitment to productivity as a corporate goal only, not as a personal goal.

This is why top management needs to act—it alone can pull all the threads together. Since productivity gains are not easily attained, and once attained do not maintain themselves, top management must give productivity its constant attention and constantly inject money, machines, and its own management skills in the proportions required.

There is an illusion in the United States which acts as a psychological barrier to productivity bargaining and to management and union initiatives. This illusion goes as follows:

- we are highly efficient as a nation ;
- we are industrial leaders in the world ;
- we are a major world power with the highest standard of living in the world ;
- we have the highest level of education and trained manpower ;
- we have put men on the moon and we can do anything we need ;
- we are capital intensive and therefore, we are the most efficient in the world.

The facts do not bear this out. There is considerable evidence of late that many industries are operating with old or obsolete equipment, that production methods and processes were designed many years ago without fundamental revision and that there is great room for change and improvement. The U.S. rate of investment as a percentage of GNP is among the lowest of the industrialized nations of the world today. (Annual average 1968-70—18%).

Obstacles

There are several serious obstacles to productivity bargaining:

1. The biggest and least obvious obstacle is the lack of adequate competitive information. Few companies and few industries systematically collect data on how their competitors are doing with regard to unit labor cost of production. As a matter of fact, as shocking as it may sound, many companies do not have accurate information on unit labor costs within their own operations. Productivity statistics between plants within the same company and between plants across companies and across industries are not readily available.

2. Unions and workers, whether organized or not, have little incentive to participate in this process. Their principal objective is job security, a reasonable rise in the real standard of living and periodic readjustments of wages, hours and working conditions. Their posture is neutral to hostile in these matters.

3. Supervision within the plant from the first line through middle management is itself frightened by changes. Middle management is usually rewarded for maintaining a healthy "status quo" and for achieving each days production with a minimum of difficulty. Change introduced from the top at a very radical rate threatens managers and supervisors as it threatens workers.

4. The efficient American manager perceives a limited amount of flexibility to make changes in the way in which work is accomplished. They believe that the union and the contract place great restrictions on managements right to make such changes. This, in itself, is a serious disincentive.

Applicability

Productivity bargaining and productivity changes are applicable to a wider spectrum of American industry and to a broad portion of the American work force. Some would say that companies in labor intensive industries gain more by using this technique and that capital intensive operations might as well ignore it. This is at variance with the facts. Capital intensive industries such as chemicals and oil refining have demonstrated a capacity to realize substantial gains here. Others have argued that the most effective use relates to blue collar production assembly jobs. Whereas some of these agreements are more dramatic, the opportunities are equally open in non-unionized situations, in office occupations, in government, and in middle management and professional work. Techniques may vary but the principles and objectives are universal.

The Change Agent

Accomplishing unique changes in an organization involves specific knowledge of strengths and weaknesses in the current use of physical and human resources. This is a discovery process and must precede any attempt to negotiate desired changes into a contractual agreement. In order to inventory the problems and to design solutions the management is well advised to engage "change agents." This could be one, or several people, or a special team organized for the purpose. The "change agent" should be creative, open minded, sympathetic to the human problems involved and capable of bridging a relationship between management and labor throughout the long process. These "change agents" are the real catalytic agents who bring something new to the chemistry of the plant and the people who work there. They should be involved from the pre-planning stages through the contract conclusion and preferably continue with the process to see that the changes are accomplished.

The "change agent" should assist management and staff in converting different ideas into economic terms. Attractive ideas with regard to physical changes in the plant, reorganization of work, redesign of hours must be converted to costs and to savings. These improvements should be capitalized on a multi-year forward plan basis. Thus management will have a clear view of the needed and desirable changes converted to efficiency and profitability terms. This provides a financial base for negotiating improvements or changes in pay and working conditions, the types of trade-offs which are attractive to labor and which the company can afford.

Middle Management

In many cases the biggest obstacle to productivity change is line management. Supervision at the first, second and third levels tend to resist change in the same sense that we all resist change. Simply consider how each of us resist a change in commuting arrangements, dress, or where we eat lunch. Many supervisors in large organizations know about as much as the average worker knows regarding the overall operation of the plant. They naturally fear that major changes may

expose wasteful practices and systems that they have been associated with and raise doubts about their own performance. They have no skill in managing change. They have not been taught to do so and they do not want to deal with the headaches of achieving cooperation from the men and the unstabilizing after effects. Middle management is a very conservative force in the organization.

This means that any effective effort at productivity bargaining must take account of all levels of management at an early stage. This involves training, education, discussions and in the best sense of the word "participation." Middle management resistance and fear must be converted to understanding and support. On an intellectual basis, apart from selling them on the validity of the idea, they must become effective participants in the change. This may involve the use of sensitivity training and group interaction under accredited leaders such as the National Training Laboratories. The complexity of the conversion of middle management to salesmen for change and meaningful productivity gains represents an investment of time, money and energy concurrent with the normal operation of the plant. In many instances these will involve multiple things at different crucial points in the process.

Basic Principles and Concepts

Successful productivity agreements point up some general principles that may be applied to new situations:

1. Management accepts the necessity for change as fundamental and invests the effort required.
2. "Change agents" are introduced who are personally motivated to pursue the issues to a workable compromise or conclusion. Their personal drive for recognition and advancement is important.
3. Negotiations are largely give and take throughout the process so that the ideas and opinions of the workingmen, shop stewards, and the union leaders are adequately reflected.
4. Real incentives are offered to the workers in pay, benefits, working conditions, and advancement in exchange for flexibility and the elimination of obsolete practices.
5. The workers psychological needs for job security are dealt with specifically and openly.
6. Credit for the accomplishments are shared with the trade union leaders who are vital to both the agreement and the application of the written word to actual practice.

Planning Steps

A check-list for the planning process for productivity bargaining involves five aspects: management insight, a long term time commitment, an investment psychology, participation by the parties and effective trade offs.

1. Management Insight

Top management characteristically activates a process of major productivity change in the face of a sharp drop in profits or the inroad of critical competition which threatens the future of the business. Such events sink into the consciousness of top management and causes them to take a thorough look at their productivity, their costs and their results. Under such duress a consensus for reform is achieved. This in turn can produce a commitment on the part of the management to face the painful nature of accelerated productivity change because the penalties of inaction are too great. One would hope that managements would have this insight without such shock treatment.

2. Time

Since the process is complex and unpredictable it involves lots of time—not months but years. Obviously when management sees a need for change and develops a real insight it also develops a feeling of impatience for results. If the objective is contained within a tight time frame it will probably fail simply because human behavior cannot be changed within a time vise. The process will involve many false starts and productivity change is not only an up hill job but one that can have down hill consequences at intermittent stages. The allocation of considerable lead time also permits productivity bargaining to feed on itself; for successive achievements to build on prior results.

3. Investment

Productivity bargaining like other classic changes in the production scheme requires a long term investment and a willingness to finance the changes.

Whereas top management is familiar with capital investment decisions, investment in manpower change is less familiar. Unless the management is prepared to put real money on the table with long term commitments to the people affected, it cannot trade to a successful conclusion. These costs include such obvious elements as physical equipment, plant redesign, and human costs such as severance payments, job security programs, financing attractive early retirement, retraining costs, out placement services and the cash buy-out of certain restrictive practices or vested rights.

4. Participation

The change must provide in advance for an understanding that management at all levels, that labor leaders and individual workers in varying degrees will be involved in the process. Some assume that they can achieve productivity changes of major significance in private and then bring it to the bargaining table and integrate it into the next labor contract. This is contrary to the sound procedure. Whether or not a union is present, the men and women in the organization must be involved in the process. As the initial agenda for change can be an open agenda, the involvement of people at all levels enriches the agenda and the results.

5. Trade Offs

Productivity change involves a bargain. A bargain that can be made sufficiently attractive to both parties. Therefore, management places itself in labor's position to visualize the gains which they would find reasonable and attractive and also deal with their fears and problems. The agreement cannot be achieved by sleight-of-hand, it cannot be achieved on the "cheap," at bargain basement prices. Given the unfamiliarity in financing investments in human costs, managers tend to discount or discourage such costs. These must be priced out in advance and related to an intelligent economic forecast of savings. This involves a willingness to take risks and to provide for give and take in the bargaining process, to elaborate the final agreement. The trade offs which are usually most attractive to labor include a direct improvement in wages and benefits, the elimination of unskilled and unpleasant work by automation, a clear understanding of job security, new opportunities for upgrading or promotion on the inside, health and safety provisions, more attractive work schedules and items unique to a particular plant situation.

6. Union Attitudes

Typically the union approaches major productivity change with suspicion, doubt, and at best uneasiness. Whenever the issue is raised it is difficult to separate it from its impact on the immediate labor force. Reduction in unit labor cost usually implies working faster and probably working fewer men. The union leaders require incentives to participate and some understanding of the results which managements seek. Unions and workers hate to admit that there are any productivity problems in the plant because this would act to undermine their economic position in presenting wage and benefit demands for the next contract. Therefore, the burden of proof rests upon the management, not merely to prove that there is a productivity problem but to mutualize the interests of the company and the men in presenting the problem. We find the men cooperate eagerly in the face of the threatened plant closure or near bankruptcy problems. But these frightening events are not a healthy basis for securing cooperation. Frequently it is too late at that point, even with a thousand per cent cooperation, to turn productivity around fast enough. Since the classic position of labor is to resist change and it too is a defender of the status quo in production processes, the selling job here is of the first order of magnitude. It continues throughout the process and after the contract itself has been signed. This remains the case even where the workers have been promised major gains simply because the spectre of unemployment always looms in the background.

7. Manpower Readjustments

Understanding the hang-ups of unions and workers with regard to these changes leads us naturally into an understanding of the importance of manpower policies in this area.

It is safe to say that any company contemplating productivity bargaining needs to refine or reinforce its manpower policies, and perhaps to introduce new ones.

The readjustment policy should first and foremost hold worker displacement to a minimum and incorporate measures to improve job security. Effective

measures are manpower planning programs, retraining programs, in-company transfer policies, and some real options for the redundant worker to consider as well for management to apply. These options may include the following:

Early warning with 90 days advance notice.

Severance pay combined with retraining and placement in the external labor market.

Reassignment or upgrade training within the company.

Early retirement coupled with a discounting process that raises pension payments to an adequate level.

In general, management's course must be to weave normal attrition rates into its advance planning in such a way as to create a program that reduces the negative impact of the contract on the work force.

Such a program is bound to be complex and costly. Management must price it out against the cost of maintaining a static work force with low productivity for an indefinite period into the future.

Although the private sector can do a considerable amount with regard to manpower readjustments it cannot do everything alone. The massive layoffs in aerospace during 1970-71 are the most dramatic examples of the type of problem which attests to the need for public policy.

Public Policy Proposals

In order to advance productivity changes in the American economy we must link private and public manpower policies. The objective being to reinforce the capacity for manpower planning and collective bargaining to achieve change and at the same time responding to the human costs—namely the problems of displaced workers. Our present systems—private and public fall far short of this need and this gap represents a major stumbling block to productivity progress.

A few key initiatives are:

1. Adopt a public policy (see National Productivity Commission statement Productivity and the National Interest August 1971) which balances the needs of efficiency with human needs.

2. Establish a National Manpower Readjustment Fund to absorb the Trade Adjustment Allowances and MDTA programs and to expand the overall base sufficient to moderate adverse effects of productivity change and smooth the redeployment of workers. This would insure two layers of assistance, first the employer, second the Fund. This Fund should aspire to a several billion dollar level and provide: retraining, advance notice pay, compensatory payments, transfer and relocation allowance, search allowances, moving expenses and benefits protection. It should be integrated with private severance plans and special negotiated features of the plant agreement.

3. Consider revision of Social Security provisions to provide special early retirement below age 62 due to productivity change.

4. Create a Productivity Institute as a quasi-public resource to provide technical staff and know-how to facilitate productivity change in the management-labor arena. It could be funded initially with a public grant and services provided on a cost basis to entire industries or individual firms, or unions.

5. Federalize the Employment Service in order to increase its efficiency and effectiveness and reduce the degree of frictional unemployment. Rebalance its resource allocation to include a specific program of worker relocation arising from productivity and economic readjustment.

A Look at Productivity Agreements

Robert McKersie, Dean of the New York State School of Industrial and Labor Relations at Cornell, has co-authored a new book with Lawrence Hunter entitled "Pay, Productivity and Collective Bargaining" (forthcoming). I have drawn heavily on this text and my own personal experience to summarize the British and U.S. experience with productivity agreements.

British Experience

British productivity agreements were derived from the landmark achievement at the Fawley Refinery of ESSO. The Fawley pact became a watershed in British collective bargaining—it released a decade of productivity bargaining. The nature of this agreement is described in detail in the Jan/Feb issue of the Harvard Business Review in my article entitled "Now Is the Time for Productivity Bargaining."

By the time Prime Minister Wilson had announced a national incomes policy, productivity agreements were incorporated as a keystone element. Thus in the brief period 1967-69, over 4,000 agreements were signed in twenty-four industries. They covered 6 million workers or $\frac{1}{4}$ th of the labor force involved—an unbelievable achievement. (See Table 1 attached—source: Hunter, McKersie “Pay, Productivity and Collective Bargaining”.)

It is difficult to assess the impact of productivity bargaining in England since as a national phenomena it was crisscrossed by a multiplicity of other variables. Further many firms do not publicize the real savings to protect their competitive advantage. Results vary by industry and company and of course by the degree to which the bargain was based upon a “copper-bottomed agreement,” as Mr. Wilson pointed out when many were distorted as an escape from wage control policies.

Without a doubt this remarkable period in British labor relations has left a new and meaningful imprint on industrial relations which cannot help but advance the production future of the country.

American Experience

Over the last decade productivity agreements were signed in air transport, construction, oil refining, longshoring, printing, railroads, and steel. These industries reflect two characteristics: restrictive work practices and a high proportion of craft workers.

Critical areas of achievement in these agreements related to flexibility and increased utilization of manpower. Longshoring accommodated to the “containerization” era, reduced crew sizes and resolved costly jurisdictional issues. Railroads won the right to transfer workers. Construction achieved prefabrication and systems building as well as a tri-trade flexibility involving carpenters, electricians and plumbers. Air transport eliminated unnecessary flight engineers on big jets. Printing automated the costly reproduction of stock exchange listings.

The costs and savings data are somewhat obscure for understandable reasons. However, in every case that I have ever studied the results were positive and long lasting whenever the agreement was carefully drawn after intensive study and with cooperative efforts by all parties concerned.

Suffice it to say, the productivity bargaining has only scratched the surface in America. Its potential is limited neither by industry or by occupation and it applies with equal force to the private sector, the public sector, and the universities. In fact, the key change agent in the seventies may prove to be John Q. Public who may convert his frustrations over rising taxes into a demand for more productivity and efficiency in government.

Risks and Pitfalls

In presenting a case for productivity bargaining one should not ignore some of the serious risks and pitfalls. We find little enough publicity on the successful productivity agreements and therefore can anticipate even less information with respect to failures. Undoubtedly the failures are more numerous than the successes. Certainly half-baked and ill-prepared productivity attempts have been made in thousands of cases. The opportunity for failure in this type of bargaining is great because this is a high risk venture. Among the risks or pitfalls are the following:

1. Production might decline or that quality may suffer temporarily.
2. That management must pay its money first for the trade offs in the expectation that the savings will be produced later.
3. An approach to the project with a mental set that blames labor for all the problems of productivity in a plant. This detracts from analysis of the internal plant problems.
4. Underfinancing the productivity agreement and seeking far reaching changes with inadequate investment in human costs.
5. Inadequate time and unrealistic targets within that time frame.
6. Union hostility and workers uncertainty are obstacles before, during and after the negotiation—this risk is always present.

Conclusion

Productivity bargaining is an approach available to all takers—the private sector, government (especially state and local), and the universities. This Committee can focus attention upon this as it will upon other aspects of the productivity issue—measurement, capital, research and education.

Education and action here depend upon stirring interest among the parties who have the power and the responsibility. The National Commission on Productivity has sought to ventilate this subject and move from national debate to action. But, frankly, the quadripartite character of the Commission impeded its efforts.

Now is the time to move forward in a national effort. Inflation has become stubborn—unemployment hangs high. Competitive advantage fed by high productivity is a growing challenge to the economy and feeds neo-isolationism. Productivity bargaining seems to me—the centerpiece for action—because this is where capital and labor come together in the common objective of jobs, income and growth.

TABLE 1.—PRODUCTIVITY AGREEMENTS AND WORKER COVERAGE IN GREAT BRITAIN BY INDUSTRIES, 1967-69¹

Major industries	Number of agreements	Number of workers covered	Average number of workers covered ¹	Percent of labor force covered
I Agriculture, forestry and fishing.....	8	3,215	400	1
II Mining and quarrying.....	13	5,954	450	1
III Food, drink, and tobacco.....	633	381,060	600	48
IV Chemicals and allied industries.....	250	391,562	1,550	78
V Metal manufactures.....	222	148,997	700	27
VI Engineering and electrical goods ²	784	982,000	1,260	42
VII Shipbuilding and marine engineering.....	158	80,402	500	42
VIII Vehicles.....	319	511,904	1,600	64
IX Metal goods.....	162	144,243	900	26
X Textiles.....	93	200,331	2,150	29
XI Leather, leather goods, and fur.....	4	1,439	350	3
XII Clothing and footwear.....	10	3,843	400	1
XIII Bricks, pottery, glass, cement, etc.....	95	118,704	1,250	34
XIV Timber, furniture, etc.....	37	78,025	2,100	24
XV Paper, printing, and publishing.....	329	286,837	850	45
XVI Other manufacturing industries.....	125	64,588	500	19
XVII Construction.....	30	37,206	1,250	3
XVIII Gas, electricity, and water.....	0	0	-----	0
XIX Transport and communication.....	328	599,638	1,850	38
XX Distributive trades.....	200	319,813	1,600	12
XXI Insurance, banking, and finance.....	75	196,905	2,600	30
XXII Professional and scientific services.....	12	2,491	200	0
XXIII Miscellaneous services.....	66	275,953	4,200	13
XXIV Public administration and defense.....	6	2,617	450	0
Industry not known.....	127	75,398	600	-----
Total.....	4,091	5,923,091	1,200	26

¹ To the nearest 50 workers.

² Excludes 2 agreements by the Engineering Employers' Federation.

Source: Laurence Hunter and Robert B. McKersie, "Pay, Productivity, and Collective Bargaining" (forthcoming).

Chairman PROXMIRE. Thank you, Mr. Rosow. You have expressed the concern that productivity growth has been less in the last few years and Mr. Denison takes a different view. Mr. Rosow, you have been Vice Chairman of the Productivity Commission. What have you fellows been doing? You have been Vice Chairman how long?

Mr. Rosow. I was Vice Chairman of the Commission from January 1971 until August when I resigned from the administration.

Chairman PROXMIRE. About a year and a half?

Mr. Rosow. I was in the role of Vice Chairman for about 8 months, but I did work with Chairman Shultz in the early planning of the Commission.

Chairman PROXMIRE. This has been one of the mysteries that has haunted this hearings, that there was great emphasis that the administration put on productivity, with a man as powerful as Mr. Shultz, head of the OMB, very interested in it.

They have had great difficulty getting money, time, staff, getting work done. Why is that?

Mr. Rosow. Well, I think first, Mr. Chairman, it is always difficult to get a new institution started, but more significantly the quad-partite character of the Commission impeded its progress. What we saw when labor walked off the Pay Board was going on behind the scenes in the Productivity Commission discussions. In an attempt to do things within the Commission we were trying advisedly to bring the key parties to the discussions in the Commission; namely, big labor and big business and big government and a public sector group of members. We were trying at that point to get some national attention to the issue of productivity, and in fact the President suggested to the Commission that in the fall of 1971—originally we suggested this in the spring—that a public meeting be held of about 100 national leaders to focus attention on this problem.

Our labor friends within the Commission were very opposed to this, I think essentially on political grounds.

Consequently, the Commission was not able to move. I do not feel and agree with your observation, Mr. Chairman, Senator Percy's and Senator Javits—I don't know what Secretary Peterson said yesterday—that the Commission has become unwieldy because of its large size.

Chairman PROXMIRE. Are you able to move ahead now?

Mr. Rosow. I don't know. Secretary Peterson suggested that he was going to reorganize, to make the Commission somewhat smaller. Thirty-five members is rather unwieldy. You still have a quad-partite Commission.

Chairman PROXMIRE. There seem to be more walkouts.

Mr. Rosow. And it is less productive. We shouldn't ignore the fact that the Commission has had four subcommittees working and they have produced some very useful information and have started some very long-term work with regard to measurement of productivity in the Government and public sector, both State, local, and Federal levels, as you referred to earlier, Mr. Chairman. They have also written a fine paper on how productivity bargaining could contribute to the process.

The President has taken some initiatives as a result of the Commission to move public funds into the research area. They have been paying attention to the issue of education.

Unfortunately, many of these things are hidden from the public and they have too much leadtime.

Chairman PROXMIRE. Fair or unfair, we judge you fellows by results. The voters judge us by results and we have to judge you. The President is going to be defeated or elected on the basis of whether he has results in the domestic economic area and the international area. We have to judge the Productivity Commission on whether productivity is improving. That may be unfair. There may be such a big lag that we shouldn't do that.

Senator Percy pointed out yesterday that the latest figures show that we are in a period of so-called recovery and productivity should be improving. The first quarter of this year productivity increases declined from the last quarter of last year. It seems that the results after 2 years of the Productivity Commission are negative.

Mr. Rosow. Taking into account, and certainly Mr. Denison will agree with this, the Productivity Commission is a policy public body

which, in and of itself, would not have a short-term effect on productivity in the first quarter of this year or even in 1973.

On the other hand, if it could lead the Nation and its decisionmakers to more action-oriented programs in this area, where the decisions are taken, in some of the more short-range areas which is the theme of my pitch here in productivity bargaining, that would be very useful. I don't think you could measure their success by saying what has happened to the numbers. I don't think that was their intent. I think their intent and still present purpose under Secretary Peterson is to move a big nation like this to a recognition of some of the options that are open through a transfer of knowledge and information more rapidly from one sector to another or even between companies within the same industry, and to focus on the types of things that I mentioned in my prepared statement; namely, that in order to facilitate change some provision must be made for the human cost.

This was the thing that concerned the labor members most in our discussions within the Commission. I think we found in the industry members there, with people like Jim Roche from General Motors present, a willingness to accept this as a fact of life. But I don't think the linkage between private and public policies have been accomplished.

For example, the manpower programs in the Labor Department that I am familiar with, some of our own institutions which should be reformed to facilitate productivity change.

I think these are the types of things that the Commission can have a constructive effect on and should take policy positions for or against certain of these types of changes which will then move the institutions that support or defeat the process.

Chairman PROXMIRE. Mr. Denison, you are absolutely all alone among our witnesses and in the light of the statistics. You are an optimist. You have indicated that you think we are doing well. You say, "Once an appropriate cyclical adjustment is introduced I find no indication that the productivity increase has slackened." At the end you describe the productivity comparisons. You seem to think that the United States is basically more efficient. Mr. Grayson testified that of 11 leading industrial countries we are dead last as far as rate of improvement in productivity is concerned. We are not doing well at all. Every indication is that we are not competing effectively.

For the first time in 80 years we have an adverse balance of trade. Our balance of payments continues to get worse and worse every year, more and more in deficit. I gather your study was based on 1960 data.

Would you think on the basis of all of this that the same relative situation prevails today?

Mr. DENISON. There is no question at all that the United States has the highest efficiency of any country.

Chairman PROXMIRE. We may be ahead in this race, about 100 yards, but we still have a quarter mile to go in a mile race and everybody is coming up like gangbusters.

Mr. DENISON. That is correct. But I think Mr. Conable made a correct point. I would say that only by the utmost bad policy could the European countries fail to have a higher growth rate in productivity than we.

Let me mention a few of the things that have happened. In discussing the United States I referred to gains from the shift of labor

from agriculture and self-employment. This is enormously more important in Europe, and this has been so even with the same percentage reduction in the share of labor allocated to farming. In fact, there has been sort of a general pattern, that the share of total employment assigned to agriculture has dropped by about a third per decade during the postwar period in European countries and the United States. But this is one-third of a small number in our case, and in their case one-third of a very large number—except of course, in England, and this is one reason, the United Kingdom had a lower growth rate than we.

Chairman PROXMIRE. Let me say one thing about agriculture. I have been struck by this, too. I have felt that the great superiority of our economic system, the way it works, compared with the Soviet Union is in agriculture. They have seven times as many people in agriculture as we have, which means 40 percent of their manpower, or more, and produce 20 percent less food.

The data I have indicates in the last couple of years we have not been improving our efficiency in agriculture.

Mr. DENISON. I wish I could convince you of one thing, and that is pay no attention whatsoever to quarterly data in productivity.

Chairman PROXMIRE. For the last 2 years it has not been improving.

Mr. DENISON. I think that this is a fact, that we are running out of a resource for growth. That is true.

Chairman PROXMIRE. Then are you telling us this is something with all our huffing and puffing this morning, and before, in the hearing with the very fine recommendations that Mr. Rosow makes, and so forth, we were running out of it and we may make marginal improvements but in general other countries will continue to gain on us because they are so far behind?

Mr. DENISON. What I am trying to say is this: Against our own past record, which is good, there is no deterioration whatsoever. We still stand first in the world in the level of productivity, but there is nothing in the world that would keep other countries from doing the sort of things we are doing, not only in allocation.

We have a larger capital stock and other countries can gain more output by increasing capital more. They can gain more than we can from economies of scale. But above all, there is this thing that I referred to in my prepared testimony, that even after you take account of everything you can measure, the American system has somehow produced greater efficiency than other countries have.

What has amazed me is not that they are moving toward us but they do so so slowly. Let me exempt Japan here.

As far as the European countries, and other countries are concerned, the gain is really remarkably slow.

Chairman PROXMIRE. Let me ask you about one other element that Mr. Rosow may like to comment on. I put a lot of stress on it in my opening statement this morning. I questioned Mr. Grayson on it. That is with the high unemployment in this country, as far as negotiating improvements in production so that labor unions will agree to various speedups, agree to innovation by putting in automated equipment, and so forth, because of the greater insecurity, with heavy unemployment there is a resistance. One of the great contributions that the Federal Government can make is creating an atmosphere in which we can

continue to have improvement in our productivity. It would be to get back closer to full employment, to reduce unemployment from the present 6 to 4 percent or so.

Would you agree with that generally, or would you think that is not fundamental?

Mr. DENISON. I think it is easy to overestimate the quantitative effects but I certainly agree that it is true. I have expressed a view similar to yours in my books. Of course, the problem at present is to learn how to obtain high employment without more inflation than we are prepared to accept. The current solution to the problem of getting high employment while maintaining price stability that we are trying is wage and price controls. If this is the way we are going to do it, the cure may be more adverse to productivity than the unemployment. I don't think these controls will do great harm if they last only for a year, but I share the concern expressed by Senator Percy about the effects if controls are long continued.

Chairman PROXMIRE. I think I was alone in the Senate in putting in an amendment to provide that this would expire 5 days from now, on April 30, 1972. I didn't want a renewal at all. I think controls are very bad. I agree with Senator Percy in that. They contradict our system and are very counterproductive from a productivity standpoint.

Mr. Rosow. I certainly agree that a strong economy is basic to strong productivity growth, and I agree with your point that in the short term one could conceive that massive breakthroughs in productivity at the plant level could create short-term cyclical increases in unemployment.

Chairman PROXMIRE. I think your point about retirement under social security under 62 is along that line.

Mr. Rosow. It is a way of easing that; yes. When Senator Percy made the comment earlier in terms of Bell & Howell protecting workers against displacement, this is the type of thing we did in England 10 years ago at the Fawley Refinery when we bargained the first classic agreement. This led to 4,000 productivity agreements in England between the period 1966 and 1969, affecting over 5 million workers in that small country in that brief period of time.

That introduced a classic change in industrial relations in a country that had fairly rigid and well established customs and traditions.

In our own case in that plant, with 3,000 workers, we agreed to a no redundancy clause; namely, that no one would be fired or laid off as a consequence of those changes. That was a straight guarantee in writing in the contract. But in fact, through attrition and through subsequent negotiations in later years, and through outplacement, voluntary separation of workers, that plant increased productivity almost 200 percent in the ensuing decade. None of the people were involuntarily separated.

What management did in that case was to take a long-term view of productivity change, protect the human element in the short term, allow them to adjust with the change, not go in for massive displacement of people as the immediate way of achieving productivity gain.

So I agree completely with your point that if productivity bargaining in the short term is converted to unemployment for the individual or for groups of workers in a plant, the union tends to resist and the workers have the right to protect their jobs.

But the management which had the initiative should make the kind of investment to provide a transition. I think that the public sector has a tremendous opportunity here to build in additional mechanisms in the national interest to facilitate productivity change.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Denison, I wonder if you could comment on whether you feel there is a basic different attitude on the part of young people? I spent last evening with the presidents of 46 of the largest universities in the country. We were talking about differences in young people on campus. As a matter of fact, one had to telephone back to see how things were going because of the response on his campus to the war. This is something that a few years ago a university president wouldn't have to worry about if he left his campus.

Are there differences in attitudes of young people today as exemplified by their actions and attitudes on campuses?

Mr. DENISON. There certainly are differences in attitudes. I guess the question pertinent to the subject of this hearing is whether there are differences that affect working habits, the desire for work.

Senator PERCY. But you admit that there are different basic attitudes?

Mr. DENISON. There certainly are different attitudes. Writing about 12 years ago I noted then the general feeling that young people didn't want to work as hard or reliably as they used to. Looking back on the literature I found the same statement made over generations. It may well be the situation is quite different this time, but I just don't know.

Senator PERCY. In contrast with your classmates and my classmates, and Senator Proxmire's—

Chairman PROXMIRE. You are talking about three different generations there.

Senator PERCY. We are roughly the same.

Where monetary motivation was very strong, conditioned by depression days, and so forth, today the evidence points overwhelmingly in the other direction. Curtis Tarr the night before last told me that the pay policies of the Army, Navy, and Air Force have not motivated people to join up. They are not as interested. I think young people today have a different attitude and approach.

I would like to quote from the Monday, April 10, article in the Washington Post on younger and older workers and attitude changes that the Post detected in direct interviews.

In talking about young people,

What comes through clearly after talking to these workers is the enormous dissatisfaction they feel about their jobs. In effect, they are rebelling against the system, whether it is a system personified by their union or company officials, or society in general. Nowhere is this more prevalent than on a mass production factory line.

I have to go back to my own experience that in research and testing on highly monotonous jobs we found there was a direct correlation between the intelligence level, the IQ of a worker, and his output. The lower the IQ the higher the output. It taught us never to put a person of high mental capability on a very monotonous, tedious job. Their absenteeism would be high. The labor turnover would be very high. Faulty work would be high.

Earlier this month I read:

With respect to mass production factory jobs, the problem on the factory line is that the job controls the man.

A quote from Doug Frazier, a top UAW official :

It is different from a job in which a man can put in some initiative. I don't know what will help. Absenteeism runs 12 percent on Saturday despite one and a half times pay. That should be a message. Guys won't give away their social life or their free time for \$50 or \$60 a day.

Then you get to the attitude of the older worker. The older worker resents many things. What he thinks is the young man's lack of appreciation for how hard it used to be and how hard he has worked all his life, the wages and benefits the younger man seems to take for granted, the drug use he believes endangers his own safety, and new attitudes about work itself, but most of all he resents being affected by the absentee rate among the younger workers. You take a lot of these younger workers, and they hire in and the next day they say to hell with it. They say you can take this job and know what you can do with it. They will walk off.

I talked to hundreds of these workers standing outside the Chrysler gate last week in Illinois, and then I went in and talked to the supervisors about it. A 100-percent labor turnover of all young workers in a new factory—a 100-percent labor turnover every 13 months.

Isn't there an attitude change and a difference when you have a big, young work force?

Isn't that something we have to take into account now in measuring productivity and seeking new approaches that have to be taken today to solve this problem that didn't exist years ago?

Mr. DENISON. As far as measurement is concerned, if this does adversely affect workers' performance—

Senator PERCY. I can't hear you.

Mr. DENISON. If it does happen and adversely affects work performance, it will show up in the numbers. You have made two rather different points in your remarks. One, in discussing your own experience, refers to something I consider potentially quite important, although it is not easy to do something about it. That is an aspect of resource allocation as it applies to individuals, getting the man in the right job so that he performs efficiently. If we can do this better it will help productivity. That is what you were achieving when you were making these tests.

On the more important subject of attitudes, I too read those articles with great interest. I know there is a change in attitude, but I honestly don't know how general it is or how it is going to affect performance.

Mr. ROSOW. With your permission I would like to comment on that.

Senator PERCY. I would appreciate that.

Mr. ROSOW. We wrote President Nixon a memorandum back in 1970 entitled "The Problem of the Blue Collar Worker," which generated the beginnings of some action on the part of the administration to deal with this problem. I read that series in the Post which I found highly revealing and accurate.

There are a few facts that might help. One is that Daniel Yankelovich in his 5-year study of youth attitudes in America, funded by John D. Rockefeller III, and Time magazine, has found that only 30 percent of the young people in America today accept the authority of a boss in the work situation in the classic sense that we are familiar with.

That kind of fundamental change in attitude does affect the productivity on the job, but to which the management process and the structure of work has not been yet responsive.

Another important thing with regard to youth attitude in the labor force is the high proportion of Vietnam veterans now in the labor force, who bring back to the work place some of the attitudes toward work and toward the society that were warped by their experiences in Vietnam.

One of the classic surprises that happened in the auto negotiations last year was the fact that for the first time, appropos of your comments about the rejection of overtime premium pay on Saturday, the workers demanded the right to voluntarily accept overtime and to take away from management the right to assign them to overtime.

The whole history of labor relations has been to put a premium on overtime and to make it a privilege to get that extra incentive pay for working overtime.

Many auto plants keep college lists of workers for Monday through Friday work to supplement the double and triple absenteeism rate that occurs.

It is my own feeling that the problem of alienation to work, which is not only the problem of the young (though they are more vocal about it), may have to be met in our society by repackaging work into different arrangements. In this I am referring specifically to the shorter workweek as one example. A job may be alienating. The production process may not be submissive to a major reform. Therefore, if you can be exposed to that less frequently that will diminish some of the alienation, if you can't change the process.

Another hopeful prospect, is to be responsive to the fact that there has been a major growth of part-time employment in the American economy. It has increased from about 5 to 12 percent of the labor force.

Women, younger workers who are unemployed, and even older workers would be very responsive to part-time work in some of these jobs which are just too unpleasant to take on a full-time basis. These are some of the things that industry and management must address itself to in the 1970's. But I agree with your comments that the attitudes of youth are not a passing phase. It is just a question of the clash between these attitudes and the institutions and the traditional processes of production.

The odds are that the institutions will be much more resistant. That is only going to cost us in productivity.

Senator PERCY. My time is up. I appreciate your comments very much indeed. My point, of course, is that there is a major change in the work force. It is a younger work force today. It is a far better educated work force. The old factory managers and work managers must realize that they are dealing with new factors and old processes will not work.

The man Sylvia Porter referred to in her syndicated column as the man with the most knowledge in the area of productivity in the country, Senator Javits, has joined us.

Chairman PROXMIRE. I am happy to recognize Senator Javits. He is an expert in productivity. Senator Javits and Senator Percy are responsible for the hearings. They have insisted that we do our

best to get the experts before us who can tell us how we can improve productivity.

Senator JAVITS. I am grateful to my colleagues. I will tell them that reason for my absence was the making up of the minimum wage bill in the full Committee on Labor and Public Welfare. I am not a member of this particular subcommittee, but I am ranking on this committee and so was invited to sit with them. I thank the chairman for his gracious invitation.

I would like to be very brief. I will ask you two things.

I gather, Mr. Rosow, you feel sociological and psychological facts are very important. Under those circumstances, what do you think of the validity of recreating the wartime experience of local productivity councils? Do you think we would have a better chance if some method is made ideologically to introduce the worker to the national urgency for increased productivity, as, for example, to strengthen our competitive position economically, to give us greater security because of greater effectiveness productively in terms of resources, and to make the American economy produce more, thereby dealing with inflation?

Mr. Rosow. I certainly do agree that the local productivity councils would help accelerate the attention to this problem.

I would submit, however, that when they were at their peak of effectiveness we were in a national emergency, a war. The demands for production far outran our ability to produce, and, in effect, the great achievements of production in the 1940's were probably as much responsible for our victory in the Second World War as our military genius.

Chairman PROXMIRE. What was that again?

Mr. Rosow. I was saying, Mr. Chairman, that I felt within the period of the 1940's productivity councils and the productivity effort in our Nation were greatly reinforced by the national emergency and the demand for production, and, in effect, the American production was as much a victory for the American people as the military genius that delivered that production.

I feel in time of peace, in time of prosperity, in time of high standards of living, it is difficult to engender that sense of crisis in the labor force as a whole when it is combined with the period of high unemployment and the twin problem which is bedevilling the economy—the problem of high unemployment and inflation going against all of the traditional economic theory and presenting some new structural problems.

But appropos of your questions earlier, Mr. Chairman, as to why the productivity commission hasn't achieved enough, that taking this to the local level would be desirable, I believe also we need institutional reforms to reinforce the results of change in productivity, the impact of it on the worker.

In a war situation, the worker feels that the harder he works the more efficiently he works and even the longer hours that might be necessitated, and he is helping the Nation meet a national emergency and suffers no threat and has great psychic in addition to economic responses for doing this.

In this period of high unemployment, the period of labor displacement, the welfare problems we have, I think there is a different psychology facing us, further compounded by Senator Percy's attention to

the youth problem, and the fact that 50 percent of the growth of the labor force in this decade will be people between the age groups of 25 to 35 who are coming out of the youth generation.

So it will take more than a psychological urging of loyalty and response to our national values to enhance productivity.

We need people to feel that if they work more efficiently and produce more with less manpower that they are not going to be the end victims of that process.

Senator JAVITS. I think that is very important. Isn't it a fact that you will have committees, a democratic forum over and beyond the trade union forum which has its own built-in political problems, by which young and other alienated workers can express themselves, so that management and we, the Nation, can begin to have a true understanding of what is aborting our efforts in respect of productivity?

Mr. Rosow. Absolutely. That participation effort, which gets to the sociological and psychological questions of motivations, are very strong reinforcing and necessary elements to productivity change. That should also be accompanied by some implicit or explicit understanding that those committees have the right to bargain or to participate in the kinds of tradeoffs that are needed and that management in that process is willing to share with the workers' information upon its costs, its profits and its prices, because those workers can then be motivated to eliminate some of the waste that is implicit in that situation.

I am reminded of an automated refinery of our own where in 1960 Secretary Shultz, then a dean at the University of Chicago, did a consulting job at our refinery in New Jersey, where the assumption was that a highly automated plant had very little room for the worker to have any effect on efficiency.

In the study that he did he found with the same level of production, 100,000 barrels a day, over retrospective periods, there was a 30-percent variation in productivity depending on the way the workers were performing in that highly automated plant. So there is a lot of room there. Your committee idea would certainly help greatly.

Senator JAVITS. What do you say about the money incentive idea as it relates to the two areas in which American business, in my judgment, are most deficient, that is profitsharing and stock options?

I believe very deeply, and I believe Senator Percy does, too, in the idea of extending the stock option plan to the plant.

Mr. Rosow. I don't know about the stock option in its conventional form because it has had mixed results in different companies, but I do feel that some form of profitsharing, some form of participation in the economic results of the firm, in addition to direct wage payments, is very effective. I can cite two companies in America that are demonstrative of this—Eastman Kodak and Sears, Roebuck—which certainly, in my view, deserve emulation.

Senator JAVITS. The other thing I would like to ask you about is the pension and welfare item. There is a big effort in the Congress about considerably raising the rights of the American worker.

Mr. Rosow. I appreciate an opportunity, Senator Javits, to comment on that. When I was in the administration, as an outgrowth of the blue collar paper I referred to before you arrived, we did propose pension reform legislation, which the President sent forward to the

Congress, which did not go as far as the legislation that you and Congressman Dent would favor, and I, myself, would favor even going further.

I feel that the question of job security for the American worker is a long-term commitment and that the pension funding and the vesting question as well as insurance and fiduciary responsibility, are very important issues.

Your own investigations in the Department of Labor have shown that more than half, maybe two-thirds, of the workers may never receive a benefit among the 33 million who ostensibly are covered by pension plans today.

It has been my experience in the oil and chemical industry that sound pension funding has been an invaluable device for manpower readjustment and has made possible painless displacement of older workers who at the time feared retirement. Then with attitude surveys, retrospectively, we find 95 percent of them have adjusted happily to retirement because they had adequate pension payments to finance that form of life.

So in many ways of pension reform I would urge this committee to strengthen any effort in the Congress on pension reform because that is really part and parcel of the question of long-term productivity. If people who are older go out into the society without adequate pension they will place the additional burden on the taxpayer, increase the poverty level in society, or place an added burden on the next generation to carry those people.

Senator JAVRS. I will extract that statement and send it to every member.

My last question is this: There is an interesting situation developing with regard to the minimum wage issue. We understand the automobile businesses may be exhibit A. It is where overtime is now so built into a structure that, one, it results in employee dissatisfaction and; two, it results in new job preemption. That is where you have over a 6-month swing an absolutely regular and persistent condition of overtime, having no relation to the scarcity of workers, no relation to accommodate more workers, having no relationship except to not hiring new guys if you can work the old guys on a one-and-a-half-times basis.

Mr. Rosow. What is your question?

Senator JAVRS. My question is, Do you think we ought to try to do something about that legislatively?

Mr. Rosow. It is difficult to do. In particular I would certainly agree that practices of extending overtime instead of hiring workers tend to be counterproductive to the objective of full employment. I think they have a response in high wage, high benefit/cost industries, where certain inflexibility has existed, when a worker is put on the payroll and then becomes a charge to the SUB fund or some other cost.

I think some adjustment to short-term employment and temporary employment would be advantageous. We would see with the younger workers a greater willingness to share these hours. I would certainly support the idea that we shouldn't meet the increased cyclical production cycles by just using the same workers for hours, but rather giving more employment opportunities.

Senator PERCY. May I ask unanimous consent to insert in the record a series of articles from the Washington Post.

Chairman PROXMIER. That will be done.

(The series of articles to be furnished follow :)

[A series of articles from the Washington Post]

THE UNIONS—I: UNREST AMID RANK AND FILE

(By Haynes Johnson and Nick Kotz)

When tough old Sam Gompers was the unchallenged leader of American labor, he spelled out simply and bluntly his goal for all trade unions: "More."

Over the years, at great cost in energy, effort and bloodshed, the unions broadened their goals, perfected their organizing and bargaining techniques and got more—more members, more wages, more benefits, more legislation, more influence.

Today, with their direct challenge to the President over wage and price controls and the prospect of a potentially historic conflict between organized labor and the government, the question of union power in America has assumed critical importance. There appears to be no neutral ground. The unions are either the most positive—or negative—force in the country.

Listen to these critics of the unions.

Says Herbert Hill of the NAACP who deals principally with organized labor:

"There's probably no more bureaucratic institution in the United States than organized labor. The most powerful affiliates of the AFL-CIO have simply become narrow protective organizations functioning for a small group of dues payers in a collective bargaining unit. In every industry, organized labor has now carved out an area of control. This is the basis of their strength.

"George Meany is not running a labor movement. George Meany and his colleagues are now businessmen engaged in the business of unions."

A liberal Democratic senator on Capitol Hill:

"They have the power because they have the money and the manpower. There are damn few free men on this Hill."

Malcolm Denise, vice president in charge of labor relations for Ford:

"I think it's fairly obvious that the unions, as institutions sanctioned by the law of the land, have power denied to the employer side."

Unfavorable comment is hardly new to labor leaders. They do not feel they have to plead their case or worth. They think their accomplishments speak for themselves.

"We are the only group in American society—the only organized group—that works day in and day out on a broad range of progressive social and economic issues," says Nat Goldfinger, research director of the AFL-CIO. "There is no other such group in the country. We are the whole solid-core base of progressive social and economic change in America. Without us, there's nothing."

What is new today is a set of conditions that threatens the unions both from without and within.

The problems are political, economic and, in an almost indefinable way, psychological. Taken together, they add to hard times in the house of labor.

"Politically, you don't need any special clairvoyance to understand that at the present time the President of the United States is going against big labor," said Edward Carlough, president of the Sheet Metal Workers Union. "We're the substitute for the Red Scare. I think we're as threatened legislatively and politically in this presidential election as we were in 1948. And I think on labor issues this is the most important election we've had."

This spring's dramatic developments, when union leaders walked off the Pay Board denouncing the President and the President quickly and forcefully picked up their challenge, underscore the seriousness of the present situation. They pose the threat of open labor-management, labor-government conflict—strikes, injunctions and court suits—across the country.

A leader in the building trades unions, still the heart of the AFL-CIO, described the main problem facing the unions differently.

"Right now," said Robert Georgine, secretary-treasurer of the AFL-CIO's building trades department, "this is probably the most critical time the building trades have had since their inception, since 1908."

He was referring to the increasing use of nonunion labor across the country and the general economic problems facing the construction industry.

Other union leaders talk about other problems: the export of jobs to overseas markets and the import of foreign goods; personnel changes on the Supreme Court and such agencies as the National Labor Relations Board, raising the

possibility of new restrictions on organized labor; shifts away from blue-collar employment, accelerating use of automation with machines replacing men, and the rise of white-collar and service industries—all holding critical significance for the future of the unions.

Added to these are two related factors. One is what appears to be increasing hostility toward unions, as measured in public opinion surveys. In the recent survey, for instance, 64 per cent of the public felt that union leadership is doing only a fair or poor job in meeting its responsibilities to the public as well as to its own members. The other involves big business. Some businessmen believe the present climate offers the greatest opportunity since the enactment of the Taft-Hartley Act a quarter of a century ago to curb what they regard as an imbalance of power between labor and management.

All of these problems, internal and external, will be examined in a series of articles, of which this is the first.

THE USES OF POWER

In these articles we will report on how labor uses its power politically, legislatively and economically; how its influence extends, no matter which party is in power, into all areas of the executive branch; how businessmen are attempting to organize quietly to change what they consider crippling union abuses.

We will explore, also, the changing attitudes of young workers toward the unions, toward union leaders and politics and toward work. These changing attitudes pose a special kind of problem for the unions, for manufacturing companies and for a society oriented toward the consumption of goods. They have produced incidents of industrial sabotage and increasing use of hard drugs in factories.

These articles are the result of three months of travel through the country conducting tape-recorded interviews, nearly all of them on the record, with a score of international union presidents and with labor leaders from George Meany down to workers in their homes and on the job. Accompanying each article will be verbatim extracts from men in labor's ranks as well as from leading business and other public figures who deal with the unions.

We begin with a primer:

1. The federal government lists more than 80 million Americans currently in the work force. Under 20 million—fewer than one out of every four workers—are members of unions. Union membership in the total work force actually has been declining.

These facts are vital for the unions in several respects. It means they represent a distinct minority of the work force—and thus wield a power far out of proportion to their total membership. (One union official, for instance, pointed out that the unions, although representing less than a fourth of all American workers, had all the labor representatives on the Pay Board. That he suggested, clearly means that George Meany is the second most important man in the United States, ranking only behind the President in power and influence.)

But those figures also mean the unions are not growing, and historically their vigor and influence have depended on their ability to organize new members. This conflict figures in a fundamental debate today about the role of the unions.

When we asked George Meany, for example, if he wasn't concerned that the percentage of union members in the work force has been fairly static or declining in recent years, he answered: "To me, it doesn't mean a thing. I have no concern about it . . ."

Others inside the labor movement are in deep disagreement with that point of view.

2. While the public has the impression that union membership includes the poorer element of society, the fact is that most union members are now earning at least \$3 to \$5 an hour. A secondary labor market of some 11½ million workers is not affiliated with unions. Their income is far below the union member's. They are, in truth, the poor working man in America.

VIOLENCE BETWEEN UNIONS

3. Another impression has to do with union strife and reports of violence, usually associated with strikes that affect the public. Actually, the greatest union strife lies solely within the trade union family. Jurisdictional battles: pit one union against another for control of a job or market. As Joseph Beirne, president of the Communications Workers of America, remarked:

"This is something that is going on in hundreds and hundreds of communities every single day of the week and every single day of the year. I don't think there's any statistic anybody could compile that would give an actual picture of the time and energy and everything else that's wasted and lost in these jurisdictional fights between unions. Hundreds and hundreds and hundreds of man-hours, with all the countless thousands of dollars behind every one of those man-hours, are involved where two unions are battling for one plant or five unions are trying to organize the same group of workers."

A business agent from another union in Florida expressed the same problem, but less philosophically.

"We have these jurisdictional disputes over different areas of work," said Joe Valdastrì of Sheet Metal Workers' Local 223. "And it's back and forth and back and forth until finally we come to a showdown on the job site where three or four or five hundred men get into it with two-by-fours and pipes. We've had two of those in the last three years.

"It certainly doesn't help the building trades as a whole to come together. The people out there are beating each other's brains in.

"My personal opinion is if you're going to do something like that, get out there on a non union job and run the goddam rats off rather than fight among yourselves. If you're gonna fight, go out there and chase someone else."

As we will show in later articles, those are not words of braggadocio alone. Violence, complete with bombings and shootings, are a fact of life on some non-union job sites today.

WHAT THE WEALTH MEANS

4. There is no question that unions have great power. Total union wealth runs into the billions of dollars. The unions collect anywhere from \$75 million to \$100 million a month in dues. They have big pension funds and huge investments in real estate, banks, hotels, motels, transit lines and life insurance companies.

Yet all that wealth does not accurately depict the individual standing of a union member himself. An auto worker in Detroit, for example, the highest paid factory work, averages \$10,000 a year—and has very little economic margin for survival. We have found sheetmetal workers, living in a far less costly area, who have been averaging over \$20,000 a year. At the same time, there are union members working in the most expensive American city—New York—trying to live on \$72 a week.

And for all the union's undeniable power in so many areas, union leaders in Washington inevitably argue that their power is not equal to that of the corporations.

"Our power is inadequate," said Tom Harris, AFL-CIO counsel and one of George Meany's closest associates. "The maldistribution of wealth has grown worse since 1940. The success of the labor unions should be measured on the redistribution of wealth. We haven't accomplished that since 1940.

"The place where we have lost, basically, is in the tax laws. Wilbur Mills has thrown us an occasional bone, but that's all. The power of the corporations is in Ways and Means and Finance congressional committees and that's where we lose."

5. Ideologically, the unions are caught between two irreconcilable views. To some businessmen and conservatives, the unions are militant or radical power brokers for the left, the heart of the liberal legislative lobby on Capitol Hill. To liberals and the left, the unions are often regarded as one of the most reactionary forces in America, a special interest group concerned only with money and defending the Establishment, whether it be on the issues of the war or student protest or permitting itself to be used as a cover for secret CIA financing.

To some extent, both criticisms are valid. Liberals, who are interested in reforming American institutions, see labor as conservative and hidebound despite the role it takes in lobbying for liberal legislation or backing liberal senators for office. Many rank-and-file union members, however, think their union leadership should be working primarily on money issues for workers. They aren't for such liberal causes as defending busing and fighting for civil rights legislation.

A key internal debate among top union leaders today centers around those points of view. One side argues that the unions should revert to their old role, as enunciated by Sam Gompers, of getting "more" for the workers—more meat and potatoes, that is, and less social action. That the unions have been getting more economically and still leading the liberal coalition—all the while being

sharply criticized from either flank—is merely another indication of the complexity of organized labor as an institution.

6. Again depending on the cast of mind, labor leadership is often pictured as sterile and monolithic. Much of it is. But it may come as a surprise to some businessmen that top labor leaders often express the same kinds of complaints and concerns as do corporation vice presidents.

These union men are deeply disturbed about the ability of business to remain competitive, and equally concerned about such questions as productivity and poor quality of workmanship.

"We have very serious productivity problems," one international union president said. "I watch the building trades unions and I'm very distressed about several aspects. If you tried you couldn't get a union guy to come in and work on your house, if you own a house. And if you try to build a public building without union guys that's equivalent to gang rape in the White House. The unions and the contractors are ganging up on the f—ing consumer, and they're not only killing the consumer but killing the industry and killing the workers and lousing up housing and so on."

RANK-AND-FILE UNREST

Ironically, the day may come when some of labor's most severe critics of the present will yearn for the return of these older men who are leading the unions today. The next wave of unionists promises to be a far different breed—less wedded to the old trade union principles, less certain about the merits of the free enterprise system, less concerned about the old values of pride in craft and work, more independent, more demanding, more insistent on change now. Yet they also could turn out to be more attuned to a rapidly changing society.

Already, union leaders who came up in another era are finding it increasingly difficult to control their own rank and file. They cite lack of union discipline, poor attendance at meetings, increasing wildcat strikes, and rising numbers of cases of rank-and-file members overturning contract recommendations of the leadership.

Something new is stirring among today's workers, particularly the young. Although it is difficult to generalize about so large and diverse a group, nothing struck us more strongly than to discover just how different those young workers really are. Yet many top union and management leaders do not fully recognize what is taking place in their ranks. A communications problem exists at high echelons of both. There are some, of course, who express concern. Two of the most thoughtful union men we met tried to put what's happening to the worker in perspective.

"What goes on everywhere else, goes on inside the union," said Victor Gottbaum, who heads the New York local of the fastest growing union in America, the American Federation of State, County and Municipal Employees. "So if there is unrest among the young and the blacks, you'll find that unrest amongst the trade union movement itself.

"You can't escape it, it's too big an institution. This manifests itself in interesting ways. For instance, I read in the paper about young workers recently stopping that General Motors plant. It's understandable. There's a restlessness that's very hard to define among young workers today."

THE DOWNGRADING OF WORK

In Washington, Nat Goldfinger pointed to another dimension of that young worker discontent.

"I think the public attitude toward the worker has declined substantially," he said, "and the American worker is now looked down upon on the radio and television and news media generally. You make fun of the plumber and the carpenter and the working man. Well, why the hell should be put out?"

"Who in American society in the past 15 or 20 years pays any attention to the importance of skilled manual work? The emphasis in society has been on the Ph. D. degree, upon the mathematician, the scientist, the engineer and so forth.

"I use words which sound kind of phony—the dignity and honor of manual work—but I think all of this has been very sharply downgraded in the society.

"And most recently you find it in all the fun that's poked at the hard hats. The hard hat is the bigot, the racist, the male chauvinist pig. He's viewed almost as the enemy within.

"And why should he be put out? He knows what he's doing, he knows what he's contributing. He's working hard and he also has a keen sense. Maybe he

overlays the extent to which he's being imposed upon by society. But the other thing is the pressures of society are mostly focused on him. He's the guy that bears the brunt for racial integration, for all of these social and economic changes—automation in the plant, changes in the neighborhood and schools. The urban crisis impinges most directly on him.

"And so with all these kinds of things—as well as the fact that his individual contribution to the product he makes is slight and that he feels divorced and alienated from that product—there may well be a changing attitude toward work in this country."

The situation he describes poses new problems not only for labor and management, but for the American people as well.

THE UNIONS—II: TODAY'S WORKER: "IDEALISM'S GONE"

(By Haynes Johnson and Nick Kotz)

Stan Geist is only 30 years old, but like so many union officials he sees something new and disturbing developing among the young workers he represents.

"It's the young guy who's taking off," said Geist, secretary-treasurer of a large United Auto Workers local in Detroit. "We don't have any answers. They have the 'I don't care' attitude. They know they've got to work, but when they want a day off they want a day off and they don't care about anything else.

"The young guy wants it all without the overtime. And I think it's something that society has created. We've created it. You, me, we all created it."

What Geist was saying was echoed by virtually every other union leader interviewed who deals most clearly with rank-and-file workers. Their explanations about what's happening—and why—differ, but they all add up to the same general point of view:

"He's a new breed. He hasn't lived through any hard times. He's not a follower. You don't have followers today. You have a bunch of disbelievers down there..."

"Yesterday's were career people. Today, they're not..."

"I think the problem is the idealism's gone. The worker who comes into a ready-made union is different from the one who builds it..."

"The younger workers today don't have the pride in craft like the older people. There's more going for the younger kid. The car, the TV, the party time. They don't have the consideration toward the union like they did in the past. Talk union to them and they'll say, 'What'd the union ever do for me? They just take my eight or nine dollars and that's all.' They don't remember how our forefathers used to fight for us."

If the young workers we met are a true cross-section, all these comments by their elders are valid. Yet they do not begin to reflect the dimensions of the differences.

Indeed, perhaps the most striking conclusion after interviewing union leaders and members these last three months is the degree to which young workers today share common attitudes with the far more publicized—and favored—young college students. Call it what you will—counterculture, drug culture, anti-establishment feeling or youth rebellion—the same forces are moving and motivating both groups.

There are, however, two important differences between them. Even though they far outnumber their collegiate contemporaries, the young workers receive much less public attention. And their frustration are much more intense.

The young worker, after all, didn't go to Harvard or Berkeley. If he goes beyond high school at all, he often attends a small community college before entering the blue-collar work force to perform some of the hardest, dirtiest jobs in America.

These facts are important to any understanding of the turmoil and tension—the absenteeism, the increasing drug use in factories, the cases of industrial sabotage, the problems of quality and productivity—that exist in so many work places today. What comes through clearly after talking to these workers is the enormous dissatisfaction they feel about their jobs. In effect, they too are rebelling against the system—whether it is a system personified by their union or company official or society in general.

Nowhere is this more prevalent than on the mass-production factory lines.

"The problem on the factory line is that the job controls the man," says Doug Fraser, a top UAW official. "It's different from a job in which a man can put in

some initiative. I don't know what will help. Absenteeism runs 12 per cent on Saturday despite 1½-time pay. That should be a message. Guys won't give away their social life or their free time for \$50 or \$60 a day."

A DIFFERENT LIFE STYLE

Paradoxically, that young worker wants more—and less. He wants more cash, now. Fringe benefits as such are not that important. But he also wants more free time and a different life style. Material possessions do not seem all that important. If he can't get the time, he'll often just take off from the job.

Down in Florida, Mike Marshall, 26, a sheet-metal worker, expressed a common attitude. He had been averaging more than \$15,000 a year for the last few years, Marshall was saying, but last year his income was dropped to around \$10,000. It wasn't the economy; it was Marshall's own choice.

"See, I only made 10 last year," he said, "but that's because I took time off myself. I took off because I wanted to. I'd just lay around and take it easy. I have a little bit of money put away and I thought, 'What happens if I'm not here tomorrow? I might as well enjoy what I have.' So I decided to take some time off and lounge and take it easy. I have some property and a horse and I messed around there a little bit."

Obviously, such an attitude creates problems for both union and management. It also leads to internal friction between older and younger workers on the job.

Almost without exception, the older workers we interviewed expressed strong resentment against their younger colleagues. One night in Detroit while talking to a group of older and younger auto workers, for instance, the conversation became so heated that two of the men were practically at each other's throats.

The older worker resents many things: what he thinks is the young man's lack of appreciation for how hard it used to be, and how hard he has worked all his life; the wages and benefits the younger man seems to take for granted; the drug use that he believes endangers his own safety, and the new attitudes about work itself. But most of all, he resents being affected by the absentee rate among the younger workers.

He wants to send his children to college so they can have a better life, but finds it increasingly difficult with inflation and his basic income. The younger worker faces the same economic woes. Inflation hits him severely, too. On his average salary of \$10,000 a year, he has a hard time buying a home. In fact, contrary to the popular attitude that today's industrial worker has it made and lives a life of affluence with a boat, two cars, and vacation home in the country, Bureau of Labor Statistics figures show that the real income of the factory worker has declined in the last five years.

But the older man feels the pressure most acutely of all, while his younger colleague doesn't seem that interested in material questions alone.

"You take a lot of these younger workers now," said Louis Johnson, a 26-year veteran of the automobile assembly line. "They hire in and they say the hell with it. They say you can take this job and you know what you can do with it. They'll walk off. So that hits me.

"Today they're short of welders. So I go and weld. Well, tomorrow they're short of a man in the grinding booth. Then the next day I'll be over in mill finishing. But time comes for a cutback, I'm the one that gets hurt. The younger man, he gets the job. He gets the gravy that I worked 26 years for."

The younger worker's complaint is simple. He says he hates the job, particularly the monotonous factory job. At times he hates it so much that he deliberately will throw a monkey wrench in the machinery, or turn to drugs to escape the boredom. To him, whether the job is better than it used to be or pays more and gives greater benefits is beside the point.

"NOTHING BUT A TOOL"

Those are, of course, sweeping generalizations but they are the common denominators of the young factory workers we met. They feel, as James Humphrey, 26, said in Detroit, "nothing but a tool."

But let the experience of one man speak for them all.

Tom Armstead, 28, began working on the auto assembly line seven years ago after getting out of the Army. Armstead, who is black, was a member of the union and eventually was promoted to foreman. Along the way, he encountered all the problems described in fragmentary form by others.

"Payroll and everything is done by numbers from the minute you hire in here," he was saying. "I was 9374. Names are not important. After 17 months

at Warren truck, I was transferred to Plymouth. There I am, a new man in a strange plant. . . .

"I got there in plenty of time, but as a result of parking in the wrong parking lot, going in the wrong entrance, and going through the maze of departments, I was 12 minutes late. I walked in and I said, 'Is this department 9175?' And he said, 'Yeah.' And I said, 'I'm Tom Armstead. I'm supposed to report here this morning?' And he said, 'Hey, do you know what time we start to work here?' And I said, 'Yes, sir. I was under the impression that we started at 6:12.' So he said, 'That's right. How come you're late?' So I said, 'Well, sir, it's the first time I've been here. I got lost trying to find the office.'

"And he said, 'Fire him!' And I say, 'Hey, you can't fire me, I've got seniority.' And he said, 'Where are you transferred from?' I said, 'Warren truck.' And he said, 'Well, God-damn it, I don't know how they work it at Warren truck, but you come here every day on time.' And I kept trying to tell him I make a point of being on time."

THE REAL PROBLEMS BEGIN

Much later, Armstead was promoted to foreman. That's when his real problems began. He said both whites and blacks resented his being put ahead of them. After that, he said, "I started applying more pressure in the areas of quality and workmanship—and they [the other workers] started applying their own pressure." He encountered a series of sabotage incidents on the assembly line.

"They would do things like turn the air pressure off in the chute for the tires to come down and call me and say the chute broke. So I'd call the repair man to look at it, and they'd say the air's not turned on. . . . But in the engine room the line would have to be stopped and I would have to let five or six jobs go on without tires.

"Another thing they used to do was a job called the W-500. It's a large four-wheel drive vehicle. They would take a two-by-four and jam it down in the line so I couldn't see it. And when the cradle came by it would hit the 2-by-4 and throw it out of kilt. The line would be shut down. It would cost us \$2000 a minute.

"So it took me a few months to learn all the tricks of the trade."

But in the end that wasn't enough for Armstead.

"The feeling with me was that every waking moment—my whole life—revolved around that lousy job," he said. "I'd get up in the morning at 4:30, eat and get myself together, drive to work. Work started at 6:20. I'd get home at 3:30 or 3:45, read a newspaper, have dinner and go to bed. It seemed that every waking minute was involved in that job. On Saturdays and Sundays you'd spend the whole weekend dreading Mondays."

Four months ago Armstead quit. He now works for an anti-poverty program in Detroit.

THE INCIDENCE OF SABOTAGE

As with the drug problem, described in more detail in two accompanying interviews, there seems to be no way of documenting how serious—or how minor—industrial sabotage is today. That it can—and does—happen at times from plant to plant is hardly disputable.

"Now the whole question of sabotage, you probably won't believe this, but this is not a new technique," said Leonard Woodcock, president of the United Auto Workers union. "There has to be some control to it some place, I suppose. 'I remember a plant up in Flint that had a lot of sabotage and I went up there and I met with the union leadership, and I said to them, 'I know you have nothing to do with this, but it would be very useful if the sabotage stopped. It would give us the opportunity to work out these problems.' And sure enough the God-damned sabotage stopped for 10 months.

"And I'm sure General Motors was convinced, since I could go up there and make a little speech and stop it, that obviously I had something to do with starting it, controlling it, planning it, whatever. But when you get a wave of hatred in a plant, it communicates itself into guys doing all sorts of imaginative things just to take it out. They do it in some very, very ingenious ways."

"JUST LET IT SLIDE"

However serious the cases of sabotage, drugs and absenteeism may be, they are only symptomatic of a larger problem. That is what appears to be a changing attitude toward work among so many young people today.

Occasionally a worker will articulate something that goes beyond a specific gripe about his job or his union.

Fred DiSisto, a 33-year-old sewage treatment worker and shop steward of his union local in New York City, put in a larger perspective.

"If you try to do a job, a man is just beaten down so much that he eventually gives up," he said. "He's one man against the whole system. It's just too much.

"I have to admit I was a little more conscientious about the job than I am now. But I gave up. You keep pounding your head against the wall and you don't get anywhere. It's not the nature of the work. It's just what we call the system today."

DiSisto spoke of number of incidents to show what he meant.

Then he added:

"They've made it so the guy doesn't worry or doesn't care or have pride in his work. He's worried about the good old buck. I think this is the reason why unions were able to get as powerful as they are. Because this was the main object in everybody's mind. You know, 'Look at what we've done for you. We've doubled your salary in 10 years.' They push for the money, money, money. And they seem to think that'll keep us happy.

"At one time it did make us happy because we weren't making that much. But I think we've reached a plateau where we just about squeezed everything out of it that we can."

Like Tom Armistead, Fred DiSisto is thinking of finding something else. He'd like to move far out into the country where the taxes are low.

"See, I like to hunt and fish," he said. "I like to get into the woods somewhere where I could be next to Mother Nature, so to speak."

He's another reminder of the point made by I. W. Abel, president of the United Steelworkers of America.

"I think the main problems of the trade union movement," Abel said, "are the problems of society. I don't find it easy to sort out that segment of society known as labor. I think we're a part of society, and a large segment of it, and our problems are similar."

"YOU GOTTA FIGHT THAT LINE"

For years, workers have heard and played the songs of Joe Glazer. "You Gotta Fight That Line," a song from his new album, contains lines that, for many, spell out the reality of life on the assembly line.

They put me to work on the assembly line
My clock card number was 90-99-9
Those Fords rolled by on that factory floor
And every fourteen seconds I slapped on a door.

CHORUS: You gotta fight that line,
You gotta fight that line,
You gotta fight that line,
Gotta fight it all the time.

Those Fords rolled by all day and all night,
My job was the front door on the right.
Foreman told me the day I was hired,
You miss one door Mr. Jones—you're fired.
(well I see my union representative about that)
I slapped those doors on always on the run,
Every fourteen seconds, never missed a one.
And I staggered home from work each night,
Still slapping 'em on—front door right.

CHORUS

Couldn't turn around and I don't look back
Cause those Fords kept a rolling down the track.
If I tried to scratch my ear or my nose
I'd have ten guys clipping all over my toes.
You gotta move, man, move like a super machine,
Gotta hustle, gotta rustle, it's a crazy scene,
Wanna scream, wanna holler, wanna call the cops—
But it don't help none cause the line never stops.

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THE UNIONS—III: FOR YOUNG WORKERS, OLD LEADERS

(By Haynes Johnson and Nick Kotz)

Eddie Carlough wears his hair long and his clothing style mod. Some of his fellow international union presidents tell him he shouldn't wear sandals and body shirts to AFL-CIO Executive Council meetings in Miami Beach, but Carlough laughs off the criticism. He's closer to his young union members than they are, he says. And indeed, at 39 Carlough is one of the youngest union presidents in the country.

When asked how you get to be president of a big union, Carlough replied:

"I'd say the best way is to have a president who is the best president in the history of our union, well loved, who nominates you to succeed him—and who also happens to be your father."

Carlough laughed. Then he said:

"I think that's the best system, although there may be other systems."

Carlough was not speaking only in jest. He explained how he happened to succeed his father as president of the large and powerful Sheet Metal Workers Union:

"My father would have been reelected unanimously in Atlantic City in 1970 and I suppose he could have run again and been elected and then stepped down and the board would have named me. But when he stepped down it was very open. There was plenty of time for anyone to object and the floor was open for nominations."

Carlough was the only man nominated. There were 737 delegates at the Sheet Metal Workers convention. Not a single delegate voted against young Carlough. It was unanimous.

Carlough's case is not unusual. Two things characterize the make-up of the AFL-CIO's Executive Council, composed of the international union presidents who form labor's leadership elite—old age and nepotism.

John Lyons, president of the Iron Workers Union, succeeded his father. S. Frank (Bud) Raftery, president of the Painters' Union, succeeded his father. Maurice A. Hutcheson, president of the United Brotherhood of Carpenters, succeeded his father.

Hutcheson will be 75 next month. Patrick E. Gorman, president of the Amalgamated Meat Cutters' Union, will be 80 later this year. Jacob S. Potofsky, president of the Amalgamated Clothing Workers of America, is 78. A. Philip Randolph, president emeritus of the Brotherhood of Sleeping Car Porters, is 83. Richard F. Walsh, president of the Theatrical and Machine Operators Union, is 72. Joseph D. Keenan, secretary of the International Brotherhood of Electrical Workers, is 76. Louis Stulberg, president of the International Ladies' Garment Workers Union, is 71. Six years ago, he succeeded David Dubinsky, under whom he served as union secretary. Dubinsky is now 80.

At the top of them all is the most powerful man in organized labor, George Meany. The AFL-CIO president is now 78.

Meany is only the third man to hold the presidency of the American Federation of Labor since it was formed in 1886. Samuel Gompers, the first president, died in office in 1924 at the age of 72. He was succeeded by William Green, who died in office in 1952 at the age of 82. Meany, who served as Green's principal assistant for 12 years, has been president since then.

He says he has no intention of stepping down. "I decide if I'm too old," he said in an interview. He also said: "If my health stays good and I feel like it, I'll stay in. And very frankly I think I'd know if there was a movement to push me out within the organization."

JOBS FOR RELATIVES

The mentality of the old days of the family store, when a father automatically turned over the business to a son, lives on in the unions. Friends and relatives are rewarded with jobs.

George Meany, for instance, has three married daughters. All of his sons-in-law are doing union business.

Robert Mayer, husband of his daughter Regina, is a partner in the AFL-CIO's law firm, J. Albert Woll. Mayer is also on the board of the National Bank of Washington, the bank that is owned by the United Mine Workers Union.

John (Jack) Lutz, husband of Meany's daughter Genevieve, is assistant to the director of the AFL-CIO's union label and services trades department.

Ernest Lee, husband of Meany's daughter Eileen, is executive assistant to the director of the international affairs department of the AFL-CIO.

Both Lutz and Lee have been put on the union payroll since Meany became AFL-CIO president.

Few union officials will acknowledge publicly that their leadership is too old or out of touch or that a pattern of nepotism exists. Age alone, they will say, is not the criterion; ability is the only meaningful measurement of the leader. They insist they have strong and able leaders.

A rare word of open criticism from within labor's hierarchy came from Jerry Wulf, president of the American Federation of State, County, and Municipal Employees, the fastest-growing union in America.

"I think it has to be said," Wulf said, "The problem is this. When you think that at 52 I'm one of the youngest men who occupies a position of substance in the national union structure—and I think I'm the youngest vice president on the AFL-CIO, although Lane Kirkland's probably younger than I am—between the two of us we have a monopoly on youth, which is kind of ridiculous. A lot of my colleagues are products of an era and an environment that is no longer in existence."

Wulf went on to say:

"One of the things that troubles me in my own union is that our older staff guys tend to talk to the workers with a dialogue that was created during the depression, or created by the generation that immediately followed the depression and was seriously affected by it.

"The common American worker doesn't know what the hell we're talking about and has given up trying to understand. He doesn't relate to us and we don't relate to him, and we've got to be very careful about this.

"In essence, the kind of complaint I have heard is simply the inability of leadership—some leadership, not all—to communicate and relate to those who are their constituencies. And this is a process that's not related to labor. As somebody who's interested in the political processes in this country, I see the same thing going on. I see the same thing going on in the academic community.

"In 1936, the fathers of most workers were terribly grateful for a union official telling them where a job is. In 1972, an American worker likes to think that he's paying, and that the union official has a responsibility for delivering pork chops. Instead of relating to him or serving him or being responsible to him, he's not sure the union official isn't patronizing him. And if he thinks he's patronizing him, he resents it."

Many other criticisms are leveled at top union leadership. Some of the sharpest come from inside the union ranks. They range from charges that the AFL-CIO is sterile and stultified in its outlook to arguments that it is reactionary in positions on major national issues, particularly foreign affairs.

WHY THE UAW LEFT

Irving Bluestone, a top official of the United Auto Workers, the second largest union in the country, explained why the UAW broke with the AFL-CIO by saying: "The AFL-CIO in our judgment had become stultified. It was no longer a cause. It was a kind of business." Bluestone also said: "When you talk about the AFL-CIO, the things that you see are static, rigid."

Victor Reuther, brother of the late UAW President Walter Reuther and like him a leader on the union, was most critical of the AFL-CIO's foreign policy positions.

"George Meany has been to the right of every Secretary of State and every President from Foster Dulles and Eisenhower on. And that is very sad.

"I believe in the field of world affairs, the trade union movement ought to be the same forward-looking and progressive influence which it is on domestic policy. But that tragically has not been the case with the AFL-CIO.

"I think there are several reasons for this. One is that foreign affairs has long been treated as very personal prerogative of the AFL-CIO president and his advisor [Jay Lovestone].

"I found, for instance, this particularly pointed at a time when Nixon at long last recognizes there are 800 million Chinese who are in existence on the mainland. This is perhaps the only positive thing I know of that Mr. Nixon's done in recent years in the field of foreign affairs.

"To have the AFL-CIO condemn him for it is appalling to me."

Herbert Hill, labor director of the NAACP, raised another critical area—the problem of union democracy and the strong internal control exercised by Meany.

"Local union autonomy is a phony sacred cow in the AFL-CIO," Hill said. "When they don't want to do something, they invoke the notion of local union autonomy. And you can quote me on this point. But when Meany wants to act, he doesn't know anything about local union autonomy, or autonomy with international unions."

GEORGE MEANY ON YOUTH

Perhaps the most common criticism of union leaders, though concerns their age and attitudes. As in other critical areas, George Meany figures as the largest target. Most of the labor leaders we interviewed praised Meany as vigorous and in touch with—if not actually ahead of—rank and file union members. But Meany does have his union critics. Some are willing to speak publicly.

Victor Gotbaum, who heads the New York operation of Jerry Wurf's union, was talking about this in his office. "Have you seen Meany's Labor Day statement two years ago about American youth?" he asked. "It's a classic." Gotbaum reached into his desk drawer, pulled out a copy of Meany's statement, and began quoting it aloud.

"By what stretch of imagination can you say that a 20-year-old kid knows what is wrong with the world and what should be done about it. . ."

Gotbaum interrupted his reading to say. "It gets worse," and then continued quoting Meany.

"Especially when you see the behavior of the kids. There is more veneral disease among them than there was in my time, and it's going up all the time. There are more of them smoking pot and to say that they have long beards and look dirty and smell dirty, that they are better qualified to run the world than the older generation, that to me is a lot of baloney."

Gotbaum stopped, and gave his own response, "Is he that bad? No. But the extent of animosity, the lack of understanding of what is hitting the kids, is so acute here. How the hell are they going to understand the kid's restlessness? How are they going to understand the feeling that an affluent society doesn't seem to be paying off enough for them in the belt-line process that they inherited? Well, the job isn't that important. You can't do this to them."

The differences between those attitudes of the older union leader and the young workers we described yesterday are immense. The young workers often express strong disagreement with the policies of their international union presidents on everything from Vietnam to politics and progressive social legislation.

Take the question of the war. While George Meany has been stoutly defending American involvement in Vietnam under both Democratic and Republican administrations, the rank and file is by no means solidly behind him.

"I don't believe in giving anything to North Vietnam, South Vietnam or nobody," said Rick Foshla, in Detroit. "I don't believe in being over there in the first place because they ain't done nothing to me. Them South Vietnamese ain't done nothing to me. The North Vietnam, South Vietnam or no—done nothing to me. Leave them people alone. If they want to fight a war, let them fight it."

MEAT-AND-POTATOES REVOLT

Discontent in the ranks poses difficult problems for all labor leaders. It is common to hear leaders complaining that they find it increasingly hard to control their men.

"There is a real generational upsurge among business agents, local union officers," says AFL-CIO research director Nat Goldfinger. "Part of the somewhat wild and weird wage movements in the building trades in the past three or four years is related to this. It's an upsurge of meat-and-potatoes kids who are coming in and upsetting the old leadership and tossing out contracts.

"The emphasis is on now—on 'We want whatever we can get right now'—and no concern for cost or other things like that."

His comment points up two other significant things about union leadership. The unions are far from being static. Even if the young workers are frustrated about taking over the top positions, there are ferment and aggressive action throughout the ranks. It is, of course, a healthy sign of vitality.

But even that raises another dilemma for present top union leaders. Ideologically, there is solid evidence that many young workers do not agree with con-

tinuing pressures for much domestic social legislation of the type for which the unions have fought so long and so hard.

Nothing bothers the old-time unionist more than the belief that today's young worker may not support the liberal causes which the older man regards as perhaps the union's finest achievements—not only for the trade union movement, but for the country.

"There's never been any question in my mind that on something like integrated housing I, for example, didn't reflect the views of a majority of our members," said Doug Fraser, who was narrowly defeated by Leonard Woodcock for the UAW presidency. "I happen to be for busing. I suppose if you took a vote of my constituents I'd probably lose by about 90 per cent on that.

"Then that poses a philosophical question: what is the role of a leader? Is the role of a leader to echo the opinions or the prejudices of his constituents? I don't think so. I think the role of a leader is to lead—and you do it at your own peril. It's like the language of the United States Constitution. You govern with the consent of the governed, and if they are too unhappy with you on too many issues, I suppose they throw you out."

Fraser perhaps touched on a fundamental point about union leadership. For all the criticisms and all the animosities aroused merely by the word "unions," organized labor in America represents a unique force in America, and indeed the world.

Jerry Wurf put it best.

"You've got to understand something fundamental about the American labor movement," he said. "Every labor movement in every free society in our world has a social and economic philosophy. Some of them Socialist. Some of them are Christian Socialist. In many societies there's a competition between Communist unions and socialistic unions.

"In the United States you've got something else. It's obvious and everybody takes it for granted. You have a labor movement that ideologically buys capitalism, that ideologically buys the system. That makes our labor movement different."

Unless you understand that, Wurf added, you cannot possibly understand Meany. In fact, he said, "George Meany is one of the most misunderstood men in America."

Virtually everyone who has been close to Meany makes the same point. In his strengths and weaknesses, Meany personifies the labor movement. Stubborn, proud, vain, at times arrogant, Meany represents an older period in American life. The young people who attack him so bitterly for his anti-Communist stands or his unceasing support for the President—of whatever name or party—in a time of national crisis do him a disservice. George Meany believes in the system, in the flag and in the country.

The forces that shaped him—an all-time successful lobbyist in New York State during a period when he successfully fought a Communist attempt to take over the unions, the threat of fascism in Germany, the necessity to stand behind the Chief Executive on an issue of war and peace—are all present in his outlook today.

Meany can reminisce with touching eloquence about the pride of being a working man, and how that seems to have changed today.

"There's such a thing as a worker's pride in his work," he said in an interview, "which I know quite a bit about. To me as a young fellow this was all-important. This was *really*—well, you almost worshipped the skilled mechanic. I mean, you'd look at an older man as if he were almost God because of his tremendous skill.

"And there was one thing I recall in my younger days—you never wanted to be disgraced. If you were fired for doing shoddy work, you were disgraced. If you got fired for being unable to produce the proper type of installation or do it properly, boy, that was a disgrace!"

"Around the trade, a fellow who got into that situation was dubbed a boot. Nobody ever wanted to be called a boot."

A MEMORABLE TOAST

The same kind of unquestionable conviction comes through when he talks about Vietnam. He was speaking critically about Richard Nixon, when he brought up Vietnam and said: "I think he wants to end the war, I don't think there's any question. I think he wants to end it honorably. I don't think he wants to bug out and run, and as far as I'm concerned he's right."

Those who know him best say one trait characterizes George Meany. He likes a man who is "regular"—in other words, who is dependable. Only if you understand that, his closest associates insist, can you put the historic open break between Meany and President Nixon in perspective. Meany privately believes, these men say, that Mr. Nixon did not treat him "straight."

They say the first of a series of events that affected their relationship came on a Labor Day celebration two years ago when the President invited the heads of organized labor and their wives to the White House. It was supposedly the first time in history that such a Labor Day event had been held in the White House.

In a long toast to the President, spoken in his familiar Bronx accent, Meany reviewed his personal acquaintances with every President since Franklin D. Roosevelt. As he reached the end of his toast, Meany referred to President Nixon in these words: "FDR was just as tricky a politician as anyone who bore the name of Tricky Dick. And let me tell you about Lyndon, who was no slouch as a politician."

He closed by saying: "They all had one thing in common. They wanted to be the best President possible for the American people."

Meany was infuriated to learn that the White House had made a verbatim transcript of his toast that was circulated widely throughout the country. He felt it was an attempt to demean him and a betrayal on the part of the administration.

NIXON'S AFL-CIO APPEARANCE

Over the months, as the economic situation worsened nationally, Meany and the President drew farther apart. One of his aides describes what was happening this way.

"Meany was furious about a number of things. He felt Nixon hadn't leveled with him. He had invited him two months before [to attend the AFL-CIO's convention in Miami Beach last fall] and never heard from him. Then a funky called and wanted an appearance the next day."

That was the famous meeting where Meany appeared to slight the President, and labor leaders firmly believe they had been "set up" to appear bad by the White House.

"Meany was also sore that the wage-price freeze was sprung on him. A [White House] funky called up an hour before Nixon announced the freeze and said, 'You ought to watch the speech on TV.'

Next came word that Federal Judge George Boldt was under consideration to head the Pay Board. "Someone told Meany, 'You don't have to worry. He's not qualified and won't be appointed,'" the Meany aide recalls.

"The next thing you know he was appointed. George was mad."

The final break when Meany lead other union leaders off the Pay Board last month was inevitable. At 78, after a lifetime of battles, George Meany was heading into what could well be the greatest political fight of his life.

But political battles are nothing new in the House of Labor. If anything, the unions are pre-eminent practioners of the art of the politics. Politics is where they all live.

THE UNIONS—IV: POLITICS AND LABOR'S 'MACHINE'

(By Haynes Johnson and Nick Kotz)

The meeting took place, as many of them do, in a private room of the Sheraton Carlton Hotel two blocks from the White House. Present were a senator and his assistants and the principal political operatives of the major unions.

"Al had called the meeting," said one of the union representatives present that day, referring to Alexander E. Barkan, director of the AFL-CIO's Committee on Political Education "And Al said, as he usually does, 'We all know why we're here. Sen. (Lee) Metcalf (D-Mont.) is here and I've pledged the senator \$10,000 to give him in indication of how we feel about his campaign. He knows if we collect more than that we'll try to do better, but we have a lot of other senators, too.

"Senator, will you tell the fellows what committee is set up that can appropriately take money for your campaign?"

Reports of this meeting came from a number of sources, James O'Brien, the political director of the United Steelworkers' Union, with offices in Washington,

was present and confirmed that the meeting was typical of sessions between the unions and political candidates. The AFL-CIO's Committee on Political Education (COPE), of which he is a member, meets regularly to discuss campaign strategy and financing with candidates seeking their support.

In the case of Sen. Metcalf, O'Brien's own union, the Steelworkers, was an important factor because, as O'Brien says, "we are the largest union in the West and Montana." And Metcalf, O'Brien went on, was especially deserving of organized labor's support because "he has championed the cause of the small farmer and of the consumer, and has fought the big utilities. The utility companies will be pouring money from all over the country to try to beat him. He's the kind of senator who requires special help in running against the special interests."

The meeting wasn't just an AFL-CIO private affair. Political representatives of the two largest unions in the country—the Teamsters and the United Auto Workers—also were present, although the unions are not members of the AFL-CIO. When it comes to politics, the big unions usually work together. Also present at the meeting were representatives of rural electric cooperatives, the National Farmer's Union, the National Farmer's Organization and several consumer groups.

After Al Barkan made his initial comments to the group, representatives of the co-ops and farmers' organizations spoke up. They told Metcalf that although they couldn't make a special commitment that day they would do their best to give him maximum support in money and manpower. An REA representative said his group would help pay the cost of polls.

Sen. Metcalf responded.

"I'm grateful to you fellows," O'Brien remembers him as saying. "For a fellow who lives on a Senate salary—and I mean lives on his salary—you can imagine what I have left over to finance a campaign.

"I think I can run a good campaign for \$300,000. There aren't many big contributors. There are no \$100 dinners in Montana; we're lucky if we get \$10 or \$15 a plate. I have some friends. There'll be some five and ten thousand dollar contributors, but most of this is going to have to be raised by your work.

"I've never made any secret about it. They can say Lee Metcalf's campaigns are financed by organized labor, that I'm too close to organized labor. Well I'm as close as I can get and if I can get any closer, or if I start straying away, you guys better come around and tell me. Nobody has to come to my office to tell me what to do on a bill. In fact, I think I've been ahead of you guys on a number of pieces of legislation."

THE BEST POLITICAL OPERATION

The scene described wasn't a page out of the smoke-filled Washington rooms of the past. It is but one of countless examples of how deeply involved the unions are in national politics on a day-to-day basis.

Organized labor does not run the country politically, but it mounts what is probably the single best political operation in the nation. Without the power of union money, manpower and know-how, for instance, the Democratic Party today would come close to being impotent. And in this presidential year, the unions are girding for what many of their key leaders see as their most critical election. The unions this year are determined to do more than they ever have in electing a President.

But as that meeting with Sen. Metcalf shows, labor's political role is not confined to making—or breaking—a President. The unions are intimately involved in politics from the grassroots level on up to congressional races and to helping decide who occupies the White House. To a striking degree, politics permeates the labor union movement. The way to rise in a union itself, whether business agent or local president or international officer, is through elections. Whatever else they might be, the unions thus are the most pre-eminent political institution in America.

There is nothing new about the relationship between the unions and politics, of course. Ever since the early days of the New Deal, organized labor has been keenly aware of the need for political action.

But it has only been in the last decade that the unions have refined and perfected their political activities and put them on a day-to-day professional basis.

Many involved in labor's political operation say the real growth and consolidation of power date from the 1960 presidential campaign. That was the first time the unions raised money on a large scale for voter registration. The late Roy

Reuther, brother of the then United Auto Workers president, was assigned to the campaign to run the registration drive for the Democrats. Today, roughly \$1 million a year is spent on voter registration alone from national COPE money. Present plans call for doubling that sum on a permanent basis.

The COPE money comes from a variety of sources, and is spent in varying ways. The \$1-million-a-year spent on voter registration drives comes from dues paid into the AFL-CIO by union members through their international unions. Union dues legally can be used because voter registration efforts are classified as an "educational" expense.

COPE money that goes directly to candidates comes from "voluntary" contributions solicited from union members by the various internationals. This money is divided 50-50 between national COPE and state and local AFL-CIO campaign organizations. In the 1968 and 1970 election years, unions were urged to collect \$1 per member. This year COPE director Al Barkan has asked unions to seek \$2 contributions from each member. In addition to COPE, the large international unions conduct their own separate campaign fund operations. But none of this activity begin to tell the whole story of labor's contributions to campaigns across the country.

Labor's money, like that of big business, often does not show up in reports to Congress. No one knows exactly how much is spent or to whom it goes. Just on what's on the record alone, it becomes obvious that the AFL-CIO spent nearly \$3 million on politics in the year ending June 30, 1971—a non-presidential year.

Only a few union leaders will speak on the record about their political contributions. One is Victor Gotbaum, head of the New York district of the American Federation of State, County and Municipal Employees, who told us his union was the chief financier of Arthur Goldberg's gubernatorial campaign in 1970. "This union was the biggest contributor," Gotbaum said. "When we go in, we go all out. I think in terms of printing and money, we spent about \$250,000 before it was over."

Asked whether the money for Goldberg was raised through voluntary contributions, Gotbaum replied. "No, this was legal union money. It came right out of the treasury, you know. It's the difference between soft money and hard money. On state campaigns you can use union treasury money. On federal campaigns, you can't."

Although Gotbaum didn't say so, the "soft" money in federal elections is generally understood to involve such things as supplying campaign workers and money charged for "educational endeavors" and union business.

Although labor unions are forbidden for using union dues to finance federal election campaigns, there is no such provision in many states. Union dues, it is also said, are funneled to independent organizations, such as the Americans for Democratic Action, which in turn can make a contribution to a national candidate.

Over the years, the unions have grown more sophisticated politically. Today you can go into a key industrial state like Pennsylvania, sit down with Mike Johnson, vice president of the State AFL-CIO, and get 900,000 names of workers, their wives, their children of voting age and other vital political statistics broken down accurately in terms of Democrats, Republicans, independents—all complete with latest home addresses.

For \$35,000 a month, Vic Gotbaum's union in New York City rents an IBM 2314 computer. In addition to using that computer for union business, another union official there proudly said. "we can use it to canvass the whole city, organize letter writing for candidates, and break the whole thing down into assembly districts."

THE LIMITS OF POWER

The unions are far from the sole or decisive political force in every area of the country, but they do wield immense power in enough major states as to be a critical factor in any presidential election.

"We are," one COPE member in Washington said, "the kingpin of any possible presidential election for a Democrat, and very likely the only cohesive force that can assure relatively progressive majorities in the House and Senate."

That doesn't mean all of labor's efforts automatically pay off in certain votes among those they have supported on Capitol Hill. Listen, for example, to the bitter words voiced by one union operative about a certain senator whose seat labor helped retain in 1970. One of the first matters to come before the Senate in 1971 was the Democratic whip contest between Sen. Robert Byrd (W. Va.) and the labor-backed Sen. Edward M. Kennedy (Mass.).

"I called [the senator] up one day to say, 'Now if Bobby Byrd has a fight with Teddy Kennedy, what are you going to do?' 'I resent your question,' he said. And I said, 'Yeah, you didn't resent questions for the last 18 months, you know'.

"He said, 'I don't know where people get the idea that my victory was in any way dependent on labor. Labor's not that strong.' I said, 'Yeah, they were just stronger than anything else you had going for you, Senator.'

"And he said, 'Well, anyway, if you want to know, I'll vote for Bob Byrd.' A great reward from that son of a bitch."

Neither do the unions reflect only one political view, either at the top or among their rank-and-file members.

The day long since has passed, if indeed it ever existed, when union leaders can impose their political preferences on their members. Union members, like Americans at large, increasingly are exercising independence when they vote. The appeal of George Wallace to many blue-collar workers is the most dramatic manifestation of this attitude.

Along with the strong sense of discontent among working men already described in these articles, we found deep currents of resentment about the way union leaders in Washington are involved in politics. What many workers particularly expressed is a belief they have no say in what union leaders are doing with their money—and that the working man's views are often being ignored.

"Rather than just go out and say we're going to back Muskie, why not ask all the rank-and-file members at meetings?" said Fred DiSisto, a sewage treatment worker in New York City. "Filter it down to the various locals and say we'd like to get a consensus of opinion as to who we should back in this coming election, which is a big one. Instead, they get together themselves. The general executive boards have a pow-wow someplace and come back and say 'We're backing Muskie.' or whoever.

"It just may happen that I go along with it but on the other hand maybe I don't. But I never had a say one way or the other. I didn't get a chance to say, 'O.K., I'm for it—or against it.'

"Let's face it. I'm supporting them with my \$1.75 a week."

At a New York district council meeting after this worker's union already formally had announced support for Sen. Edmund S. Muskie (D-Maine), it became clear that local union officials had not been consulted. A few even protested that their locals hadn't had a chance to meet on it yet.

Out in Detroit. A United Auto Workers' local official himself was expressing much the same thought, and this in a union that probably has a democratic heritage and tradition as any.

"The guys talk about the union being no good," said Fred O'Brien, "that the leadership makes decisions without referring back to the people they represent. O.K. It's like congressmen and senators, the same way. We elect them but they never come back and say, 'What do you think about this thing?' This is the same way with our union leaders, and I think we have good unions.

"The only thing is I feel that when they go to decide who they're going to support as a candidate for president, they should go back to the people they represent. They should find out what those people feel. Give them the choice of a candidate. This is where you determine who your candidate for president is, not [Leonard] Woodcock [UAW president] saying we're going to support Muskie."

THE HIGH-WATER MARKS 1968

Such attitudes clearly make it more difficult for the unions to present a solid political front backed up by the support of their members. But if the unions face problems in that area, as in others, they still retain considerable political power.

The result of the last presidential campaign shows what labor can do when faced with a twin threat of a presidential candidate they cannot support, Richard Nixon, and the serious drift among their own members toward another man they oppose, George Wallace. In the 1968 campaign, labor worked as never before—and came within a eyelash of turning almost certain defeat into victory for Democratic candidate Hubert H. Humphrey.

"After the shambles of the Democratic convention," said George Meany in an interview, "we were all Humphrey had."

While Meany would not elaborate on his personal role in that campaign, another union official who worked closely inside the Democratic presidential ef-

fort said: "At the most in a period of three weeks, Meany and his guys got together after the convention and decided to turn it around. More than any campaign I ever saw, Meany was personally asking executive council members to go out into the field."

In other words, Meany was assigning international union presidents to do grass-roots political chores. The AFL-CIO president also was meeting personally and regularly with Hubert Humphrey about top-level strategy, it is reliably reported. Eventually, the union leaders were able to convince their members that Wallace was not a friend of the working man and that Humphrey merited their support. The persuasion was not accomplished by words alone; it took hard, grueling, intensive work. By election day, 1968, organized labor could tote up these tangible statistics of what they had achieved:

They had registered 4.6 million voters; national COPE has distributed 55 million pieces of literature and another 60 million pieces were passed out through local unions; the unions had established 638 city phone banks with 8,055 phones and 24,611 people manning them. Before election day, the number of union members involved in canvassing potential voters numbered 72,255. On election day itself, the unions turned out 94,457 precinct workers from within their ranks. And those figures are for the AFL-CIO alone; they do not include the political activities of the two largest American unions, the United Auto Workers and the Teamsters, neither of which is a member of the federation.

One figure out of that mass of statistics—the nearly 100,000 union members who turned out to work in precincts on election day—is particularly important. Supposedly, those workers leave their jobs voluntarily without pay for political action. In reality, their presence turns out to be something else.

"We have a provision in our contract that an employee can request a leave for union business," said William O'Brien, Chrysler Corp. vice president in charge of labor relations, who deals with the UAW. "It just happens that on election day there's an awful lot of leave for union business. It was appreciable numbers of people."

Perhaps even more than money, manpower is the ingredient that makes labor's political endeavors so formidable. No other group in society can put so many people into a political campaign. Probably no one ever did more than labor in 1968.

Even if Nixon was narrowly elected, he became the first President since 1948 to enter the White House without control of either house of the Congress. Unquestionably, organized labor helped turn the balance.

Small wonder that key union political directors refer to that election as their finest effort. "The best single thing the American trade union movement ever did was 1968," one of them said. "That was the epitome; that was the summit. That was the maximum money, maximum manpower, maximum everything. From everything I can put together, it cost about \$5 million real dollars."

This year, the unions are talking about doubling their financial efforts. They already have begun the presidential year far ahead of the pace set in any previous election.

The unions' political strategy this year differs from the past. One of labor's political weaknesses before was that it had only 4 per cent of the delegates to the last Democratic convention. To remedy that, the unions have been concentrating on getting additional delegate strength through state presidential primaries.

The strategy was for labor to have a large, uncommitted block of delegates, or, where not possible for labor to get delegate by backing likely winner in state contests.

Labor wants to be in a position to exercise maximum influence not only in determining who will run against Nixon but also on platform positions, composition of the credentials committee—and, as one person said, "everything else."

Part of labor's intense attention to the convention this year stems from a new political factor: the party reforms instituted to make the delegate selection more democratic and representative of society at large.

Politically, organized labor is establishment oriented. At the top, Meany sets the tone and Meany has been a staunch advocate of the status quo on such critical questions as the war in Vietnam and relations with Communist nations. Political reform and sudden change are anathema to the unions. They want no part of a Democratic convention dominated by what Al Barkan, the national COPE director, privately and disparagingly regards as kids, kooks, Communists and other far-out "kinky" left liberals.

THE INFLUENCE OF AL BARKAN

Barkan is a central figure in the trade union movement. As Meany's right-hand man on politics, he is the chief strategist for the political approach the unions take. He exerts great influence and power.

Barkan, a controversial, blunt and bluff former high school teacher, a loyalist in politics, is credited with doing more than any other person to perfect organized labor's political machinery from the 1960 campaign to the present. "Al's mind lacks sweep and its lacks breadth," a close associate says. "But it doesn't lack a certain amount of commitment to some very fine ideals, and his underlying philosophical premises are very good. Al has this great vision in some areas and this tremendous myopia in others. On some things he's grown tremendously, and some things he's stood still. He's been standing still on that terrible war."

Barkan, by the way, is the only union figure, from the highest international officer to the man on the job, who refused to be interviewed—on or off the record—during research for these articles. And it is Barkan, operating with Meany's personal approval, who is the chief architect of labor's 1972 campaign strategy. Already, the solid, uncommitted-to-any candidate stand that Barkan seeks has been broken from within labor's top echelon.

Privately, the union leaders have their own personal preferences: Meany is said to be for Sen. Henry (Scoop) Jackson (D-Wash.), I. W. Abel of the Steelworkers and others are for Humphrey. But publicly they are all "neutral."

A BREAK IN THE RANKS

The first big break in labor's ranks came earlier this year from Jerry Wurf, president of the American Federation of State, County and Municipal Employees. Ideologically, this union represents significantly different approaches to both national problems and trade union action, from many old-line craft unions. Wurf came out for Muskie at a time when he was the Democratic frontrunner.

How Wurf's decision was reached and implemented provides a footnote to the making of the President in 1972. It also shows how union leaders operate personally at the highest political levels. Wurf had concluded that only Muskie had the best chance to defeat President Nixon this year. He was disturbed by growing Humphrey sentiment inside the union movement.

When word leaked out early in January, as it inevitably does, of Wurf's impending endorsement, a number of political developments were set in motion. First, Wurf paid a personal visit to another Democratic contender, Sen. George McGovern of South Dakota.

Wurf went to McGovern's home in Northwest Washington and told him of his decision. He had the difficult role of telling a leading politician he thought he couldn't win.

In the meantime, Humphrey personally tried to convince Wurf not to come out for Muskie. The Democratic presidential candidate of four years ago sent Wurf a letter and a telegram urgently asking him not to make the move. He asked for a personal meeting.

On the night of Monday, Jan. 17, Wurf flew from Washington to Columbus, Ohio, to see Humphrey alone in a hotel room. The two men talked until well after midnight, Wurf praising Humphrey for all he had done in the past, Humphrey saying he was the working man's best friend and the best candidate. "I've given service," Humphrey is reported to have told him. "What kind of service has your union ever got from Ed Muskie?"

Two days later, nonetheless, Wurf appeared at a Washington news conference wearing a Muskie-for-President button. With Muskie at his side, he announced his support of the Maine senator.

The incident was another indication of how vital the unions think it is for the Democrats to regain control of the White House. But their political influence and power does not rest solely with the chief executive. The unions also have their friends in high places on Capitol Hill and in the executive branch.

THE UNIONS—V: PRESIDENTS COME AND GO, BUT LABOR'S MIGHT STAYS

(By Haynes Johnson and Nick Kotz)

From his paneled office on the top floor of AFL-CIO headquarters George Meany can swing around in his swivel chair to look out across Lafayette Park

and down on the White House. Some labor officials say irreverently that Meany not only can look but walk, from his building through a mythical tunnel under the park and into the President's Oval Office.

Whether underground or across the table, the connection is real.

AFL-CIO President Meany and organized labor exercise widespread power in Washington, regardless of who is President of the United States. Labor's influence within the federal government is the ultimate payoff for tireless years of organizing workers, financing and staffing political campaigns and building its own sophisticated Washington apparatus. Take, for example, the freeing of Jimmy Hoffa.

One episode in the story of how former Teamsters Union President James R. Hoffa received a presidential commutation of his prison sentence began late last year when Leonard Woodcock, president of the United Auto Workers Union, paid a quiet visit to the White House.

At the time, organized labor was loudly denouncing President Nixon's economic controls. But Woodcock came on a different mission. He urged that the President free Hoffa, who was in Lewisburg, Pa., federal penitentiary on charges of union pension fund fraud and jury rigging.

Meeting privately with presidential adviser George Shultz, Woodcock found that the White House wanted ironclad assurances that Meany and other top labor leaders would praise such a presidential action—or at the very least, would not publicly criticize it. Woodcock obtained the requested pledges. Hoffa soon was a free man.

Woodcock's intervention was not the only one from a high union official. Teamsters President Frank E. Fitzsimmons has told other union leaders that he personally talked to President Nixon on Hoffa's behalf.

These are examples of how organized labor wields influence with its friends, and even with its sometime enemies in the highest seats of power. No other segment of American life brings its organized collective power to bear on so many aspects of government—in the White House, on Capitol Hill and in the executive agencies.

Labor has a permanent power base in the executive branch. The U.S. Department of Labor serves unions much as Commerce services businessmen and Agriculture tends to farmers.

But the heart of labor's power, especially during Republican administrations, is on Capitol Hill, where a disciplined corps of labor lobbyists daily attempts to persuade the Congress. Their effort is by all accounts the best single lobbying operation in Washington.

Labor is not only competent and powerful. It is feared. We found that some of the most respected members of the Senate were unwilling to talk "on the record" about how they candidly view the House of Labor. Even in the privacy of their offices, with assurances that their identities would remain confidential, these senators became nervous at the tape recording of their views. The reluctant senators are all considered "reform liberals" and friends of organized labor.

Labor's lobbying operation is directed by a stocky, rumpled-looking, bespectacled man who is probably Washington's single most influential lobbyist. Andrew J. Biemiller is respected by friend and foe alike as a superb legislative craftsman. Attesting to his influence, one liberal senator says: "When Andy comes lumbering up here, you know they are really serious."

Biemiller's credentials as AFL-CIO director of legislation include varied careers as Congressman, state legislator, labor organizer, labor lobbyist at the state and local level and college professor. His personal power is based on an intimate allegiance to George Meany, who appointed him 20 years ago as his chief emissary to Congress.

Biemiller boasts that he knows everyone worth knowing in Washington, including old and warm friendships with Lyndon Baines Johnson, Senate Minority Leader Hugh Scott (R-Pa.), and Sen. Margaret Chase Smith (R-Me.).

The AFL-CIO lobbying process begins with a weekly strategy meeting in Biemiller's conference room. At 10 a.m. each Monday morning, he meets with six AFL-CIO staff lobbyists and 5 to 10 others from major international unions. Each reports on the status of legislation he is watching. Assignments are made for the corraling of votes, with each lobbyist concentrating on congressmen with whom he has particular personal rapport.

Many of these lobbying efforts never receive public attention. For example, labor has amended virtually every new federal assistance program to require that work be performed at union-scale wages. In some cases, the labor lobby has

suffered crushing public defeats, as in its failure to ban state right-to-work laws. But it has also scored spectacular victories, including its role in defeating two Supreme Court nominations.

The defeat of two Nixon nominees to the court provides case studies of how labor seeks to take charge of vital issues affecting not only the present but the future for every American citizen.

Biemiller takes credit for launching and directing the fight to defeat the nomination of Judge Clement Haynsworth to the Supreme Court. Many liberals opposed Haynsworth primarily because of his civil rights record. But labor was just as concerned, explains Biemiller, "that he had all kinds of bad verdicts on labor issues." Haynsworth's "anti-labor" rulings involved the bitter battles to unionize Southern textile mills.

Furthermore, AFL-CIO counsel Tom Harris already knew about Haynsworth's part ownership of a vending machine company that enjoyed business with these mills. Thus labor could quickly develop the conflict-of-interest charges which eventually brought down the nominee.

"Early in the game we enlisted Birch Bayh (D-Ind.) who became the key guy," Biemiller recalls. "I went to Birch with the thing because, in looking over the Democratic side of the Senate Judiciary Committee, I felt that Phil Hart (D-Mich.) had been too closely identified with defending Abe Fortas. And as far as Ted Kennedy was concerned, it was awfully close to Chappaquiddick.

"So then Birch became the logical person if we could persuade him. Well, we dug up enough material so that Birch agreed to do it.

"Another important thing in the Haynsworth fight was getting senators to lobby other senators. In one case, we persuaded Senator X to lobby Senator Y and Senator Y in turn persuaded Senator Z. Now, when you get that kind of thing, you've really got your lobby going."

Influencing national government policy is really the central activity of the AFL-CIO. The federation's distinct role is often confused with the roles of individual international unions. The 130 unions, which voluntarily join together to comprise the labor federation, concentrate mainly on collective bargaining, organizing workers, and protecting their jurisdictions from rival unions.

But for the Washington-based federation, the name of the game is politics—and its payoff in tangible legislation and executive policy. Prior to the formation of the AFL-CIO in 1955, its predecessors had not developed the sophisticated lobbying resources of today. "The old AFL did practically nothing," says AFL-CIO Research Director Nat Goldfinger, adding that "The federation's present comprehensive, day-by-day attention to national policy" has developed over the last 10 years. Of the AFL-CIO's 1971 budget, \$2.5 million was spent on politics, lobbying and related research.

Just how powerful is labor? Does it run the country?

The extent of labor's power to influence legislation and the sources of that power are issues about which there is strong disagreement. Business groups tend to overstate the actual power of their labor opponents, at the same time conveniently ignoring their own considerable influence—superior to labor's in such a vital area as federal tax policy. And labor's own sense of self-importance and price of accomplishment may color its assessment. Listen to George Meany:

"We go far beyond the questions of wages and hours. We're into everything. You could not have passed the civil rights bills of the 1960s without us. You could not have passed the tremendously important education bills—Lyndon Johnson's so-called program. He'd be the first to admit that if he didn't have labor over there, he wouldn't have passed it."

President Johnson did indeed publicly praise labor's legislative efforts for doing "more good for more people than any other group in America."

Beyond question, labor lobbying helped win crucially needed moderate and conservative votes for major social legislation, including a multitude of laws in the mid-1960s. "When you have a tough fight on any issue like day care or legal services," says Sen. Walter Mondale (D-Minn.), "it's nice to say your bill has the support of the AFL-CIO. That support wraps the bill in a warm blanket of respectability."

But the legislative prowess attributed to labor in the 1960s was also the product of a unique blend of a liberal Congress, closely coordinated White House-labor alliance, and a coalition effort among labor, civil rights, education, religious and civic groups.

"We were in agreement with the White House on almost every piece of legislation," Biemiller recalls. "At least once a week I would compare notes

with Larry O'Brien, when he was in charge of congressional relations, and then with Barefoot Sanders, who succeeded him. And of course the phones were always busy. Occasionally, we would sit in on the White House legislative meetings and vote-counting operations. It was amazing how often we had information they did not have."

During the five years of his Presidency, Lyndon Johnson has said, he conferred personally with Meany 49 times, and on the telephone 82 times.

Since Richard Nixon became President, however, joint labor-White House efforts have been limited to a few issues: support of the Vietnam war, the SST, the Lockheed loan and the administration's version of welfare reform. None has been marked by great success.

Aside from having allies and friends in the White House, Biemiller would ascribe labor's day-to-day lobbying successes to meticulous hard work blended with a touch of political influence. "We can't direct our members how to vote," he says. "My God, that's nonsense."

Yet Biemiller readily acknowledges the effectiveness of combining his groups' lobbying skill with the political clout of Alexander Barkan, the AFL-CIO political director. For example, Biemiller called on Barkan to contact vitally needed senators for their votes during labor's drive to defeat the Haynsworth and Carswell nominations.

And Biemiller concedes that he occasionally pleads the political merits of a congressman who has been helpful to him on legislation. As he explains it: "I may go over to Al Barkan from time to time and say, 'Look. Why don't you lay off that guy's district. That guy isn't so bad. Why the hell do you waste the money? You can't beat him anyway!'"

Numerous legislative experts stress that labor's victories in Congress depend considerably on its joining in coalition efforts with liberal groups. The so called "liberal-labor" coalition functions most often through the Leadership Conference on Civil Rights, which is composed of 125 labor, religious, civic, and civil rights organizations.

"Labor has power when it joins together in coalitions," says Ken Young, Biemiller's chief deputy and a respected lobbyist, on civil rights and social legislation. "Labor has more power than anyone else in the coalition and I think we are very effective. But labor standing alone does not have that much power. Labor alone damn well can't pick up those 30 or so Republicans it takes to win a major social issue in the House."

Another assessment of labor's legislative power can be made from its almost total failure to win legislation on strictly labor issues. "We can't get situs picketing legislation through Congress," says Sheet Metal Workers President Edward Carlough.

Carlough's frustrations typify a growing debate within organized labor about where it should direct its legislative energies. Some leaders, particularly from the building trades, want the federation to concentrate more on strictly trade-union issues. Other leaders, notably from the United Auto Workers (which is not an AFL-CIO member) and the government employee unions, stress that labor must recharge its social idealism or risk being isolated as an unpopular, selfish special interest.

This disagreement between the older craft unions and the more socially conscious industrial unions is not a new one. What is new is that today's workers are increasingly disenchanted about legislative policies on which they have not been consulted and with which they often strongly disagree.

Today's worker was not part of the union-building, crusading depression era. He may differ sharply with labor's legislative policies, particularly on welfare and civil rights. He may want to support George Wallace with his "voluntary" union funds, not Edmund Muskie or Hubert Humphrey. He may want a militant protectionist trade policy to protect his job from foreign competition.

Young workers resent the emphasis on Social Security and pensions. Many workers feel their leaders are even out of touch on what they consider the new "bread and butter" issues.

Take work safety, for example. At the mention of the safety issue, Detroit auto worker Fred O'Brien angrily pulled off his shirt to show us his scars from welding-spark burns. He doesn't think either the company or the union is responsive enough to conditions in the workplace.

Some labor leaders we interviewed seemed blissfully unaware of discontent among members. Several scorned the thought of taking polls to find out how their members felt on legislative issues. "We took a poll once," said one labor lobbyist,

"and it showed what we expected. Our members disagreed with us in civil rights." Another lobbyist put it critically: "The leadership goes out of its way not to consult the members, figuring it will just complicate things."

Other leaders, however, are agonizing about how to bridge the gap to their membership; about how to supply leadership and to reconcile their own liberal idealism with the discontents of the troubled working man.

"It's just great for a bunch of us liberal lobbyists to sit around talking about how we are going to handle the busing issue," says AFL-CIO lobbyist Ken Young. "It's lovely for us to sit back and say, 'Those guys don't understand.' But I think that's absolutely wrong.

"I'm not convinced that our members are bigots or a damn bit different than anyone else. But I'm also sure that the Detroit worker who has finally gotten out of the city damn well doesn't want his kids bused back in. He's scared to death of violence. He knows he now has better schools. And I think he has a case to say who the hell are we to tell him he has to send his kids back in there."

Yet Young, a dedicated civil rights advocate, is also convinced "that as long as the suburbs can do what they want with total impunity, as long as the tax money is outside the city, we are going to have a worsening problem for the minority kids and for the country, and no way to solve it."

"So I sort of rationalize," says Young, "believing we have to provide leadership. Busing itself is not the answer, but we shouldn't deny federal aid to communities which are voluntarily trying to solve their problems and to comply with the courts. We've got a problem and we have to keep working on it."

The liberal community and labor face another dilemma. There are growing signs of tension and a rending apart on both sides of the "liberal-labor" coalition. Civil rights leaders complain that labor dominates the Leadership Conference and arrogantly refuses to cooperate unless it gets its own way. Labor finds the liberal organizations unrealistic, too radical and ungrateful for labor's past help.

A few examples illustrate the complaints of liberals about their labor allies:

- The AFL-CIO supported the recent effort to strengthen the Equal Employment Opportunity Commission, but only in return for the Leadership Conference's agreement that enforcement powers should be transferred from the more effective Justice and Labor Departments to the understaffed, overworked and relatively impotent EEOC.

- The AFL-CIO blocked the Leadership Conference from supporting a more generous welfare reform bill. At a meeting on this issue, Biemiller acknowledges that he paralyzed the coalition effort with a negative shake of his head and the words, "We can't go along with that."

- The AFL-CIO sought through its beholden allies in the Leadership Conference to discourage a U.S. Civil Rights Commission study of racism in the unions.

"I know some of the red-hots get mad at me," commented Biemiller, "but they forget that the Leadership Conference doesn't move without a consensus. The other side of the coin is—who really operates on the Hill besides us? We do the work."

Tensions in the "liberal-labor" alliance are not confined to disagreements over civil rights and social welfare. The major issue dividing and embittering old allies has been the Vietnam war, which has produced a violent mutual antagonism between George Meany's hawks and liberal doves.

Another source of conflict involves clashes between the AFL-CIO's perception of special labor interests and other leaders' ideas about meeting the broader problems of a troubled society. For example, the UAW supported and AFL-CIO opposed legislation to encourage industrialized housing to meet the nation's housing needs. The UAW supports and AFL-CIO opposes legislation to insure all worker pension funds. The building trades believe such insurance would be needlessly expensive to meet their special needs.

With criticism mounting from local leaders and the rank-and-file, the AFL-CIO is starting to give more attention to issues with worker appeal. Its three primary legislative objectives this year are: trade legislation to protect American jobs, national health insurance, and a plan to finance social security partly from the Treasury rather than taking a bigger bite from worker's paychecks.

Labor also feels that it faces a crisis in defending the working man's interests in the new era of government economic controls. Economic policy is a legislative area in which labor has been weak, particularly in the House Ways and Means and Senate Finance Committees, which decide tax policies and therefore exercise considerable control over how American wealth is distributed.

The AFL-CIO believes that the economic policies of President Nixon and Congress are shifting the tax burden from investors and property owners toward the working man. Labor has unsuccessfully argued that more citizens would benefit if the economy was stimulated by increased investment in needed public services, rather than by giving tax concessions to big business.

In the recent legislative battle over President Nixon's economic control policies, both labor and business claim that the other side won.

One fact is clear: Labor seeks more power and big business is mounting a campaign to stop it.

THE UNIONS—VI: BUSINESS TAKES AIM AT LABOR'S POWER

(By Haynes Johnson and Nick Kotz)

Early last December, some 35 businessmen, chairmen of the board or presidents of a cross-section of America's largest corporations, accompanied by about 50 of their vice presidents for industrial relations, attended a private dinner meeting in New York City. They had assembled as members of something called the Labor Law Study Group.

"The fact that those kinds of people came to a meeting like that from across the country is an indication of the interest of the guys who pay the bills," said a business lobbyist on Capitol Hill.

His point was that the cream of big business—big oil, big steel, big auto—had gathered privately in an unusual show of unanimity about a subject that concerns them all. They were meeting at the Union League Club to discuss further steps to curb what they regard as abuses of union power.

For the last six years, the Labor Law Study Group, comprised of more than 50 companies representing a broad cross-section of private industry and backed up by approximately 40 trade associations including the National Association of Manufacturers and the U.S. Chamber of Commerce, has been operating quietly behind the scenes. The goal, as one of the members describes it, is to "restore the balance to the collective bargaining process and the conduct of labor relations."

To businessmen, the excesses of union power have been mounting for 5 years. If the balance of power once was weighted in favor of business, the businessman now thinks unions have excessive power both through government and through the collective bargaining arena.

Businessmen say federal law has granted unions special privileges and immunities, such as protection of union-scale wages, unlimited protection from the antitrust laws, and permission to use certain union funds in political campaigns. Another complaint is that federal agencies such as the National Labor Relations Board and the Labor Department have favored unions with partisan administration of labor laws. [The unions, however, claim the NLRB is biased against them during Republican administrations.]

Businessmen list a number of complaints which they say are inimical to the public interest, as well as to business. These include:

Strikes, in which the public is virtually held captive by the power of unions to cripple vital industries and services.

Restrictive work practices that make American industry inefficient.

Resistance to automation that would increase efficiency.

Exorbitant salary demands that far exceed gains in productivity.

Restrictions on the job market, which hurt minority workers and deny management in such industries as construction the manpower they need to function efficiently.

To combat this, their behind-the-scenes work has led them into many fields. They have been instrumental in introducing 24 "labor law reform" bills now pending before Congress. They have met privately with senators and congressmen, Cabinet officers and key White House officials. They have commissioned a series of lengthy polls dealing with public attitudes toward unions, and especially focusing on how rank-and-file union members themselves feel.

Their latest poll, for instance, concludes that there is a growing national feeling that strikes and labor problems have seriously hurt the country and that criticism of union leadership is rising.

FEW TANGIBLE RESULTS

Over the years, their goals have broadened. They are now more involved in the lobbying process, in influencing presidential appointments, in legal cases, going as high as the Supreme Court and in the entire wage-stabilization issue. And today, as they read the public opinion surveys about the unions, some of these big businessmen think they have the greatest chance to cut down union power since passage of the Taft-Hartley bill 25 years ago. Internally, some members of the group want to proceed vigorously to capitalize on these conditions.

Yet for all their collective power and all their efforts the businessmen have little to show in the way of tangible results. Neither are their immediate prospects promising. Part of the reason, as will be seen, lies within business itself.

"The simple fact is that if this entire package of bills now before Congress were passed overnight, it would simply improve some of our running rules of the game," says Virgil Day, a vice president of General Electric and until recently a business member of President Nixon's Pay Board. "It would not get us to where we need to be."

The labor reform bills Day referred to would do such things as assure employees freedom of choice on whether or not to join a union, tighten secret ballot rules, require an employee strike vote, and grant protection of employees against union fines. They also cover such issues as boycotts, picketing, jurisdictional disputes and the arbitration of disputes.

Day, a key business figure involved in union questions, was one of the original members of the Labor Law Study Group. He says the group first grew out of a casual luncheon with two other businessmen in New York, Fred Atkinson of R. H. Macy & Co. and Doug Soutar of American Smelting & Refining Co. Atkinson now is a principal figure in the group's work. Day describes how they first organized this way:

"The inception was actually a kind of defensive false alarm that came about a number of years ago. Our union friends were about to push through some changes in the basic law on the theory that the NLRB was too favorable to management. So the alarm bell rang. This particular fire was not too difficult to put out.

"But some of us were sitting around wondering why we even had this problem, and it occurred to us that it might be useful to see if it wouldn't be possible to reverse the process of always waiting until we had to meet some union pressure. So we decided it would be worth a try.

"We tapped the three leading labor lawyers in the country [Guy Farmer, former NLRB chairman under President Eisenhower, now in private practice in Washington; Gerard Reilly, also formerly on the NLRB and now a federal judge in Washington, and Theodore Iserman, a Wall Street lawyer] and turned them loose and told them we wanted to have an analysis of the labor problem from the standpoint of potential legislative remedies.

"We had just several ground rules. No. 1, no antitrust approach. No. 2, no baying at the moon in terms of unrealistic, theoretical conclusions. And No. 3, we wanted to have something that was completely researched and could withstand any hostile or friendly scrutiny."

The lawyers came up with an extensive study proposing specific amendments to the Labor-Management Relations Act. After their findings were circulated and approved by a committee consisting of some 150 other leading specialists in labor law around the country, the work was debated internally throughout the business community.

Out of that came the formation of the Labor Law Study Group, now headed by a steering committee composed of high officers of the following 16 companies: American Smelting & Refining Co.; American Telephone & Telegraph Co.; Bethlehem Steel Corp.; Columbia Gas System, Inc.; First National City Bank; Ford Motor Co.; General Dynamics Corp.; General Electric; B.F. Goodrich Co.; Humble Oil & Refining Co.; R. H. Macy & Co., Inc.; 3M Co.; Olin Corp.; Sears Roebuck & Co.; Union Carbide and United States Steel.

Among the other 40 firms in the group are such corporate giants as the Aluminum Co. of America, Chase Manhattan Bank, Chrysler Corp., DuPont, General Motors, International Harvester, Shell Oil and Youngstown Sheet & Tube Co.

Privately the group succeeded, as one of them said, in "stirring up the business community about union abuses in a way that hasn't happened before." Publicly, they got nowhere. Indeed, the general public knows virtually nothing of their efforts.

When Richard Nixon was elected President, some of the businessmen thought their quiet campaign would be crowned with success. They were naive, and wrong. One man active in the group tells of a meeting with Arthur Burns, then the President's chief economics adviser. It followed similar sessions with such key White House aides as John Ehrlichman and Bryce Harlow.

After the group had outlined its program and made an appeal for assistance, this participant recalls, Burns looked down his glasses and said, "I can't do this. There aren't any heroes in this administration on this subject."

But their real problem involves much more than lack of powerful political pledges. After talking with a number of these corporation executives, we came away with several strong impressions.

Although they may grouse among themselves about union abuses, they are extremely reluctant to take their case to the public. They talk, essentially, to each other. Businessmen still seem to favor operating behind the scenes. It is impossible to say whether this stems from the old pattern of exerting influence or from business fears of a public impression of big corporate power and exploitation.

Businessmen say the antitrust laws and the appearance of collusion prevent them from organizing effectively on a united front, but that is only part of their problem. The companies operate in their own self-interest—and those interests often collide.

"If you're in the rubber industry, you're not going to get too all fired up about some pollution legislation that's going to affect the copper industry," a business lobbyist said. "Industry lobbies with a real rifle shot to protect their own individual interests once every couple of years, but the unions do it once a week. They're realists. They understand what they're doing."

Malcolm Denise, vice president of labor relations for Ford, gave another example of why business is unable to compete with labor in a general lobbying operation.

"The fundamental answer," he said, "is that organized labor is organized in a sense to react to one aspect of business activities—the labor input. But businesses are not organized per se to do battle with labor, they're not organized per se to hire people but to serve customers and to make a profit. Much of their success depends on not how well they battle labor but serve the public. Business is not class-oriented—an employer association versus a union association. The concept of us being a class against a class doesn't exist."

"The practical problems of a Macy's, a Union Carbide, and a Ford are so different that you can't say there is one unified answer that will help all of us. For example, local bargaining would work for some but not for others."

"Without discounting the value of public sympathy, public victories are not what we are after. Unions are striving as political institutions. Union officials don't get elected unless they produce. Business has a different constituency—the consumer and what he buys. We can't go on a big crusade against the unions. We are going to have to live with them after this fight is over."

An executive of one of America's most powerful corporations, one that is also a member of the Labor Law Study Group, described the basic dilemma in more personal terms.

"I'm a practitioner in this business," he said. "My job is to represent the corporation with the unions that represent our people. We don't need any assistance in developing an area of conflict with them. They are already there. This is an adversary life in which I live."

"So to antagonize these people by getting into a public debate about what should be done to the unions is not in my interest. It doesn't help me in carrying out my responsibility with the corporate."

"I don't think there is any question that the unions are too damn powerful. We have all the evidence that we could possibly need. But I'm not going, on or off the record, to express my feelings on the specific proposals [of the Labor Law Study Group]."

WEAKNESS IN TWO AREAS

He also said this:

"I don't think, and they would be unhappy if they heard it, that they are too damn realistic in their optimism today. They seem to think that the environment today is the greatest from their viewpoint since Taft-Hartley. I'm not one, and this is off the record, who shares this view. I think that, yes, the climate is better from the standpoint of labor law reform than it was a few years ago, but I don't think it's any climate in which they can expect to be successful in the terms and to the extent they visualize they can."

This much is clear: business at this point does not operate with anything like the effectiveness of the unions in two critical areas—political action and political legislative lobbying.

Andrew J. Biemiller, the AFL-CIO's chief lobbyist on Capitol Hill, summed up the situation as many see it:

"As far as the Hill is concerned, I suppose the business people think they are making some headway with their right-to-work operation. And they're now filing a case trying to take away our tax exemption. Tom Harris [AFL-CIO counsel] is so busy on that I can hardly get him to think about anything else these days. It's evidently serious enough that he's damned worried about it.

"But business has never been very successful on the Hill in curbing us. Now there have been attempts in the past to pass compulsory arbitration legislation, but big business doesn't want compulsory arbitration any more than we do.

"It's an interesting phenomenon. I think the situation on labor legislation is about a draw at the moment. Nobody can win."

The unions exert powerful, if not decisive, influence on the congressional labor and the general opposition of each to compulsory arbitration, go to the heart of a more serious question. Who represents the public interest?

A case can be made that both big unions and big business represent special interests.

The unions exert powerful, if not decisive, influence on the congressional labor committees. Big business does the same on the committees dealing with the basic tax structure.

Critics of unions have been arguing that organized labor really hasn't tried to alter the distribution of wealth between capital and labor. It tries instead to get more of the pie for its members. No one, it is argued, truly represents the citizen consumer on those key committees.

ISSUE OF COMPULSORY ARBITRATION

Compulsory arbitration is another issue in which the public interest can come into conflict with big business and big labor's position.

Virgil Day, for instance, recalls there was "a very strong difference of opinion within the business community" on what to do about emergency disputes at the time the Labor Law Study Group was formed.

"Almost all the business community other than the transportation industry, which now includes the airlines and trucking as well as the railroads and shipping, were very strongly opposed to compulsory arbitration in any manner, shape or form," he says.

"The transportation people were very, very strongly of the theory that they were powerless—the airlines are the latest ones who feel this way—and they would say, 'We're just helpless, they have a shotgun at us, we have no effective economic response and some of us believe compulsory arbitration is a way out.'"

But the rest of big business did not agree. Compulsory arbitration was not adopted as one of the labor reform group's basic goals.

That isn't the only area where the individual citizen's desires may run into conflict with those of business and organized labor. We already have described, for example, the intense frustrations and job dissatisfactions expressed by many workers, particularly those in mass-production factory jobs. Our impression is that management either is not entirely aware of these feelings, doesn't believe they exist or doesn't want to acknowledge them publicly.

THE AFFLUENT WORKER

Take the picture painted by one businessman of a factory worker who makes about \$10,000 a year. George B. Morris, Jr., director of labor relations for General Motors, told why he would characterize the auto worker he employs as an affluent American.

"I'll tell you why. Because he lives in Flint, or one of the communities around Flint, he's got a hell of a nice home, two-car garage. He has two cars.

"He's got a trailer that he hooks on the back of one of those and he hauls his boat up north and he's got a hell of a big outboard motor on the back of that and does that on the weekend in the summer. And he probably has a summer place up north, too, on one of the fine lakes in northern Michigan.

"In the wintertime, he puts a couple of snowmobiles on that trailer and hauls them up there. He leaves Friday night while you and I work.

"I guess I'm not affluent by my definitions here. But this fellow has everything you could aspire to. You come to our plants and look in our parking lots on Friday and see how many of them—even second shift people—will be there with trailers and their campers and have them all loaded."

Morris was asked if he thought his employees were able to live that way on \$10,000 a year. "You're damn right I do," he said sharply, adding:

"Do you think all the people that are driving up I-75 are corporation presidents and bankers and stock brokers and lawyers? The hell they are. They're hourly rated people that work in these plants. What more do you want? If affluence is too strong a word, this is certainly not a pauper society we're talking about. This is a fellow that has aspired to material things and has them."

That may all have been true several years ago when wages were rising, overtime work booming and the inflationary spiral had not cut so severely into the pay check. But without exception, the only workers we found able to afford the boat, the camper, the country place or what ever else had a wife who worked fulltime, and often he himself took on another job. They are not living the soft life.

Just as we found union leaders in the rarefied air of Washington or Miami Beach often not seeming to know how their rank-and-file members think about many things, so we found business apparently unaware of new currents flowing through the work force, particularly affecting the young factory employee.

If our reporting of the anger, the rising use of drugs and even the willingness to sabotage equipment on the assembly line is in any way an accurate reflection of young workers, it leads to a serious conclusion. It could well be that business—and American society—face a greater crisis involving dissatisfaction of work than merely worrying about the power of labor unions across the bargaining table and in the halls of Congress.

THE UNIONS—VII: BUILDING TRADES: FUELING INFLATION

(By Haynes Johnson and Nick Kotz)

"We built this nation," said one building trades official. And indeed the history of construction in America is distinguished by the fierce pride of skilled craftsmen, the rugged daring of rags-to-riches contractors and the solid structural accomplishments of 200 years.

Now, however, the construction industry is suffering. It is beset by grave internal illnesses that threaten to poison the entire economy.

"We may have killed the goose that laid the golden egg," admits Martin Ward, president of the Plumbing and Pipefitting Union, one of the 17 unions in the building trades.

For construction today is crippled by antiquated building codes, bloated by labor union featherbedding, ripped apart by violent union and nonunion struggles or disputes over job jurisdictions, constricted by union hiring hall monopolies and caught in a pervasive, inflationary web of greed.

These are stark assessments. But they come from labor union leaders, building contractors and captains of the biggest industries—men who admit contributing to the problems themselves.

Labor leaders, contractors and corporate executives now all say that the magic bubble has burst, exposing an inflationary inefficient industry.

Listen to the insiders:

Robert Georgine, secretary-treasurer of the AFL-CIO building trades department: "We've got a serious problem of featherbedding, where two guys are assigned to a piece of equipment that only needs one. We have 'nail keg' jobs where a guy just sits on a nail keg and watches the work. We have 'bull stewards' who do nothing but walk around."

Joseph Valdastrì, business agent for Local 223 of the Sheet Metal Workers Union: "The biggest problem in the building trades today is unions fighting each other in jurisdictional disputes. The carpenters, for instance, take the attitude that Jesus Christ was a carpenter and that they were here first, so the rest of you guys stand in line."

"Contractors must share the blame," say the executive director of a Miami, Fla., contractors association. "As long as the contractor was making a buck, everything was fine. He just passed along the extra labor costs and made even more money himself in the process."

Virgil Day, vice president of General Electric Corp. and until recently a business member of President Nixon's Pay Board: "The corporate construction users are part of the problem. A corporation executive is told to get his new plant on line by some impossible date. So if there is a strike, he says: "Hell, don't fight it. I've got to have my building. I've got to have my overtime. I've got to have anything it takes to get that building up.'"

And finally there is the affluent consumer who wants his new recreation room built this month, not next month, and the wealthy couple who want to move into their Florida condominium apartment this winter, not next winter. They also help drive up construction costs.

RESENTMENT AMONG THE PUBLIC

The construction industry has stirred resentment in the rest of society among consumers who can't afford housing or a repairman, workers envious of the far higher wages paid construction tradesmen, and other union and business executives who feel that construction provides most of the gasoline for an inflationary engine which hurts everyone.

Again, listen to their complaints:

Jerry Wurf, president of the American Federation of State, County and Municipal Employees: "An unreasonable relationship exists between the contractors and the building trade unions. They continue to have those big fat settlements that force inflated prices so that the pay raises we get are not catching up."

Richard Foshia, a young Detroit auto worker: "I make \$4.20 an hour. A laborer in the construction industry here starts out at \$5.50, and he doesn't do anything but carry bricks or whatever he carries. I don't go along with that at all. He doesn't have any more know-how than I do. I can't afford to buy a house or rent an apartment, and I want those prices to come down."

Malcolm Deise, vice president for labor relations of Ford Motor Co.: "We have to be concerned about the relative costs of making things here and in the rest of the world. Construction and trucking don't seem to feel that they are in competition with overseas markets. But they are, because they're part of our costs and we have growing foreign competition."

A WORLD UNTO ITSELF

The actual work of the construction industry is probably more visible than any other. We all watch with wonder as skyscrapers, highways and bridges rise from the ground. Yet the inner workers of this largest American industry—its \$100 billion annual business is greater than automobiles and steel combined—is little understood and seldom examined by outsiders. "Unfortunately, the building trades are kind of a world unto themselves, and the industry is a world unto itself," says AFL-CIO Research Director Nat Goldfinger.

Inside that world, 10,000 local unions representing about 3 million workers bargain with a majority of the nation's 870,000 contractors. Another 500,000 construction workers are not members of labor unions.

Most of the local unions are small but powerful independent baronies which take only minimum direction in collective bargaining from their international unions. Most contractors are small businessmen, with only 1,200 firms hiring more than 100 workers each, and the four largest firms controlling less than 1 per cent of American construction.

The industry is marked by seasonal fluctuations and considerable uncertainty. Thousands of contractors go in and out of business every year. Workers' loyalties and their livelihoods are tied to their union hiring hall, as most contractors don't employ many year-round employees.

The unions exert power by controlling many of the functions normally reserved to management in other industries. For example, building trade unions not only supply manpower to the job but even appoint foremen and general foremen. Although contractors finance them, the unions administer various health, welfare, pension and vacation benefits.

The construction union work force is old and highly organized with the national federation of American building craft unions dating from 1908. Those early unions drew strength from the rich traditions of far older European craft guilds. The unionized work force is divided into 17 building crafts, which compete against one another and tightly resist entry from outsiders.

And these building trades collectively comprise the center core of power in the AFL-CIO. It is no accident that a former plumber, George Meany, runs the federation. The AFL-CIO's pecking order of power is readily discernable at the Miami labor conventions, where Meany and his favorite building trade presidents occupy the most prestigious row of hotel suites.

The AFL-CIO's political power has been applied most consistently and successfully to protect union wages in the construction industry. Construction wages have risen three times more than those in other industries in the last 10 years.

The industry itself has been undergoing revolutionary changes, with new equipment and materials pushing historic handcraft construction methods towards a factory production system. Reacting to this process, the unions have fiercely opposed change or demanded special compensation before permitting efficiencies that sharply reduce the need for skilled manpower.

THE DECISION TO INTERVENE

What is new today is that the federal government and big business—both alarmed by runaway inflation and foreign competition—have decided to intervene in the clannish workings of the construction industry.

The nation's largest corporations several years ago quietly formed the Construction Users Anti-Inflation Roundtable—to seek government controls, to help contractors strengthen their management and resist demands for wage increases, and to persuade each other that corporate industry should avoid crash building schedules which raise construction costs for everyone.

The Roundtable members were motivated by concern over their own skyrocketing costs for new factories and by the "rippling effect" of construction salary raises on their own workers' salary demands.

"Prior to our auto negotiations in 1970, the construction industry got extravagant salary increases," says George Morris, a General Motors Corp. vice president and Roundtable member. "There's no damn way we can afford to raise salaries 18 per cent for construction or any other group and remain competitive.

"We have building trade union members rubbing shoulders with our own auto worker union skilled mechanics, who perform the same jobs. The building trade people are not above saying: 'Hey buddy. If you were a member of the electrical workers union instead of the auto workers, you'd have this kind of check.' They jab them and they irritate them, so that our electrician goes down to his UAW local and says, 'God damn. How come that guy gets \$3.50 an hour and I get \$5.80?'"

"So we have a hell of a lot of pressure inside the union from the skilled trades group and the UAW has to reflect that when they sit down to bargain with us."

"If I may use a Chinese expression, construction wages took a great leap forward about 1966," says Roger Blough, retired board chairman of U.S. Steel Corp. and chairman of the Roundtable. "I think it's really one of the most uneconomic and inflationary types of workmanship—if you can call it workmanship—that we have anywhere in the country."

The unions also acknowledge the problem. "I'm not concerned where construction has come the last six years with respect to wage rates," says John Lyons, president of the International Association of Bridge and Structural Iron Workers. "My concern—and many in the industry share this—is where are we going. The industry cannot maintain these 17-19-22 per cent annual wage increases."

"A TERRIBLE CONSPIRACY"

Yet the building trade unions regard the behind-the-scenes Roundtable effort as a dangerous threat, particularly when they discover corporation presidents working inside the Nixon administration to control construction wages and open the industry to more nonunion workers. The administration established the Construction Industry Stabilization Committee last year, responding to inflation and to endless entreaties from the Roundtable, which met regularly with Cabinet members and White House officials.

"This is probably the most critical time the building trades have had in their history," says AFL-CIO official Georgine, referring to the Roundtable, government and growing nonunion competition. "I think it's an out-and-out effort to break the unions. If you want to get melodramatic, you could say it's a terrible conspiracy."

Sheet Metal Workers President Edward Carlough, however, brushes off the Roundtable threat. "It's been an old ladies' coffee table so far," he said.

And George Meany reacts angrily: "Let me tell you about this Roger Blough, the man who is dedicated to keeping wages down. He drew \$916,000 in wages his last three years at U.S. Steel. Are we going to pay any attention to him?"

"If he were to succeed, America would become a low-wage country. The progress of America has been made on high wages. Now, as far as I'm concerned, I'd rather have inflation than deflation because I know the difference between the evils."

Virtually all of the building trade presidents we interviewed insisted that the public does not understand the nature of the industry or its \$5 to \$12 an hour building-trade wages—which have been rising at rates far in excess of rises in the cost of living.

They stress that most construction workers still don't work the full year, even though in prosperous times there are far fewer seasonal layoffs. They point out that construction salaries are not directly comparable to those in other industries, because fringe benefits are included. For example, an \$8 an hour building trade salary might include \$1.50 which the union keeps for the worker's health, welfare, pension and vacation funds. In most other industries, such fringe benefits are calculated separately and not listed as a part of hourly salaries.

Building trade officials are not cooperative in supplying statistics about the estimated "annual wages" of their members, but Labor Department statistics indicate these salaries, although higher than factory workers', are not anywhere near as high as the hourly rates would imply.

Building trade officials argue that their unions' large wage increases have been justified to permit workers to share the increased productivity of new equipment and materials which cut down on needed manpower. (The Roundtable argues, however, that worker productivity has fallen.)

"An operating engineer may make \$8 or \$9 an hour," says S. Frank Rafferty, president of the International Brotherhood of Painters and Allied Trades, "but you've got one operating engineer grading thousands of yards of road where you used to have hundreds of workers with picks and shovels. One man can paint an apartment in the same time it used to take three or four. In 10 minutes we can do an apartment ceiling."

Rafferty also contends that giant-size construction wage increases were taken as defensive measures, and that the inflationary problems could have been avoided if President Nixon had taken the AFL-CIO advice to impose controls earlier.

"It's Nixon's own damn fault," Rafferty said. "Everybody was trying to get what they could bargain for against the day when controls would be imposed. There was an 'I don't give a damn' attitude."

"THE WORK RULES LIVE ON"

Despite all these explanations and rationalizations, few labor leaders we interviewed denied that there are serious inefficiencies in construction for which unions are mainly responsible.

Of all the labor union officials we interviewed, only George Meany denied any union-caused problems in construction. "I don't know of any restrictive practices, any feather-bedding, that creates useless jobs or provide pay for doing no work," said Meany, repeating this point several times in a lengthy interview.

In contrast, Ironworkers President Lyons said his local unions often improperly require unneeded men in work crews.

"The work rules live on," he said. "It's one thing when wage rates are low, but if you get the wage rates up to where they are satisfactory, these work practices don't make sense. It's very difficult to get people to recognize the fact that they can't continue doing something they have been doing for years."

Meany also refused to accept as featherbedding the numerous jurisdictional disputes that are settled by requiring two men for one job.

A Miami general contractor describes a common practice: "You install the elevators in a multistory building and start using them to lift both personnel and materials. Once you use the inside elevator, you must have an operating engineer and an elevator constructor sitting there side by side. If a passenger comes up, the elevator constructor pushes the button. If material comes up, the operating engineer pushes the button." Another common practice requiring even less work

is one in which an electrician's sole job is to flip a switch turning an engine on at the beginning of the work day and off at the end.

Meany concedes that many building codes are outdated but claims "we don't make the building codes." Other labor leaders disagree.

Robert Connerton, general counsel of the Laborers' International Union, describes a common building code requirement involving Meany's own trade: "Plumbing codes are supposedly for the purpose of protecting the health and safety of all citizens. But they often are an illegal conspiracy in restraint of trade. The plumbers and plumbing contractors get together and pass those codes defining what is plumbing work that can be done only by plumbers.

"The law will say that plumbing work includes all pipe that is laid within property lines. Well, our laborers have been laying pipe within property lines all their lives and these codes prevent them from working. So we're trying to tear down these codes."

BENEFITS FOR THE CONTRACTORS

Building trade officials stress that the "industry club" very much includes the contractors, who benefit also from their unique clannish relationship with unions.

The coziness of the contractor-union relationship is illustrated by one common industry practice: Contractor associations often are partially financed by assessments to all builders, which are required by union collective bargaining agreements.

Union contractors also have benefited from the Davis-Bacon Act, which requires the payment of "prevailing wages" on most federally assisted projects. In practice, the Labor Department usually has accepted union scale as the prevailing wage. Union contractors therefore are given some protection in bidding government contracts against nonunion competition.

EFFECTS ON THE POOR

Ironically, the AFL-CIO's success in adding Davis-Bacon to most new social legislation often defeats or limits the principal purpose of the legislation, which is often supported by the AFL-CIO in its social lobbying role. For example, the union-scale provision raises the cost of "low-cost housing" for the poor and often blocks the poor from getting construction training jobs in such programs as Model Cities, where their participation is an integral part of the intended program.

A special labor-contractor relationship exists even in the administration of government wage controls, critics contend. While all other wages were controlled by a board equally divided among public, business and labor members until labor walked out recently, the special Construction Industry Stabilization Committee consists only of the building trades, contractors and John Dunlop, a Harvard University professor regarded as a friend by the building trades.

"While the Pay Board was rejecting deferred wage increases of less than 8 per cent," says I. W. Abel, president of the United Steelworkers of America, "the building trade board was still approving agreements for 10 to 15 per cent wage increases right now. It just doesn't make sense to me.

"I'm not going to quarrel with what the construction worker gets, but if they are entitled to it so are the steelworkers. If construction can have its own special board. I want the same thing for steel. I'll find a few employers I get along with too, you know."

Union leaders complain bitterly that building trade wage increases are given the entire blame for construction inflation, when soaring interest and land costs are equally to blame and these costs are not controlled at all. Labor leaders stress—and here the Roundtable agrees—that a major part of the construction industry's problem is weak management, not all of which results from excessive labor power.

Labor leaders claim they also are wrongly given full responsibility for "scheduled overtime"—that is, a construction project on which the work is regularly scheduled in advance to include extra hours at doubletime pay. "The Blough Roundtable keeps yapping about overtime," says union official Carlough, "but we have these overtime problems because industry doesn't schedule its jobs properly. When General Motors wants to build an extension, it's 'Hurry up, hurry up. Get the model changes out. Get this. Get that.'"

GM'S ROCHE APOLOGIZES

As a matter of fact, GM board chairman James Roche sheepishly apologized to his fellow Roundtable members for ordering a crash factory construction project in Lordstown, Ohio, as GM raced to get its compact Vega into the field against Ford's Pinto. GM's haste and disregard for construction costs is said to have escalated wages and costs throughout Ohio. "Look fellows, I know what you are trying to do, but we have our problems, too," Roche reportedly explained at a Roundtable meeting.

Building trade officials especially resent being criticized for rises in the cost of homes, since most individual homes are built by nonunion contractors.

Sheet Metal Workers President Carlough admits: "The nonunion competition is devastating to us and anyone who doesn't think so is a total idiot. Jurisdictional disputes, work stoppages, paying guys for not working—these practices are hurting us severely. We have flabby muscles, and if we don't adapt to change, we're in serious trouble."

Disagreeing with—or taking advantage of—the "flabby muscle" theory, the Construction Users Roundtable aims to help builders regain management control of their industry. The Roundtable wants contractors to develop full-time work forces and get needed men through a new national manpower referral service.

Management loses control, the Roundtable contends, because unions dictate employment through union hiring halls. For example:

"I needed plasterers," Miami contractor John Scott complains. "The union didn't have any to supply me, yet they wouldn't accept qualified people as members. They were harassing me because I was doing dry-wall rather than the plastering work they wanted."

"Their theory is to keep only the maximum number of members in the union that can fill the minimum amount of work that might be available. Their theory is fine for their people, but can throw a contractor into ruinous situations."

Other contractors complain to us that if they reject workers as unqualified, the union hiring hall often insists on sending the same men back to the job site on a "take it or leave it" basis.

On the other hand, hiring halls have provided valuable service to contractors as well as workers, Painters Union President Raftery says:

"What is the alternative to the hiring hall? Is it profitable to go down on the corner and have a shape-up like they used to have on the waterfront? Have 500 workers show up at some candy store or something? And then have the employers go down in their trucks and say, 'You, you, you, you and you are carpenters. Hop in the truck!'"

"The hiring hall provides the people with the competency and skills to perform a certain type of work. It brings them together, so that a contractor can grab a phone and say, 'Hey, I need 40 guys on my job tomorrow.'"

The hiring hall system also lies at the heart of another problem in the building trades—the power of the labor union officers, and the dependence on them by workers.

Many national building trade leaders insist there is too much local autonomy in their local unions, with local leaders—nervous about their own re-election—giving in too easily to a new breed of construction worker who wants "more now." These leaders say larger-size bargaining units are needed to bring stability to the industry. Others say an annual wage is needed to promote stability.

Roundtable members tend to agree with the suggestion for larger bargaining units, since they place more confidence in the "reasonableness" of the international presidents than in the rank and file.

The construction industry also is affected by another problem—growing violence between competing unions and against nonunion contractors. When nonunion contractors have tried to move into the bigger jobs until now "reserved" for the unions, they have encountered threats, sabotage of equipment, illegal mass picketing and violence.

Violence has almost reached epidemic proportions in South Florida, as non-union contractors have pushed to participate in a building boom. For example, R. D. Hall, 38, a nonunion Miami contractor, told us he has been repeatedly threatened and had his equipment damaged. Describing one incident where his company was laying pipe on an otherwise unionized project, Hall said:

"About 200 men swarmed in and hit my crew. We had eight men working with three trucks, an equipment trailer, a ditching machine and a back-loader. These men split into groups with each taking a truck or a piece of equipment like it was all planned. They broke up the trucks, shooting bullet holes through the engines.

"They set one trenching machine on fire, broke windshields and slashed tires. They were throwing rocks and were armed with pick handles, crow bars, and two guys had pistols. And all of this took place in the matter of three to four minutes and they were back in their cars and taking off."

THE UNIONS—VIII: LABOR'S VIOLENT WORLD: BIG MONEY, CORRUPTION

(By Haynes Johnson and Nick Kotz)

Richard Nell and his family are in the labor union business. It is a life of big money surrounded by violence.

Nell is president of Local 675, International Union of Operating Engineers in Fort Lauderdale, Fla. Last year the 60-year-old labor official received a salary of \$41,056 and allowances of \$6,232. He drives a Cadillac paid for by the union. He owns two acres of land in a booming Florida development; the union sold him the land for \$1 per acre and "good and valuable services." He took his wife on a European vacation financed by the union.

His entire family profits from his union business. Nell's son, William, earned at least \$8,893 in commissions last year selling insurance to Local 675's various health and welfare plans, of which President Nell is trustee. Son William has a second business, renting heavy construction equipment. His customers include contractors hoping to avoid labor trouble with his father's union. President Nell's daughter has also served the family business, working in the union hall as a paid secretary.

Richard Nell and his 1,899-member union are deeply involved in the violent world of Florida construction, where union fights union to control job turf—and where unions employ guerrilla warfare to stop projects manned by nonunion workers.

Five times in the last two years, Florida courts have ordered Nell's union to abstain from further labor violence—to stop destroying construction equipment and beating up other workers. A jury declared that Local 675 and its international union shared responsibility for the beating that a Local 675 member gave one union member. The jury awarded the man \$1.2 million in damages after hearing testimony that Nell had ordered his men "to tear 'em up" and that the international union failed to intervene to prevent a well-planned construction site riot.

Nell recently was convicted of trying to bribe a Florida county official. He assessed union members to pay his attorney's fees.

Within his own union Nell wields a heavy hand. Some members of Local 675 have complained to federal authorities that they are discriminated against in work referrals by the union hiring hall because they are in disfavor with the union leadership. One member who testified in the damage suit was fined \$450 by the union for refusing to discuss his testimony beforehand with Nell and the union's lawyer.

We started looking into Richard Nell's private and public life because his name was brought up by virtually every person we interviewed in the Florida construction industry. We found that the activities of Nell and his union serve to illustrate fundamental concerns about the state of the unions today—concerns about the misuse of union power and about the imperfect processes of union democracy.

The ethical atmosphere in some unions and the status of union democracy cannot be judged fairly in a moralistic vacuum or from a comfortable perch in the white-collar world. Abuses of raw union power come out of a relatively recent and violent history in which unions fought their way into existence and still struggle against their enemies. Violence wasn't invented by the labor union; it is only 35 years since Henry Ford's thugs pummelled workers in Detroit's battle of the Rouge.

Big, tough Richard Nell, who grew up in the depression in West Virginia coal mine country, built his Florida union almost from scratch—starting from a time when most Florida construction workers were unorganized and poorly paid. Now Nell and other Florida building tradesmen see a revival of nonunion construction as threatening the gains they have won. Nell shows visitors photos of the battered faces of his own members to illustrate that they have taken punishment as well as given it.

Nell believes thousands of low-paid Cuban workers provide unfair competition to union construction workers and should be relocated around the country rather than concentrated in south Florida.

In an interview, Nell responded to various criticisms against him: His conviction for attempting to bribe a county official was "a frame up." The union members paid his attorney fees in the case "because we bail each other out of problems." He buys the union's insurance from his son "because he knows the business and helps us buy good policies." He doesn't help his son get crane rental business from union contractors. The union gave him two acres of land, which he says is worth more than \$20,000 today, because he had discovered a choice 15-acre resort site, but let the union buy it rather than just buying it for himself.

Violence in the blue-collar workplace is largely shielded from much of a nation that only rarely sees it described in the news media.

The nation did get a rare look inside the seamy, brutal world of some unions 15 years ago, courtesy of the Senate Permanent Subcommittee on Investigations.

With the glare of television cameras focused on union hoodlums and their partners from organized crime, the AFL-CIO expelled the Teamsters, the International Longshoremen's Association and several other unions. In the wake of the Senate hearings, Congress in 1959 passed the Landrum-Griffin Act, designed to expose union corruption and to protect the rights of individual labor union members.

The law required unions to file a public record of their finances. It prohibited persons found guilty of certain crimes from holding union office. And it sought, in a worker bill of rights, to prevent union leaders from taking arbitrary actions against their members.

Today, most labor leaders angrily protest that labor crime is judged more critically than similar business crime. At least six international union presidents, in addition to AFL-CIO President George Meany, told us the same story: that more bank employees annually are convicted of robbing the till than are union employees. Union leaders, they also say, are unfairly criticized for enjoying life styles that are publicly accepted as the fruits of accomplishment for their counterparts in business.

"A DEAD LETTER NOW"

Whatever the extent of corruption and undemocratic rule in unions, it is clear that labor's leadership has little inclination to deal with them.

Meany and most of his ranking international presidents who sit on the AFL-CIO Executive Council disclaim any responsibility for dealing with dishonest or undemocratic unionism. They contend (although other strongly disagree) that the Landrum-Griffin Act relieved them of the authority to maintain union integrity.

Furthermore, Meany and the others argue that demands for union democracy have been carried too far, making it impossible for national labor leaders to discipline rebellious or dishonest local leaders.

Officially, the labor federation now plays no role at all in maintaining union integrity. The AFL-CIO's Ethical Practices Committee, created when widespread publicity caused a furor about corruption in the 1950s, has not held a meeting in years.

Here is what the labor leaders told us in tape-recorded interviews about union responsibility:

Leonard Woodcock, president of the United Auto Workers: "The instinctive tradition of the labor movement is that it's not our job to clean up corruption. It's sort of traditional that we don't cooperate with government on those things, because government to some extent is the perennial enemy . . ."

"The union most charged with corruption is the strongest in terms of numbers—the Teamsters—and it certainly has been no handicap to them in their effective functioning as a trade union force. The fact that, in 'influential ruling circles,' the UAW is given a clean bill of health doesn't help us when it comes down to a crunch over some basic matter."

Edward Carlough, president of the Sheet Metal Workers Union: "I don't want anybody interfering in my union and I'm not going to interfere in anyone else's."

AFL-CIO President Meany: "We had this ethics committee. It's more or less a dead letter now. Landrum-Griffin practically rendered our machinery obsolete.

"Now, to think we could police the unions is absolute nonsense. We don't have a police force. I don't suppose you'll ever eliminate crime or corruption but you try to keep your standards high. And I think, by and large, the trade union movement is better now than it was 5, 10 or 15 years ago."

Joseph Beirne, president, Communication Workers of America: "I'm certain the AFL-CIO Ethical Practices Committee would meet if somebody brought up an ethical question. Now, no questions arise, the committee doesn't meet."

"TO ME HE WAS JUST A CROOK"

With very few exceptions, organized labor's top leaders either defend or refuse to criticize those few confederates who have been found guilty of betraying their own members.

We interviewed the labor union presidents at a time when James R. Hoffa dropped in to pay them visits during an AFL-CIO Executive Committee meeting in Bal Harbour, Fla. The former Teamsters president had just been released from prison, where he served terms for attempted jury rigging and mail fraud in connection with misuse of his members' pension funds.

Sheet Metal Workers President Carlough exclaimed: "Did you see Jimmy in the lobby this morning? Didn't he look great? From all that I know about it, Jim Hoffa shouldn't have spent that time in the pen."

Of the leaders we interviewed, only Communications Workers President Beirne criticized Hoffa, saying: "To me he was just a crook who got caught and went to jail."

Most AFL-CIO board members also were warm in their praise for the United Mine Worker President W. A. (Tony) Boyle, who was having his troubles with the law. Boyle's union has been found guilty of improperly failing to invest its pensioners funds and of making illegal contributions to the 1968 presidential campaign. It still faces charges of union election fraud and of dictatorially holding most UMW districts in trusteeship. Two local UMW officials are among those charged with the murder of Boyle opponent Joseph Yablonski.

Of the presidents we interviewed, only John Lyons, president of the Iron Workers, would criticize Boyle and his union. "Continuing all those trusteeships was wrong," he said. "The system of using retired people to vote is wrong. Keeping that pension money in the bank without drawing interest is outrageous."

The solidarity of labor's top leaders with the embattled Boyle was symbolized in recent weeks when Teamsters President Frank Fitzsimmons and AFL-CIO Counsel Robert Mayer (a Meany son-in-law) both went to the board of the UMW-owned National Bank of Washington.

SUSPICION OF OUTSIDERS

In praising Boyle and dismissing his critics, Steel Workers President I. W. Abel expressed attitudes held by many labor leaders. "I don't buy it when a lot of outsiders get a sudden great interest in the activities of the Labor movement," said Abel.

If labor's top national leaders are suspicious of "outsiders" who crusade for labor union reform, they also are critical of some insiders: those in the ranks who rebel against their leaders. Again, Abel expresses a commonly held viewpoint:

"I think Landrum-Griffin makes it most difficult to do an effective job of leadership. It encourages irresponsible dissidents to shoot everything down . . .

"I'd like to see democracy exercised to the fullest in our union or any other union, but democracy in the labor movement, as in various segments of life, can be carried to an extreme."

Executives from big business tend to agree about "too much" union democracy. Officials of General Electric, the three major auto manufacturers, American Telephone and Telegraph and other major corporations also complained about how local leaders and rank-and-file members exercise their voice in union affairs. That voice has been increasingly used to reject contracts or to express strong resentment of national labor union leaders, as well as management.

In contrast to these views from big labor and big management, we heard different protests from rank-and-file workers and from those who seek labor union reform. They contend that the Landrum-Griffin law, guaranteeing freedom from labor bossism, is not enforced by the Labor Department, that the AFL-CIO's leadership has "copped out" on its responsibilities to maintain union integrity and that the rights of the individual working man are infringed upon by both management and labor.

"NO SIGNS OF CHANGE"

These are some of the general complaints we heard:

Clarice Feldman, an attorney for Miners for Democracy, which is challenging the United Mine Workers leadership: "Big labor and big business have identical interests in preventing union democracy. Democracy takes time to work its will. It's simpler to work it out at the top."

Sen. Robert Griffin (R-Mich.), coauthor of the Landrum-Griffin Act: "This law in no way relieves the unions of any responsibilities to keep their houses in order. We have lacked cooperation by the unions and enforcement by the Labor Department. Every administration, including this one, has been timid and reluctant to enforce the law. They have very carefully selected people to administer the law that labor is not going to be unhappy with."

H. W. Benson, a worker and editor of *Union Democracy in Action*: "I would say that things are no better today in the labor movement than they were at the time of the McClellan hearings. There are absolutely no signs of change."

Hebert Hill, labor director of the NAACP: "With a few exceptions, you have a systematic pattern where the leadership of unions violates the democratic rights of union members that are supposed to be guaranteed by law."

"Payoffs are epidemic and a way of life," said a career Justice Department attorney, describing collusive arrangements between labor officials and contractors in the construction industry. "Contractors just write them off as a normal cost of doing business."

Justice Department officials agree, however, with the complaint of union leaders that the illegal participation of the businessman in union corruption too often goes unnoticed.

"I'm troubled about whether there is equity in the way we treat certain practices in business or in the unions," says one Justice Department official.

"We make virtually all our bribery cases against the union official, not the businessman who handed out the bribe. That's the way we get our cases. The employer comes in after he gets scared or tired of paying off. In the course of the investigation, he acquires immunity, but the union guy goes to jail. . . . And it's usually very difficult to distinguish between a bribe being offered by the contractor or extorted by the union official."

The bitterness of labor officials about one-way justice is reflected by President Abel: "It gripes me that the poor son of a bitch who accepts the bribe is always the one who goes to jail. How can a guy accept a bribe unless some son of a bitch offers to bribe him?"

But a Labor Department investigator who keeps track of violence in the construction industry says: "I don't blame the contractors for paying off. We can't protect their equipment from being destroyed."

"NOBODY WILL ADMIT IT"

In investigating problems in the Florida construction industry, we found few unionized contractors who were willing to be interviewed "on the record." An exception was P. A. Prendergast, a Fort Lauderdale contractor who employs union labor and for years has been battling with Richard Nell's Local 675.

"All the contractors are having difficulties," says Prendergast, "but most of them are afraid to stand up and fight. There are a lot of payoffs going on in this industry but nobody will admit it except to his fellow contractors. The FBI has been investigating and they can't get anybody to talk."

The Florida contractor told us that some of his fellow contractors rent equipment from Nell's son in order to avoid labor trouble. It was Prendergast's general superintendent who was beaten up, and who won the \$1.25 million jury award from the local and international union.

"They've threatened to run us out of business," says Prendergast, who complains that Nell has refused to supply him with equipment operators to do work on jobs opposed by the union.

"We have armed guards on our projects because we keep getting threatened," Prendergast said. "I've had five equipment rigs 'sanded' within the last year and a half. They pour sand into the place where you put the oil. It just freezes the engine and ruins it so you have to pull it out and have it overhauled. It costs \$5,000 apiece to repair them, plus delay to the job. There has been nothing but grief down here."

Nell said in an interview: "We never bombed his machines. I don't say there aren't things done, but we didn't bother his machines, because we knew we would be fingered for it."

A Justice Department attorney said a grand jury investigation into violence involving Local 675 collapsed because witnesses refused to testify. One woman told investigators she wouldn't testify "because they would shoot my eyes out at 300 yards."

Robert Georgine, secretary-treasurer of the AFL-CIO building trades department, described for us various forms of corruption in the construction industry, which he says become important only when they threaten the union's ability to compete:

"They're just payoff-type things. In other words, you have a big job and you don't want union problems so you say you're going to put this steward on that's got nothing to do. He's a relative of the business agent or a friend or something like that. So he goes on a job and just walks around and is being paid \$300 or \$400 a week. These are some of the things we have to eliminate.

"You talk about corruption. Take some of those missile sites and things that have been built over the last 10 or 15 years, where the business agent has supposedly been holding up the contractor. Well, it never would have happened if the contractor didn't let them do it in the first place. . . . It was allowed to happen and it mushroomed.

"Well, in order to change it, you have got to have a need for change. If nobody and everybody was doing fine you wouldn't even worry about it. But it's not that way today. Nonunion people are moving in and taking jobs that were always union before. They're coming in on sacred ground. Now, you've got to show your people if they don't straighten up, they are not going to have a job."

Carried to extremes, corrupt power in the building trades costs consumers dearly. Veteran Justice Department lawyers say they have wrestled for years with family dynasties in the building trades that dominate construction in entire states.

Peter Weber, former business manager of New Jersey Local 825 of the Operating Engineers, for example, was convicted of accepting bribes from contractors and forcing them to subcontract work to his friends. Justice Department officials say Weber doubled the cost of pipeline over that in surrounding states—a cost ultimately passed on to consumers of natural gas. Weber went to prison. His brother now runs the union.

"The guy fighting for democracy in a union has enormous odds against him," says a Justice Department lawyer specializing in union problems. "The guys who come in here for help usually walk out disappointed. The federal government doesn't have the tools. The individual union member doesn't have the money to get a lawyer. Anyway, most labor law specialists work either for the unions or management.

"People in the union are afraid to join him. He really has very few remedies. It is very infrequent that a well-entrenched incumbent gets turned out of office."

Within the labor union movement, there is continuous debate about how much democracy can be permitted and still allow the union to achieve its purpose. For example, Steelworkers President Abel argues that John L. Lewis needed to put virtually all the local United Mine Workers districts under trusteeships years ago to prevent weak and unstable unions from being destroyed by their enemies. Yet, reform factions in the UMW contend that the continuation of these trusteeships over many years gradually snuffed out democracy in the union.

The fight for union democracy is heated today in another historic old union, the International Ladies Garment Workers. Members of the union are mostly women, blacks and Puerto Ricans, yet virtually all the officers are white men who built the union years ago.

AFL President Meany told us he had inquired into this situation and satisfied himself that the women don't want to run for office and "the blacks are not represented because they don't get the votes—they don't try or anything else." But recent Labor Department decisions tell another story.

The Labor Department recently overturned one ILGWU election on grounds that members were denied their democratic rights.

In another ILGWU case, the Labor Department ruled that the union's constitution prevented democratic election contests and that the union illegally prevented a group of black challengers from appearing on the ballot, distributing campaign literature and exercising other political rights.

Labor editor Benson contends that liberal Democrats' dependency upon organized labor robs the union reformer of his best potential ally. "A couple of guys go to a liberal senator and tell him how they're getting screwed," says Benson. "He listens to them, and says 'you're right. This is terrible.' But he weighs their

problem against all the good work labor does on legislation and in helping elect liberals like himself. He balances the two factors and does nothing.

"I don't care where a labor leader stands on Martin Luther King or the United Nations. The acid test of that leader is what happens when someone gets up to oppose him. What he does when he is challenged determines whether honesty and democracy prevail for the working man. It's crucially important for that working man and it should be for all of us. The labor movement plays a special role in our society as a defender of democracy. If that institution itself can't maintain democracy, we are in rough shape."

In the final analysis, Unions are what their members make of them.

Members of Local 675 of the Operating Engineers voted Richard Nell his sizable salary, his free land, his fancy car, his European vacation and his legal defense fees. "Nell has a sizable hard core of followers that will vote him anything he wants," says a federal investigator. "Most members of most unions don't attend the meetings where decisions are made that affect their lives."

But it takes a brave man to fight a hiring-hall system in which the union boss may decide who works and does not work. Many would-be labor reformers have found that the price for union democracy is high, and it may be too high for a man trying to support his family.

Take Frank Schonfeld, a New York official in the Painters Union. Schonfeld became secretary-treasurer of District Council 9 of the Painters Union after a long fight with his predecessor who was accused, but not convicted, of accepting \$800,000 in bribes from painting contractors. The contractors pleaded guilty to the charges. Schonfeld and his fellows also had to wrest control of the union district from its international President S. Frank Raftery, who placed the district under trusteeship.

In dissolving the trusteeship and ordering a federally supervised election of union officers, U.S. District Judge Marvin Frankel painted a classic picture of union corruption.

Judge Frankel ruled that Schonfeld's predecessor, Martin Rarbach, had betrayed the membership, governed repressively, ignored democratic procedures, perpetuated his dynasty by illegal election practices, engaged in election fraud, illegally used union-discipline machinery to punish Schonfeld and other opponents, blacklisted opponents from employment and permitted employers to violate the union contract.

Judge Frankel ruled further that international President Raftery had improperly dismissed complaints against Rarbach without granting Schonfeld and other opponents a hearing. The judge ruled that the trustee appointed by Raftery had taken no action to stop corruption and restore democracy in the union. He criticized Raftery and the trustee for installing Rarbach, then under indictment, back in a position of union authority.

Although that court opinion was issued five years ago and Schonfeld was elected, many of the same issues are still unresolved. Raftery still seeks to put the district under trusteeship.

We visited with Schoenfeld and a group of his supporters as they prepared to exercise a newly won right—the election of officers to administer the union's vast pension fund.

The pension fund issue has become a crucial one in union reform. Thousands of workers have lost their pensions because pension funds have been mishandled by union officials, and legislation has been introduced in Congress to better protect workers' benefits.

THE UNIONS—IX: UNION RATIO OF WORKERS FALLS AS ECONOMY RISES

(By Haynes Johnson and Nick Kotz)

From the back alleys of Memphis garbage routes to the back wards of New York public hospitals, a new kind of union militancy is reaching a responsive audience.

Thousands of public employees, many of them poor, are joining labor unions for the first time.

"Black people wouldn't be anywhere if it wasn't for this union," says Mrs. Edward Butler, 65, a nurse's aide at New York's Bellevue Hospital. "We now get a lunch hour, a decent white uniform, a raise in pay, a chance for professional advancement. We are treated like human beings. We are really working for a living instead of slaving."

Mrs. Butler is a member of the American Federation of State, County and Municipal Employees (AFL-CIO), the fastest-growing union in the country. This union has doubled in size the last six years to 525,000 members, moving it from 18th to 6th largest of all AFL-CIO unions.

Its growth is not typical of the labor union movement today, for the AF-SCME is growing by 1,000 members a week at a time when organized labor's total membership is virtually stagnant and unions represent an ever declining minority of the work force. Fewer than one in four American workers belong to unions.

Many of the largest old-line unions such as the Steel Workers and Machinists are losing members, and small unions are faced with threats of insolvency. With new members hard to find, as many as four or five international unions are seeking—in bitter and sometimes bloody jurisdictional warfare—to organize the same worker.

Organized labor is painfully aware that its membership is weak in the fastest growing parts of the economy—wholesale and retail sales, government, services of all kinds and the insurance, financial and real estate fields. Labor's strength has been concentrated in areas of the economy that are not growing rapidly or are actually declining—mining, transportation, manufacturing and construction.

Furthermore, labor leaders are concerned that 75 per cent of their membership is concentrated in 10 large industrial states, while their membership is weak in fast-growing areas of the South and Southwest. There are more labor union members in New York State, for example, than in 11 Southern states, including Texas.

Union leaders disagree strongly about whether the labor union movement is endangered by its failure to keep pace with growth in the work force.

Some leaders see the entire future of unions threatened. They see organizing as the cornerstone to labor's vitality, sense of purpose and political power.

Labor leaders also are aware that their increasing minority status in the work force makes them vulnerable to charges that labor has too much power for the numbers it represents.

"IT DOESN'T MEAN A THING"

But concern about organizing new workers is not expressed in the executive offices of the AFL-CIO. George Meany told us in an interview that he is not worried about the declining percentage of union members.

"To me, it doesn't mean a thing," Meany said. "I have no concern about it, because the history of the trade union movement has shown that when organized workers were a very, very tiny percentage of the work force, they still accomplished and did things that were important for the entire work force. The unorganized portion of the work forces has no power for the simple reason that they're not organized."

Lane Kirkland, AFL-CIO secretary-treasurer and a likely successor to Meany, echoed his leader's sentiments: "I've never been very concerned about what proportion of the working force is organized at any given time . . .

"In many industries, there has been a declining percentage of production workers and increased percentage of people employed in sales, advertising, clerical, managerial and research. Well, those haven't been areas we've found particularly responsive to organizational appeals. Nor have we felt much compulsion to make a major effort at it.

"Frankly, I don't care whether the salesmen are organized. If they want to be organized, fine. If they don't, I don't feel any ideological compulsion to organize them. I don't feel any compulsion to organize foremen, plant managers, advertising men, hustlers, what have you."

These attitudes are not shared by some other labor leaders, who see organizing as holding the key to labor's future.

"I disagree with George Meany and Lane Kirkland," said S. Frank Raftery, president of the Painters and Allied Trades Union, "My big concern is the constant erosion of the organized percentage of the work force.

"Many unions have lost a helluva lot of members, and maybe we're organizing five or six people just to keep one nowadays. In that sense, the health, the financial strength, and the viability of individual unions are being challenged. You can't have the power and the influence and the drive and the virility that you have to have as a good hustling labor organization if you're going to have a constantly declining percentage of the whole."

BOTTOM OF THE LADDER

The dispute over organizing goes deeper than a mere numbers game. At its heart, the disagreement involves how much effort, money and trouble should be invested to bring union benefits to those workers furthest down the economic ladder—the poor and minority workers. One problem is that such an effort would challenge many unions to organize or admit blacks they have historically excluded. Another problem is that even if there is a willingness to organize the low-paid worker, the expense is heavy.

Herbert Hill, national labor director of the NAACP, expresses the view of many critics who contend labor's unwillingness to mount such organizing drives indicates that labor has lost its sense of purpose and become another narrow special interest. Says Hill:

"The unions have long ceased to be a social movement. Most have degenerated into narrow protective service agencies for their dues payers. They have carved out certain areas of the economy where they have established a decisive role.

"They have retreated to a narrow view of organized labor as business unionism. They collaborate with employers to maintain the status quo. They have no vision of organizing the great mass of unorganized workers in the cities, which today, in large part, means the black, Puerto Rican and Chicano worker."

AFL-CIO official Kirkland believes that such comments ignore realities. He believes various unions basically will grow or decline depending on how their members' jobs fare in a rapidly changing economy. Forty years of organizing work in the textile mills of the South, he points out, largely failed because of massive resistance by business and the entrenched power structure of local communities. Referring to companies like Stevens Mills, which have fought unionization for years in the courts and continue to resist even after court defeats, Kirkland said:

"As long as they're willing to spend that kind of money and pay those fines, as long as they'd rather do that than pay the wages and accept the unions, and as long as we're still of the disposition to use legal, orderly processes in organizing these people rather than violence and terrorism, it's going to be very difficult." The resistance is so severe and laws so insufficient in certain areas, said Kirkland, that "you could organize yourself right into bankruptcy."

A very different view of organizing is taken by leaders of the expanding American Federation of State, County and Municipal Employees. Leaders ranging from President Jerry Wurf to rank-and-file organizers pursue their goals with a militant spirit reminiscent of the 1930s.

"The greatest weakness of lots of unions comes when they start looking at the balance sheets and accumulating large amounts of money," said Wurf. "We think it's more important to collect members than dollars, and to play a meaningful role in society."

The AFSCME is capitalizing on the huge growth in public employment—an increase from 6 million to 13 million workers in 20 years—and on the general and longtime neglect of many state and local employees.

During a period when the salaries and benefits of unionized workers in the private sector rose steadily hundreds of thousands of blue-collar public employees continued to work for less than the minimum wage. These hospital workers, garbage collectors and sanitation workers often were not covered by such other basic benefits as unemployment compensation or workmen's compensation, much less health care or pension benefits. Most important, public employees are not covered by the Wagner Labor Relations Act, which means that a public employer does not have to recognize or bargain with a union even though the entire work force belongs to the union.

"We've got no law," says Wurf. "Everything is against us. We pull a strike and they take away our paychecks and send our leaders to jail, penalize our members."

Nevertheless, Wurf's union has used the strike—which is illegal for virtually all public employees—as a weapon to force a community to meet the issues being raised. Strikes or work stoppages by public employees increased from 36 in 1960 to 410 in 1970.

Case studies in New York and Memphis illustrate the vitality involved in this revolt of the civil servant.

Until six years ago, most of the 14,000 orderlies, nurse's aides, food handlers, and cleaning help in New York's public hospitals worked for less than \$3,500 a year. The AFSCME organized these workers with a program to give their jobs more dignity and to provide chances for advancement from dead-end jobs.

Lester Wright, a black who heads the New York hospital division of the union, started working in the hospital after the war for \$37 a week. Twenty years later he was making \$90. He describes the changed situation:

"People were given some dignity and patients have reaped benefits from the greater pride of the workers. A person used to come in here as a porter, and that was it until he died. Now he can upgrade himself through a series of promotions and become an executive housekeeper."

Similarly, nurse's aides have signed up by the hundreds for training opportunities to become licensed practical nurses, and even registered nurses.

AN EVIDENT PRIDE

Problems are still severe in New York's public hospitals and the newly won base pay of \$6,300 provides only the barest subsistence income in that city. Yet the spirit of the new union was apparent as we visited with workers in the huge Bellevue Hospital.

"Things have changed tremendously," say Bertram Bolt, 50, an oxygen technician, who was wearing the new uniform of white clinical jacket, white shirt and necktie. "There is more dignity to our jobs.

"I like my new job and hope to go as far as I can. My salary has increased in a few years from \$2,500 to almost \$8,000."

N. H. Bridges, a \$6,900 nurse's aide in the Bellevue ward handling skin diseases, talked about work attitudes with a fierce pride that demands respect: "Somebody's got to give a damn, and we do. Working with some of the diseases I do, you just have to be dedicated.

"Let me give you an example. A woman was visiting her father at lunch time, and I said to her, 'Madam, would you please feed your father?' She cringed, looked disgusted and left the room. Yet we have to feed them, bathe them, cuddle them. And we have to work on alternate weekends. You can't take the patients home with you."

The same spirit can be found among Charleston, S.C., hospital workers who withstood a community riot to win union recognition, and Memphis garbage handlers who won improved conditions only after the Rev. Dr. Martin Luther King Jr. was murdered in their midst. Dr. King had gone to Memphis to march with the garbage workers.

"We've come a long way," says Nelson Jones, a 64-year-old black garbage worker. "It's like a difference of night and day. The night before Dr. King was killed I heard him speak, and I knew we were going to win. I believed in it. I trusted the Lord."

The battle cry of the Memphis strike was "I Am A Man," still more evidence that the issues for most workers were far broader than wages and hours.

"The trouble with many unions," says William Lucey, a national AFSCME official who directed the Memphis effort, "is that they're organizing around the nickel or dime wage increase. But people join us as a means to focus their views and aspirations, which are not just confined to economic well-being.

"Poor workers are interested in dignity and decency in the workplace. They're concerned about the services in their city, because these people don't commute to the suburbs. They have to use the inner city schools and hospitals. They are interested, in the broadest sense, in civil rights. They are trying to overcome their sense of powerlessness in the community."

Whatever progress AFSCME has brought to the worst-paid public employees, the potential force of this and similar unions is a hotly debated issue in and out of government. For the public employee unions, as they grow stronger, have the power to deny vitally needed public services.

Many public employees feel that the public looks down on them. "Scratch an American and you'll find a person who has utter disdain for the public servant," says Victor Gotbaum, executive director of the AFSCME district in New York City.

"We're a democracy with contempt for the public servant. A guy gets mugged on the street and you want a hundred more cops. If your car hits a rut in the road you curse the city laborer for not paving it. If Willie isn't learning to read rapidly enough, you scream for more teachers and paraprofessionals—and then you hate the bastards because you need them."

The bitterness against strikes by public service employees extends to the union movement itself and can have racial overtones. When striking black Memphis laborers, including street cleaners, appealed to the local building trades for

help, an AFSCME official said, he was told: "You owe the people of Memphis an apology. Those niggers didn't work. Someone might have slipped on the ice and gotten hurt."

ORGANIZING OTHER POOR WORKERS

There are many poor workers outside the ranks of public employees, of course, and some unions are making slow strides in organizing them.

The Amalgamated Meat Cutters Union has grown the last 10 years as it organizes low paid workers in fish canneries and other food processing plants. "The lowest paid workers are so depressed that they are difficult to organize," said Leon Schachter, a vice president of the union. "And if we organize one plant, it's not going to be able to stay in business unless we also can then organize its competitors."

Although the general record of the AFL-CIO in recent years has been to avoid trying to organize the lowest paid workers, a major exception has been the federation's considerable efforts to help Cesar Chavez's United Farm Workers Union. But even here, as George Meany revealed to us in an interview, traditional trade unionists are troubled.

"We have poured into California since 1959 close to \$3 million to try to develop a farm workers union that would be effective," said Meany. "Now, we haven't succeeded.

"We've got a union out there that makes a lot of noise, but in my book it's not what I would call an effective, solid union. That union is not a union in the sense that it makes contributions to the working of this organization. In other words, it's a union that gets funds from us that are given to us by other unions."

Chavez and his followers bitterly resent what they consider to be this attitude of "business unionism." In their view, the union's success should be measured not only in the benefits won for some California farm workers, but in the union's catalytic effect in raising the pride and hopes of poor Mexican Americans throughout the country.

The AFL-CIO has argued for years over whether the national labor federation should play a more active role in union organizing rather than leaving the task almost entirely to the individual international unions. In leaving the AFL-CIO the United Auto Workers listed as a major reason the unwillingness of the federation to engage in a massive coordinated organizing effort.

A superficial glance at the AFL-CIO's payroll would indicate it is in organizing in a big way, since 140 persons are listed as organizers. However, it is an open secret that the majority of these "organizers" spend a great deal of their time, particularly in election years, working on political campaigns. "All our people will work some in politics this year," said William Kircher, Meany's director of organization.

If the AFL-CIO were more interested in organizing, there are various groups of poor workers interested in being organized.

The National Committee on Household Employment has repeatedly and unsuccessfully sought help from the AFL-CIO and individual unions in its efforts to help organize and establish basic benefits for the nation's 2 million domestic servants.

"We get a lot of words from the unions but absolutely no help," said Edith Sloan, executive director of the Household Workers Committee.

"If I was with the AFL-CIO I don't think I'd be highly motivated to help us. Our people have traditionally been ignored. It would be a very difficult and expensive job to help them. It's a very altruistic step. It takes a very high level of commitment which we don't find exists even among very liberal people today."

AFL-CIO leaders dismiss the effort, saying household workers would be too difficult to organize because each works for a separate employer.

Another group which the AFL-CIO has refused to help is pulpwood cutters of the Southeast who have organized themselves into a group called the Gulf Coast Wood Haulers Association.

"The AFL-CIO and its unions just don't seem interested in helping a bunch of poor Southern people who are just fighting to stay alive and are up against the power of the big paper companies," said Jim Simmons, president of the association. AFSCME did contribute \$1,000, he said.

Kircher said the AFL-CIO couldn't help the organization of pulpwood cutters because many of them might be legally classified as independent businessmen.

Ironically, unions are not expanding in size and power in part because the building trades still vigorously resist attempts to open up their membership, particularly to black workers.

The federal courts have ruled repeatedly in recent years that building trade unions continue to bar black workers despite court orders, despite the qualifications of the workers and despite a shortage of workers in skilled trades.

A Federal Court of Appeals in New York, for example, ruled that Local 638 of the Plumbers and Pipefitters had barred 169 fully qualified black plumbers. And the court noted: "There has been a shortage of construction steamfitters in the New York area in the post war era and as a result employers have had to spend substantial money for overtime."

In recent cases in Seattle, Chicago and New York, the federal courts have held various building trade unions in contempt of court for failure to carry out court-ordered desegregation plans. In holding the New York Lathers' Union in contempt, U.S. District Judge Marvin Frankel said:

"There is a deep-rooted and pervasive practice of handing out jobs on the basis of union membership, kinship, friendship and generally 'pull.' Numerous blacks, often with substantial, relevant work experience, vainly shape up at the union hall (waiting for job assignments) day after day during summer months at a time when inexperienced students and other inexperienced white men got jobs through people they knew."

Less well known are a series of federal court rulings holding that Northern industrial giants and their unions jointly discriminated against blacks. In a case against the Bethlehem Steel Co. plant in Lackawanna, N.Y., and the United Steel Workers, a federal court of appeals said of company and union practices:

"A microcosm of classic job discrimination in the North. Job assignment practices were reprehensible. Over 80 per cent of black workers were placed in 11 departments which contained the hotter and dirtier jobs in the plant. Blacks were excluded from higher paying and cleaner jobs. . . . The pervasiveness and longevity of the overt discriminatory hiring and job assignment practices are embodied in nationwide agreements negotiated between the company and union in 1963, 1965, and 1968."

Civil rights leaders say that the only change in the building trades in the last 20 years has been the names of the plaintiffs on the lawsuits. Many union officials still express unconcern.

Yet there are signs that the building trades may open their doors to ward off non-union competition.

"The building trades, by and large, have done very little organizing," said Robert Connerton, general counsel of the Laborers Union, which is one building trades union with substantial black membership. "They've been sitting on what they have. But they've really been shaken up by growing non union competition. They're talking to themselves for the first time in 10 years about organizing and a number of them are very intent to get out and organize."

Another phenomenon in the union organizing scene today is the growth of new unions, which organize very poor workers only for the mutual benefit of the union builder and the employer. Justice Department officials are attempting to keep track of a flurry of new unions whose officials have made large sums of money without providing any apparent services to their low-paid members.

Thoughtful critics point out that the unions would have trouble meeting the needs of the unorganized poor even if they mounted massive efforts and ended all discriminatory practices.

AFL-CIO Organizing Director Kircher described as typical a recent Arizona situation in which the federation tried to help organize laundry workers who are paid \$1.15 an hour and receive no other benefits except the right to one week's vacation after five years of service. The laundries fought against unionization in the courts and National Labor Relations Board for five years. The workers voted 10-1 in favor of a union but still don't have one.

As in other such lengthy legal struggles, Kircher said, many of the workers lost their jobs as well.

Kircher raises questions about the broad economic problems inherent in what University of Maryland economist Bennett Harrison calls the "secondary labor market," which is characterized by low pay, casual work and no union organization.

Harrison says 11½ million persons work full time in secondary market jobs which pay less than the minimum wage. "The employers don't mind the instability of their work force," Harrison said. "They encourage it. The jobs are simple.

People don't stay around very long, and if they did they might get the idea to start a union."

Harrison and others say it is unfair to place the total blame for racial discrimination on blue collar union workers.

"The real problem is that there simply are not enough jobs that pay a living wage in this country," said Harrison.

"The classic strategy for political rape is to turn the blue-collar worker and the poor against each other. It is politically cruel and brutal to attack these fundamental structural problems in the economy as if they were just problems of blue-collar racism. We have to deal with the structure of the economy and that means create more jobs. Manpower training programs for the poor are worthless if we don't have more jobs.

Harrison and others believe that the private sector of the economy, even in the best of times, cannot produce enough jobs to provide a living to everyone in the work force. He believes that the country must provide more work by creating public service jobs, a concept supported by union leaders.

THE UNIONS—X: A BASIC PROBLEM: WORK ATTITUDES CHANGING

(By Haynes Johnson and Nick Kotz)

James Humphrey reports to work on the automobile assembly line at 6 o'clock every morning. For the next five hours he stands in place spotwelding nine rear seat bracket parts as the cars roll by 58 times an hour. At 11 o'clock he takes a 30-minute break for lunch gulping coffee and eating a pre-packaged hamburger out of a vending machine.

"It's slop," he says, "it's bad food. They put that hamburger in the machine and if you don't buy it today it's still there tomorrow."

Then he returns to the line. For three more hours he continues spotwelding those cars 58 times an hour.

Humphrey is 26, black and unmarried. A shy, slender man, he is not given to emotional expressions of anger. When he speaks critically, he does so quietly.

"Sometimes you get the feeling you just want to stop this God-damned machinery," he says. "That happens all the time. You're nothing but a tool. But there's nothing you can do about it. Just keep pushing. Try to make it till 2:30. Keep on every day."

Some day Humphrey wants to get married and have children and some day he wants something better. "Right now I can't better myself," he says. "Maybe some day I can work myself up." As far as the children he may have, "I want them to be anything but a factory worker," he says. "Any kind of a job except a factory worker."

In our experience, Humphrey's discontent is not unusual. His attitudes about his job add up to a problem for his union, his company and his country. Of all the problems we have explored over the past nine days in these articles, nothing is more fundamental than the changing attitudes about work in America. They pose perhaps the greatest challenge for the unions and for American society.

Thoughtful people representing labor management and government are aware of the complexities and difficulties of this challenge, but the general public does not seem to recognize how serious it is. Perhaps America's preoccupation with its immediate problems—the war, the state of the economy, the spreading drug culture, the struggle of minorities to achieve a more equitable place in society, the lack of faith in established institutions—has obscured even more basic questions. These are how to make work itself more attractive and meaningful, and how to improve the quality of life—on and off the job.

"FEELING OF FRUSTRATION"

"We see a potential problem of vast significance to all industrial companies," said Walter Dance, senior vice president of General Electric, at a stockholders' meeting. "This involves the slowly rising feeling of frustration, irritation and alienation of the blue-collar worker, the 'hard hats,' if you will, but not just the activists in big cities. It involves a gut feeling on their part that industrial society has left them with the dull, hard, dirty jobs—and doesn't care."

From inside organized labor came another viewpoint.

"The reality is there is a system, and as long as the job controls the man rather than the worker controlling the job, I think you're going to have difficulty," said Doug Fraser, a top official of the United Auto Workers, the second largest union in America. "Some people could argue maybe we should change the system, that being the problem. We should have workers in groups of 20 rather than 60. Every hour they're doing the same thing, job after job. So restructure the whole work place. Put a team of 20 and build a car from the chassis up and thereby give the workers greater satisfaction and a greater sense of achievement.

"There are two problems connected with that. I don't think we actually have the floor space to have that kind of system. And I suspect if you assembled a car in that fashion the car would cost about \$25,000."

Some companies—notably Chrysler—are experimenting with new ways to combat the dehumanizing monotony of the factory job.

William O'Brien, Chrysler's vice president for personnel, says in some plants his company is applying a team-concept of letting a group of workers build an entire component rather than each man doing only a small part of the whole. "We've had some favorable results from that," he says, "but we've just started this really. We have done it on a small scale."

ABSENTEEISM A SERIOUS PROBLEM

O'Brien added:

"We start with the premise that the society in our plants is just the same as society in general. I think the problems with the young workers are the same problems with the students and the young militants. I think a lot of it comes from the fact that they are better educated than we were at the comparable age and the media have informed them more about what is going on in an industrial society. They don't like the routine, repetitive jobs. And money doesn't seem to have any impact. When we were working six days a week a few years ago our worst absentee day was Saturday. And Saturday was time and a half. We think absenteeism is more prevalent among these younger people than the older. It's a serious problem."

Our experience of examining the labor unions these last three months leaves us convinced the problem is more serious than even he realizes. In these articles we have focused particularly on the attitudes of young workers—not because it is fashionable to look at the young, but because they seem to represent something significantly different.

Of a work force of some 80 million Americans, more than 22 million today are under 30. The number of these young workers is expected to increase in the years to come. Among that group we found the most striking evidence of frustration, anger, rebellion and disenchantment. The way they feel about their jobs—and their union and their company—goes far beyond their own personal satisfactions. It affects such basic questions as productivity, pride in craft, the ability to remain competitive and a willingness to accept the goals and standards set by both unions and companies.

Not surprisingly, the young workers we met were also the most afflicted by another American phenomenon. The desire for more—and more today, not tomorrow.

"WHY ARE THEY SO DISSATISFIED?"

"Why do our guys have to attain, attain and attain levels of living beyond anything dreamed of by their parents or grandparents?" asked James O'Brien, the political director of the United Steelworkers of America. "Why are they so dissatisfied, unhappy, rebellious, and so on?"

There are, of course, no simple answers. More than one person pointed to what they believe is a general down-grading of the worth of the skilled worker in America. The worker, they say, is made to feel that manual labor is demeaning. He aspires to achieve what he thinks is a more respectable and rewarding white-collar professional job. In that sense, perhaps the dynamics of the American system have had unfortunate effects that no one ever intended.

"We are guilty of this," said Joe Valdastrì, business agent of a Sheet Metal Workers union local in Florida, "because we have built a fat cat over the last six to eight or 10 years.

"The worker goes in over his head. He moves into a neighborhood where he has accountants, attorneys, professional and semi-professional people living beside him. He's a little bit ashamed to be a sheet metal worker. He leaves his

home in dungarees and he sees the others coming out in a white shirt and tie. And he kind of disassociates himself from his union.

"He goes to a cocktail party and he meets a journalist, an attorney, a dentist, and they say, 'What do you do?' and he says, 'Oh, I'm a sheet metal worker,' and they say, 'A sheet metal worker?' He's ashamed to be a sheet metal worker. But he's earning just as much as these people, and in a lot of cases like teachers and accountants he's making a helluva lot more. But it's the old white-collar syndrome, you know."

The result, as Valdastris says, is "we've built a middle-class snob."

UNION LEADERS SHOW CONCERN

Among union leaders, there is no lack of concern or vision about these problems. To a man, they speak of the need to be more creative and imaginative in the future.

Lane Kirkland, the No. 2 man in the AFL-CIO and most likely successor to George Meany, recalled an incident involving Sen. Edmund S. Muskie and the frustration of one worker. Muskie told Kirkland he had stopped to chat with a girl working in a shoe factory while campaigning recently. The senator asked what she did on the job. All day long, she said, all she did was put a drop of glue on the heel of a shoe and then apply patent leather. Muskie asked how she liked her work. She hated it, she replied.

"Well, of course she hated it," Kirkland said. "We have to pay more attention to the fact that people have got to do something more with their lives outside of their jobs. A man's life is becoming less and less a totally job-centered thing.

"But the job is still the secret to a guy's general happiness and attitude. If you like your work, you're happy. If you don't, you're miserable.

What complicates the situation is that both labor and management today are faced with a number of critical and complex problems—and the anti-Establishment, the I'm-out-for-my-own attitudes and the new values about the worth of work compound these difficulties. There exists among labor and management today a sobering recognition that they are all facing some new and hard realities, that America's resources and its capacity for affluence are not unlimited, that the uncontrolled appetites of big business, big labor and the rest of us consumers have led the nation into hard times.

One corporation executive, who did not want to be identified, posed the problem this way.

"THE 'PASS THROUGH' THEORY"

"Big business could accommodate a lot of stupidity at a time of great prosperity," he said. "But now the mistakes we made in the past are coming back to haunt us. We came to believe during a period of boom that we could do no wrong. In the short run, we couldn't. Everybody operated on the 'pass through' theory. So what if wages went up? We could always pass it through to the consumer.

"Both big labor and big business in effect knowingly did this without too much reflection that they eventually were going to hurt 200 million people as consumers. Now let's look at the new power conglomerations in this country and the effect they've had on everyone. We've had three major strikes the last five years with enormous disruptive effects on the economy. Consider them: Ford, the nation's second largest company, 49 days in 1967; GE, the fourth largest, 101 days in 1969 and 1970, and GM, the largest, 67 days in 1970.

"The country has never had these massive kinds of confrontations which get more massive as the companies and the unions grow and become more important to the economy. The same thing could happen with public employees as these unions continue to grow. The GM strike, for instance, affected many different parts of the country and many different groups of employees. Its GNP is larger than that of many countries, and the effect would be that of a general strike in a Latin American nation."

Business executive and union official alike are puzzled about what satisfactory device could replace, modify or improve the present system of collective bargaining. Aside from the transportation industry, neither big business nor big labor wants a system of mandatory arbitration. Neither side wants to place that much power in the hand of either the government or an outside arbitrator.

AFL-CIO President George Meany and I. W. Abel, president of the United Steelworkers of America, are among those who think America may have reached

the point where the day of major strikes is ending. Abel also thinks the unions and management inevitably are moving closer toward accepting the idea of some kind of binding arbitration, in whatever form that may finally take.

Indeed, in talking to both labor and management officials one comes away with a feeling that they have far more in common on most issues than in conflict.

"SENSE OF SOCIAL CONSCIOUSNESS"

Again, to quote the UAW's Doug Fraser: "Management has developed a sense of social consciousness that they never had before. Even 10 years ago, the traditional position was that the problems of society were none of their concern. Well, that's changed. And that's to the good."

Neither is it unusual to hear top management express respect for the unions. "I think unions serve a necessary function," say Chrysler's William O'Brien. "They came into being because of management abuses, and I don't think a man in industry dealing with the unions could last if he's anti-labor. He couldn't be at all effective."

Top labor and top management face similar problems in another respect: the increasing demands for more from the workers they represent and employ. As a distinguished Washington economist said, that situation raises another paradox. He senses structural changes in the labor movement, with weakened national leadership and stronger rank-and-file membership producing a trend without parallel in American history—high wage demands coming at a time of high unemployment.

Part of the reasons for this, he suggested, are rooted in larger changes taking place in American society. We live in a time when people at the grass roots are demanding more power and greater participation. The unions are affected by these conditions in two ways. Both the ability of workers to approve or disapprove their leaders' collective bargaining agreements and the I-want-mine-now attitude of members have weakened the ability of national union leaders to moderate wage demands and strategy.

No advanced industrial society, he went on, has been able to reconcile three fundamental areas: full employment, price stability and free institutions.

"PERMANENT INCOMES POLICY"

"You can pick any two of those and achieve them," he said, "but not all of them together. We're going to be forced, whether we like it or not, into some kind of permanent incomes policy in America. The unions haven't faced it."

The country, in fact, hasn't faced it.

At the heart of labor-management questions are fundamental disagreements about how the American economic system should function—about how the pie should be divided and how capitalism should operate. Business argues that labor has crippled the American free enterprise system by demanding and getting more than is rightfully its productive share of new wealth. Labor argues that business seeks to shift more of the total wealth away from workers' salaries and toward dividends, capital gains and property.

While they are debating those questions, other critics of the economic system are making a different kind of argument. Neither business nor labor, they say, has paid sufficient attention to other inadequacies. The system clearly isn't working perfectly if 11½ million full-time workers—one-seventh of the total workforce—are earning less than the minimum wage of \$1.60 an hour.

That is not the only unanswered question involving American workers.

Business and labor leaders recognize that society must also come to grips with the enormous displacement of manpower caused by constantly changing technology and automation. Business, to be more efficient and meet increasing competition, needs to employ more advanced techniques of increasing production. But it is only natural that labor unions and their members will vigorously resist innovations which they see as displacing their jobs. Such has been the case, for instance, in the construction and newspaper industries.

In construction, the failure to resolve differences over new production techniques and business modernization in part have resulted in runaway costs. Everyone has been hurt. Faced with similar problems, many newspapers have gone out of business. Others have sought to break unions.

These are not economic questions alone. As we have reported, something needs to be done to make the assembly line production more attractive—some

process that makes work more satisfying and also increases productivity. Today, as the level of expectations of American workers continues to rise, there is an inevitable collision between rising educational attainments and rising technological changes. To put it simply, better educated workers are being asked to do simpler and less challenging work.

All these are among the dilemmas facing the country and the unions.

In the past 10 days we have reported criticisms of union leadership and union practices, union democracy and union power. But let this also be said: the unions do not have a single problem that cannot be found in virtually every other area of American life, whether politics or business or in the labor relations of *The Washington Post*, including the newsroom of this newspaper.

The unions, like the country, are in a period of great change and challenge from within and without. Within labor's ranks there is no shortage of ideas about what is needed to meet these challenges.

Some say the unions must revitalize themselves and recapture the sense of idealism and adventure that, supposedly, characterized the early trade union movement days. They see this occurring only after the present top leadership changes.

Some say organized labor must reduce the number of international unions down from 130 or more to 10 or 15 big unions. This, they say, will permit the unions to save energy and money and stop the bitter jurisdictional struggles among themselves. It will enable labor to concentrate on much broader aspects of trade union work in education, in organizing the unorganized, in political and legislative work that affects every American.

Some say the unions must take the lead in the next stage on the road to industrial democracy. They mean that all the unions have accomplished in the past for the American working man—better wages, better working conditions, better benefits—have not been enough. The next stage, as Irving Bluestone of the UAW envisions it, "is going to move in the direction that society is moving. And that is more and more people are insisting to be part and parcel of the decision-making process which affects their welfare."

He thinks that the next step inevitably will come in the desire of workers to participate in the employer-employee relationships that determine the nature and conditions of their jobs.

"WE STILL HAVE POVERTY"

Some say unions must also guarantee more participation of their rank-and-file in the decision-making of their own unions. But they say the larger question involves giving citizens a greater voice in shaping the massive economic forces that affect their lives, whether unions or corporations.

"If you want to talk about the future of the labor movement, you've got to talk about the future of America," said Joseph Beirne, president of the Communications Workers of America. "The labor movement is but an instrument in our society. Every society may not need a labor movement. In a totalitarian one they don't have it. But in a society like ours, the labor movement is the only private organization in American life that's dedicated to the best interests of all the American people. And we still have a lop-sided society.

"We still have poverty. We still have discrimination. We still have inequality. We still have dirty, filthy cities. And we still have lousy services given to the people of this country. So you start making changes as best you can."

Beirne was expressing the best sentiments of organized labor's historic tradition—to improve American society. The early labor movement, as the present one, was marred by imperfections, by excesses and by positions over which honest men can disagree in a democracy. The American Federation of Labor of the 1890s had narrow and selfish interests, as do most American institutions. But it also had idealism.

"We want more schoolhouses and less jails, more books and less arsenals, more learning and less vice, more constant work and less crime, more leisure and less greed, more justice and less revenge," said Samuel Gompers, the first AFL president, nearly 80 years ago.

His kind of vision lives on in the labor movement today, Jerry Wurf, president of the American Federation of State, County and Municipal Workers, spelled out the imperfections and promises of organized labor.

As we have already said, Wurf's union is a model of vitality and democracy. Membership in Wurf's union is voluntary; you do not have to pay dues or re-

ceive the union's permission to work. It is also a union that works incessantly at communicating with its members and in espousing causes that many other unions shun.

"The sorriest thing that ever happened to some unions was when they started looking at their balance sheets," Wurf says, "when they began accumulating large amounts of dollars. Some unions can accumulate members and dollars, some unions can accumulate members, dollars and good conditions of employment. Some unions can indulge in pure trade union responsibility, which means narrow economic needs for its members. And some unions really understand the role of a trade union as an institution in a society."

Then Wurf said:

"The litmus test of a free society is a vital labor movement. Sorry as our labor movement has been at times in its history, I think you'll find that the vigor of a society is closely related to the vigor of the trade union movement.

"And I would say to you that if you have a dull, meaningless, unconcerned labor movement, you'll find there's a very important lack in the society in its narrowest and broadest sense."

The American labor movement is neither dull nor meaningless. Its problems are serious, its potential great. It can and should be better. Its future is uncertain.

In all of its strengths and weaknesses, it is a reflection of the country itself.

Senator JAVITS. If you have a comment on my questions, Mr. Denison, please include it in the record.

Chairman PROXMIER. Some of the questioning this morning indicated we have something new in the lack of responsiveness to material reward by workers in producing more. I think that is about as old as anything I can think of.

At least 33 years ago at the Harvard Business School they were teaching this. One of the studies was by a man by the name of Chester Barnard, an executive with the New Jersey Bell Telephone Co. What he discovered is that workers are motivated, even on a piecework basis, not by the amount of money they get as by the kind of informal operation that they operate, the media in which they move, and the leader is not always the foreman but some leader who may not be a man of particular intelligence or personal force.

He has the personality or the drive or the something that tends to energize and direct and move that group. I think we are overlooking this in our discussion. Of course, it is very hard for the Federal Government to do anything about that except to try to make management conscious of this personal aspect, conscious of the importance of trying to inform as many of their employees as they can about what their own motivations are, trying to get close to people who have these informal leadership qualities.

Do you have any thoughts on that, Mr. Denison? I think you have done as much work and as much thinking in this area as almost anybody I know.

Mr. DENISON. Really nothing but what you said, that business does worry about this. I don't know what the Government can do to go further on this particular aspect.

Chairman PROXMIER. Maybe just knowing about it. We have had these hearings now for a couple of days and it is the first time it has been mentioned, to the best of my knowledge.

Mr. DENISON. I might say this youth attitude is one of the things among several I had in mind when I said that, although as far as I can judge the data up to this point in time indicate nothing has gone wrong, I am not forecasting. There are some things on the horizon that might make things go wrong. I don't know that a change in atti-

tudes of young people is going to worsen productivity. I am very dubious, but it could.

Chairman PROXMIRE. You have been challenged in another area I didn't mention. That is the area of education. A number of witnesses yesterday, and our principal witness today, indicated they are concerned about the effect of education on productivity. Senator Percy alluded to it. You cite education as an important identifiable factor in the growth problem. I guess that is where I identify with you more than anything else.

I sometimes hear a concern expressed that too many of our young people are going to college today rather than taking specific vocational training.

Do you share this concern or do you feel more widespread higher education will continue to make a positive contribution to the growth of output as well as making better citizens and a better country?

Mr. DENISON. The answer is I don't share this concern. However, I might mention that there is one thing that does sometimes trouble me. If we ever get the attitude that a particular degree or particular kind of education entitles you to a particular kind of job, then this attitude will become very troublesome.

But so long as we can operate in an environment in which each man uses his skills as best he can, and if he can't find a job that is exactly what he is trained for he does something else, then I have no concern. But I do worry a little bit about a tendency toward stress on formal credentials for jobs.

Chairman PROXMIRE. Let me ask this one other question. Yesterday, I pointed out the Wall Street Journal had an article saying if President Nixon is reelected, watch out, because if you think you have seen cooperation with business in the past, you ain't seen nothing yet; you are going to get an attitude of encouraging mergers; an attitude that we need less competition; an attitude that you will have Government in bed with business all the time, without the kind of oversight, the kind of competition, we have had in the past; that we would have less competition rather than more.

I think both of you men are equipped to answer this. Mr. Rosow, you have worked with the Nixon administration.

Mr. Denison, you have been citing the fact that this country does lead the world and competition is one of the reasons for it. The fact is we have had a relatively strong antitrust policy and do not encourage mergers as other countries do.

Mr. Rosow, do you think there is anything in that article? Is it possible that the Nixon administration would take a different attitude toward competition?

Mr. Rosow. Personally, I doubt it. I think the fine work Secretary Peterson did when he was the international economic adviser to the President, which suggested some reference to Japan Inc., and their different attitudes toward monopolies and cartels has been probably misconstrued to suggest that he wants fundamental reform in the anti-trust legislation.

I would like to return to a remark you made earlier, because I couldn't miss the opportunity in this testimony to applaud what you said about the Burke-Hartke legislation. I think that is a classic example of a response to a problem of unemployment and drawing the

wrong conclusions, to try to change national policy to effect free trade, world competition, by building barriers against that and, in a sense, really, threatening world peace in the long run.

I think the AFL-CIO is misguided in its strong push for this type of legislation which is really in a sense attempting to protect this country from competition, and in a sense, saying that we are not able to compete efficiently and, as Mr. Denison has pointed out, we still are highly efficient with a great prospect of our continuing to be so.

We should keep the walls down. I think President Nixon's program on international economic reform, phase I and phase II of that program, is really directed at making us more competitive.

Currency realignment was one step in that process. I don't believe there is any plan to reduce competition in the United States in terms of antitrust policy.

Mr. DENISON. I certainly can't speak for the administration but I am not aware of any basis for a forecast that it plans to move in the direction the article suggests.

Chairman PROXMIRE. What is your reaction to this argument? Members of this committee have indicated that they think our antitrust laws are wrong and that they do discourage what they think would be constructive mergers and diminishing competition within the country but emphasizing competition with other countries.

Mr. ROSOW. In a word, I am very strong for keeping competition as strong as we can, including foreign competition.

Chairman PROXMIRE. Do you feel we need a more vigorous rather than less vigorous antitrust policy?

Mr. DENISON. I am not an expert on all aspects of those laws, but as a general answer, very definitely yes.

Chairman PROXMIRE. Gentlemen, I apologize that it was so late before we called you before the subcommittee. You have done a fine job.

The subcommittee will stand in recess until 10 o'clock tomorrow morning when we will reconvene in this room. Senator Percy will chair the hearing.

(Whereupon, at 1 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, April 27, 1972.)

(The following information was subsequently supplied for the record:)

RESPONSE OF EDWARD F. DENISON TO AN ADDITIONAL WRITTEN QUESTION
POSED BY CHAIRMAN PROXMIRE

Question. You heard Mr. Grayson this morning. He is very dissatisfied with the present definition of productivity.

What do you think of his plea for a broader definition, one that will encompass quality as well as quantity of work? Have you tried to measure quality of work? How would you go about measuring the satisfaction that Proxmire gets out of browbeating witnesses? Or as I misinterpreting Mr. Grayson?

Does such a broader definition not lend itself to manipulation in the hands of the unscrupulous? It reminds me of attempts to downgrade the unemployment statistics—that somehow women and children unemployed count for less?

Answer. I think your implied disagreement with Mr. Grayson is just a question of terminology, though an important one. Mr. Grayson probably has in mind that the object of policy should be to maximize human satisfactions, or happiness, and I imagine we would all agree with this. But the word "welfare" can be and usually is used to convey our meaning when we wish to talk about human satisfactions. The preamble to the Constitution says it was adopted to promote the

general welfare. Some have criticized GNP because it is a measure of production rather than a measure of welfare and think GNP should be converted to a measure of welfare. We cannot measure welfare, and the problem of job satisfaction is only one of many immeasurable elements. But even if we could measure welfare, we would still want a measure of production. We would also want a measure of productivity to tell us how the amount of production we obtain per unit of input is changing. It would be a mistake to redefine production and productivity to make them synonyms for welfare. We need measures of productivity as now defined even though a 3 percent rise in productivity does not mean a 3 percent rise in total welfare any more than would a 3 percent decline in crime or pollution. We also want to be able to express views such as that a rise in productivity obtained at the cost of reducing individual liberty, or freedom of consumers' choice, may reduce welfare. There may be ways to raise job satisfactions, and hence welfare, without affecting productivity one way or the other. We would just have to find a substitute word for "productivity" to express such ideas if we were to adopt Mr. Grayson's suggestion.

IMPROVING NATIONAL PRODUCTIVITY

THURSDAY, APRIL 27, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 1202, New Senate Office Building, Hon. Charles H. Percy (member of the subcommittee) presiding.

Present: Senators Percy (presiding) and Proxmire (chairman of the Subcommittee on Priorities and Economy in Government); and Representative Moorhead.

Also present: Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. The final day of these hearings will come to order. Senator Proxmire will not be here today and has asked that I Chair the hearing. We have one diversionary political activity going on in the building; Senator Muskie is making a statement at 10 o'clock today. But our work must go on.

I am just delighted, and very pleased personally, to have today two very highly intelligent, provocative thinkers with long experience in their respective fields.

Mr. D. C. Burnham has had successful careers in both the auto and electrical industries. An engineer by profession, Mr. Burnham has given us a fascinating prepared statement which deals with banking, health care delivery systems, education, and comparative productivity growth. As the chairman of Westinghouse, Mr. Burnham manages one of the world's largest international corporations.

Mr. Burnham, I find your views on minority hiring and antipollution laws most provocative, for they seem to run against the grain of many more shortsighted views which we hear too often today. You very correctly bring such issues as these into the overall issue of improving productivity.

I welcome you as a man who, from the business community, I have admired. You are at the very top of your profession, and valued indeed is the friendship we have had and some of the travels we have taken together into many interesting parts of the world.

We welcome you today. I understand that you would like to give a summarized version of your prepared statement. A full copy of the resent undue blockages to this process.

prepared statement will, of course, be incorporated into the record. I will be happy to have you proceed.

**STATEMENT OF D. C. BURNHAM, CHAIRMAN, WESTINGHOUSE
ELECTRIC CORP.**

Mr. BURNHAM. In the interest of improving productivity, my full prepared statement, which takes 33 minutes to read, will be reduced to about 9½ minutes in its summary.

Mr. Chairman, I am happy to have an opportunity to testify at this productivity hearing, for two reasons. First, I believe strongly that the subject is one of vital importance to our Nation. And second, it is something I have been working on and closely concerned with my entire business life.

My career in both the auto industry and the electrical manufacturing industry has been devoted to finding ways people can do their jobs better and ways industry can meet people's needs better.

Make people more productive and you increase their standard of living. The problem in the ghettos of our cities may appear to be housing or sanitation or recreational facilities, but the real problem is productivity, or the lack of it, among the people who live there.

Just as productivity holds the key to the prosperity of the individual, so it also determines the success of a company in world competition. Why has Japanese industry done so well in recent years in the markets of the world? From 1965 to 1970, productivity in Japan rose 14.2 percent a year.

Productivity is the key to a third important problem—inflation. All of us in the United States have become so accustomed to successful growth, and to regular pay increases, that we have almost forgotten what it takes to provide those increases—without skyrocketing prices, that is. Each of us must produce more of his product or service to be paid more for doing it. If we are not more productive, the price of our product or service will go up and our higher paychecks won't buy us any more than they did before.

The battlefields of this fight against inflation are every place that human labor occurs, directly or indirectly. The factory is just one such place. People in all occupations—clerks, policemen, hospital employees, teachers, Congressmen, chairmen of the board—all must improve their productivity if society is to move forward.

But productivity improvement doesn't just happen. People must want it and plan it. I am convinced that people really want to be more productive, no matter what their job. They like to do things better. I'm sure when you drive to work in the morning, you try to find the route that will get you there quickest. There is no satisfaction in going the long way. But even though people want to be more productive, it doesn't happen without planning and organized effort.

I have found in my experience that a department which can improve its productivity 5 percent this year is the one which is likely to improve it 5 percent again next year. The department making only a 1-percent gain this year, probably will make only a 1-percent gain next year.

The difference is that the first department has people planning this improvement—doing research in new methods and new materials and developing new procedures. In the prepared statement I have

filed with this committee, I have cited a number of examples of productivity improvement, both in manufacturing and the services. I describe improvements now underway in fields of banking, communications, public transportation, education, health care, and county government.

Gentlemen, there is tremendous need and opportunity for productivity improvement in all areas, but especially in the services. We have just scratched the surface. I do not know of anything we are doing today that we cannot do better next year.

Now, let me turn to the question of what the Federal Government can do to help improve productivity.

To accomplish a major advance in productivity, I believe the Government should sponsor an intensive program, initiated and supported by both the Congress and the President. This program would have three parts:

First, there must be massive and continuous research and development to get facts we do not yet have and uncover answers to dilemmas we have been content to ignore.

Second, there must be a concerted effort to remove many of the roadblocks and restrictions to productivity improvement which presently exist.

And third, we must put substantial time, money, and evangelistic effort into the positive encouragement of productivity improvement.

This program should involve all sectors of the economy—the private sector—government—education. Its aims should include the improvement of the methods, facilities, procedures, and human motivation in all areas of work, but especially in the service activities where so little has been done.

Looking at this three-point program in a little more detail, we need research in a number of areas. One is methods of productivity measurement. One of the basic reasons why productivity has lagged in the service sector is that it is extremely difficult to measure. In such areas as health care, education, and police protection, for example, there is no convenient unit of output which can be related to the manpower required. The Federal Government could establish a task force to conduct research into methods of measuring the output of services to find units which could be the basis for productivity measurement.

Research is needed also for systems analysis in the services field.

There are a number of qualified private organizations, including Westinghouse, which could develop opportunities for productivity improvement from the viewpoint of complete systems—not piecemeal efforts—if funds were available to support such projects.

Perhaps more than in any other area, research is needed in the motivation of people. Last week's issue of Newsweek carried a full page on this point with the headline: "Too Many U.S. Workers No Longer Give a Damn." Why not? There is no simple answer. We find some techniques work in our plants; perhaps they wouldn't work elsewhere under other conditions. An overall study of motivation in American industry and the services would be extremely valuable. After all, people must want to do the job better. Under the right conditions, they do want to.

And research still needs to be done on materials, methods, and systems in industry. This is a never-ending task and demands continuous effort.

When I talk about removing roadblocks to productivity, I'm referring to such things as restrictive practices, fear of lost jobs, reluctance to invest in capital improvements.

I am aware that the subject of union contract provisions which prevent new and improved methods from being introduced is a sensitive area. All the more reason it must be recognized as a serious roadblock to improved productivity.

The fear of lost jobs would be greatly lessened if we had a broad-scale program to retrain people who are displaced by improved methods and equipment.

When new, more efficient plants and equipment are first put into use, the training of operators and the installation and shakedown costs usually reduce profits. This often causes business and industry to be reluctant to invest in more productive facilities. That is why a law like the investment tax credit is so important. It encourages investments to improve productivity under all business conditions.

The third part of the national productivity program—positive encouragement efforts—is essential. Without strong encouragement from the Federal Government and enlistment of support at all levels, no effort of this magnitude can be mounted or sustained.

Government can bring to this program massive scope and national priority. Business can supply the incentive and creative input that has always characterized the profit and loss system. American industry has led the way in industrial productivity improvement over the years and can do the same job in other areas, too. Big business is, above all, productive. Admittedly, it has a lot yet to learn, but it also has a lot to teach others. Business and government must carry this program forward together.

If we can move ahead in productivity improvement it will solve some of our most pressing national problems. It will provide a positive means of controlling inflation by justifying higher wages through higher productivity. And it will be a means of maintaining leadership in the world economy of the seventies.

I thank you for inviting me here today to express my views.

(The prepared statement of Mr. Burnham follows:)

PREPARED STATEMENT OF D. C. BURNHAM

Mr. Chairman, I am happy to have an opportunity to testify at this Productivity Hearing for two reasons. First, I believe strongly that the subject is one of vital importance to our nation. And second, it is something I have been working on and closely concerned with my entire business life.

Even earlier, in fact.

If you will forgive one brief reminiscence, the first time I was invited to Washington to talk about productivity I was 14 years old. I had built a rubber-band-powered model airplane that flew more minutes than its competitors and won an international championship. It was a more productive device. And as a result, I was invited by President Hoover to demonstrate its capabilities at the White House.

I guess I've been hooked on the subject of productivity improvement ever since. I studied mechanical engineering at Purdue University; began my career as a methods engineer with General Motors; came to Westinghouse in 1954 as vice president of manufacturing, and have been chief executive since 1963. My career in both the auto industry and the electrical manufacturing industry has been devoted to finding ways people can do their jobs better and ways industry can meet people's needs better.

When I talk about productivity, I mean the amount of goods and services produced by an individual. That is what creates the wealth of the world.

Make people more productive and you increase their standard of living. The problem in the ghettos of our cities may appear to be housing or sanitation or recreational facilities, but the *real* problem is productivity, or the lack of it, among the people who live there.

The real problem throughout the world is not underdeveloped countries, it's underproductive people. Only by teaching these people how to produce more and providing them with the tools and the opportunity for doing it, can we really improve their standard of living.

Just as productivity holds the key to the prosperity of the individual, so it also determines the success of a company in world competition. Why has Japanese industry done so well in recent years in the markets of the world? From 1965 to 1970, productivity in Japan rose 14.2 per cent a year. In Germany it went up 5.3 per cent a year. This compared with our relatively low rate of 2.1 per cent during that period. Our economic imbalance with countries such as Japan and Germany is basically a productivity imbalance. Until we improve our performance—and I believe we are doing so—we will continue to find ourselves in a state of economic imbalance with those nations whose productivity is rising faster than ours. And American companies will be having a tough time winning orders in the world markets.

Productivity is the key to a third important problem—inflation. All of us in the United States have become so accustomed to successful growth, and to regular pay increases, that we have almost forgotten what it takes to provide those increases—without skyrocketing prices, that is. Each of us must produce more of his product or service to be paid more for doing it. If we are not more productive, the price of our product or service will go up and our higher paychecks won't buy us any more than they did before.

In recent years, labor contracts in the major industries have provided far more in wage increases than we are getting in productivity increases. We've got to get this into better balance. And that means we must increase productivity to the greatest possible extent. The whole fight against inflation depends on it.

The battlefields of this fight are everywhere that human labor occurs, directly or indirectly. The factory is just one such place. People in all occupations—clerks, policemen, hospital employes, teachers, congressmen, chairmen of the board—all must improve their productivity if society is to move forward.

The first great productivity improvement efforts occurred in farming. Then manufacturing got on the bandwagon. To understand where our problems and opportunities are today, here is a table which shows the distribution of employment in the United States over the past 100 years in the three categories, agriculture, industry and the services.

DISTRIBUTION OF EMPLOYMENT

[In percent]

	Agriculture	Industry	Services
1870.....	47	27	26
1900.....	35	34	32
1930.....	20	38	42
1950.....	12	42	46
1970.....	4	38	58

About 100 years ago, the government began setting up land-grant colleges and initiating a long-range program to study how farming could be improved. Better seeds, better farm equipment, soil enrichment, crop rotation all added up to a basic productivity improvement program. And it has been so successful that now about 4 percent of the American people can raise the food needed to feed all the rest of us.

Then Henry Ford started turning out Model T's on an assembly line early in the 1900's and industry did a reasonably good job of productivity improvement over the next half century. For some years we heard a lot about the 3.2 per cent annual rate of improvement. This dropped off some in recent years but is moving up again now. But 3 per cent isn't enough. We have to do better. We need renewed effort to boost manufacturing productivity to a higher level. And I'm convinced we can do it.

Compared with the farm or factory, however, the services sector of our economy, which now includes about 60 per cent of our total employment, has been

the land of productivity famine. Here is the greatest opportunity for productivity improvement in this decade. It is estimated that, by 1980, there will be twice as many workers in the services as in the goods producing industries. And unless we do something to make those people more productive, the fight against inflation will be very hard to win.

Some data published a short time ago compared price increases which had taken place during the decade of the '60's. While new cars went up in price 2.1 per cent and electric appliances went down 3.3 per cent, what happened to two typical services in the same period? The cost of medical care went up 46 per cent and the cost of public transportation went up 43 percent.

Why the great difference? Productivity improvement had occurred in cars and appliances, but not in medical care and public transportation. Higher pay for services employes must be accompanied by greater improvement in their productivity.

It was suggested to me that you would like to hear a few of the things Westinghouse and perhaps other companies are doing to improve productivity. I assure you, we put a great deal of money and effort into it. Much of the \$200 million Westinghouse spent last year on new and improved facilities was aimed at productivity improvement. We expect to spend even more this year.

In manufacturing, as you know, Westinghouse produces heavy apparatus such as turbine-generators, nuclear reactors, big motors and control equipment. And we also produce small assembly line type products such as home appliances, lamps and the like.

But any type and size of operation lends itself to productivity improvement. I am convinced that people really want to be more productive, no matter what their job. They like to do things better. I'm sure when you drive to work in the morning, you try to find the route that will get you there quickest. There is no satisfaction in going the long way. But even though people want to be more productive, it doesn't happen without planning and organized effort.

I have found in my experience that a department which can improve its productivity five per cent this year is the one which is likely to improve it five per cent again next year. The department making only a one per cent gain this year, probably will make only one per cent again next year.

The difference is that the first department has people planning this improvement—doing research in new methods and new materials and developing new procedures. There also has to be motivation, with goals and targets set and with rewards for achievement.

When we planned our new turbine plant at Charlotte, North Carolina a few years ago, one of the principal goals was high productivity. As a result, at that plant we can build a low-pressure steam turbine of the kind used in a nuclear power plant in 30 weeks. Four years ago in our older turbine plant the lead time for the same type turbine was 58 weeks. This was accomplished by planning the most efficient manufacturing methods known. We applied the latest computer-controlled machine tools and the latest in material handling techniques.

For example, to handle the heavy lifts at this plant, those big overhead cranes are controlled by a man right down on the shop floor where the work is. He wears at his belt a radio control unit like a transistor radio. No longer is it necessary to have an operator located up on the crane; he can move around now and be doubly effective.

With advanced tools and techniques, people usually find their jobs more interesting and often less strenuous. In fact, the more we can take the need for human muscle out of the job, the more productive the worker becomes.

An example of that is a new tool we are using at our turbine plant in Lester, Pennsylvania. It is a relatively low-cost automatic hammer, called a "peening gun," which has reduced a difficult 20-minute job to about 90 seconds.

The problem was this. On the end of turbine blades are projections which fit through holes in a large ring, much the same way spokes fit in a wheel.

It used to take a workman 20 minutes with a round-headed hammer and a strong right arm to pound the blade projections into just the right shape so they held firmly after being fitted into the ring. Now, with the air-driven tool, the shaping job not only is done faster and with better quality, but it isn't as tiring on the operator.

I would cite a great many productivity improvements in manufacturing, but in the time available to me, I would prefer to go on to some of the things being done to improve productivity in the services where it is so desperately needed.

My colleagues on The Business Council discussed this subject at some length

last fall and it was encouraging to find them in agreement that much can indeed be done.

Mr. David Rockefeller related how commercial banking is making an intensive search for ways to improve its productivity—and with good results. He described how Chase Manhattan Bank revamped its whole system of budgeting and changed its accounting system in significant respects to bring its costs under more effective control. And he told how the supervisors of such work as processing of checks, money transfers and the handling of securities now have a keen awareness of the significance of reducing costs. They are applying some of the principles of industrial engineering to this so-called "back office" work—scheduling work flows and shifting employes between functions so as to maximize productivity. And he told of increased use of special-purpose office equipment and emphasis on employe training.

Mr. Rockefeller summarized the results in these words:

"The combination of these techniques has succeeded in raising productivity quite markedly in our bank operations area.

"Comparing the first six months of this year (1971) with a similar period in 1970, we estimate that productivity is up as much as 10½ percent."

Mr. H. I. Romnes reported on the productivity efforts in the Bell System at the meeting. Advanced technology has reduced the number of Bell employes per 10,000 telephones from 148 back in 1950 to 80 in 1971. He said that, while the Bell System expected technology to continue to provide improvement, it also seeks productivity gains in labor-intensive segments of the business—such as connecting and disconnecting telephones.

By now the public is familiar with what he had in mind on that point. The telephone recovery program called "Snip-and-Take" has made possible a real productivity gain. Bell customers in certain areas of the country who are planning to move are asked to cut the cords of their phones and take their telephones with them. This not only saves time in sending a service man out to disconnect and connect the phone at both ends of the move, it also has cut telephone losses through theft in rather spectacular fashion. As an incentive to participate in this clever productivity advance, the telephone company's customers receive a credit on their phone bill.

I mentioned the need for greater productivity in public transportation. If you have flown into Tampa, Florida, recently, you saw at the new Tampa International Airport one of the things we've done to improve the productivity of the airlines, speeding operations and saving time for the airline passenger by taking the walking out of flying.

Instead of those long walks common in most large airports, the passenger at Tampa simply steps aboard one of the eight automated, rubber-tired vehicles which swiftly and quietly moves along its own right-of-way to whisk him to or from his boarding location. It is a sort of horizontal elevator extending to the far reaches of that large airport.

These unique airport shuttle vehicles, carrying eight million people, have traveled a total of 380,000 miles in their first full year of operation. Westinghouse is installing the same type of system at the Seattle-Tacoma International Airport. And Allegheny County is planning to build a big brother of this system as part of its Early Action Program to serve the Pittsburgh area.

Of course, San Francisco's new Bay Area Rapid Transit System also marks a major productivity advance for the commuter. Urban transportation offers a tremendous opportunity for productivity improvement in almost every major city.

For too many years our schools and our teachers' jobs have been virtually untouched by productivity improvement. Here, too, things are being done. I have visited secondary schools in two different states, along with people from the Westinghouse Learning Corporation, to see for myself what happens when our system of individualized learning called PLAN is in use. PLAN is a computer-managed instruction system in which each student receives an individual program of study in science, math, social studies and languages, complete with instructions.

When I walked into one of these classrooms, I noticed different groups of students each doing "their own thing." Two students are listening to a tape-recording of a poem about which they were going to write a report. Two others were looking at slides. Three or four were sitting around a table doing math problems. And several were discussing a report with the teacher at her desk.

When those students came into class that morning, they saw on the bulletin board the individual assignments which the computer had printed out for them

to work on that day. At the end of the day, they would turn in their completed work for the computer to grade overnight. The next morning they would receive an assignment of the next learning unit, or perhaps instructions to repeat a unit if they hadn't done so well on it.

In this way, each student can work at his own pace. He can move ahead as fast as he is capable and not be held back by a slower pupil. There was a board that showed where each student stood in each course. The kids seemed to love it. I never saw a class that held the students' attention so well.

The system is being used by more than 30,000 pupils in 76 schools located in 14 states. Administrators and teachers are enthusiastic about it, because it frees the teacher of burdensome clerical work and lets him or her use the time more creatively, either as a tutor in individual instruction or in small group counseling sessions.

At last we are beginning to find ways to improve the productivity of our schools.

Our hospitals and our doctors are equally in need of productivity improvement, as the rising cost of these services so clearly indicates. Things are happening here, too.

In 1967, engineers from the Westinghouse Health Systems Department joined physicians at the Johns Hopkins School of Medicine in a program aimed at improving the productivity of pediatricians. The program was funded by the Health, Education and Welfare Department's Bureau of Maternal and Child Health Services and is focused on the Johns Hopkins Child and Youth Clinic in Baltimore. Its implications are nationwide.

I'm told that today there are only 14,000 pediatricians in this country, and to fully meet the medical needs of American children we are going to need an estimated 80,000 by the end of the decade. To make today's pediatricians as productive as possible, the Hopkins-Westinghouse team of doctors and engineers studied precisely what the Johns Hopkins Clinic pediatricians were doing with their time. They measured efficiency, capacity and patient flow through the clinic, using closed-circuit TV as one of their tools.

The investigators learned, for example, that most of the examination procedure for babies not suffering from an illness can be conducted by physicians' assistants. The doctor is needed only to conduct the key parts of the examination or check our abnormal findings. The study included many other aspects of operating a clinic. The program clearly improved productivity. The Johns Hopkins Child and Youth Clinic now serves about 50 per cent more patients a day than before this program was undertaken. Patient waiting time has been cut in half and staff and budget levels are unchanged or reduced.

This program was so successful that it was exported to 16 other clinics throughout the country. The doctors and engineers put what they learned into a manual which made it possible for the other clinics to perform their own self-evaluation. All 16 have reported improved quality of care and productivity improvement. For example, the clinic at the University of Alabama has been able to increase its patient load from about 4,000 visits a month to more than 5,000. Nine more clinics have recently joined the program.

What about productivity in government, which is facing rising costs and ever-increasing demand for services?

Three years ago, Allegheny County in Pennsylvania contracted with Westinghouse to improve the effectiveness and efficiency of the County's numerous functions. So successful was this productivity program that, in 1971, Allegheny County received a national County Achievement Award.

One of the things done was to automate the voter registration file. As a result of decreased errors and the reduction of clerical effort required, the voter registration system currently is saving more than \$320,000 annually.

The County Health Department was also studied. It was found that more than 100 programs were being administered through 10 separate bureaus within that department. When the department was reorganized at its top levels, annual savings of another \$300,000 were achieved along with improved use of personnel.

The County Assessor's Office was shown how to use computer techniques to arrive at more equitable tax assessments. And the County's entire personal property tax role was automated and expanded. The result was an increased annual collection of \$275,000 for the 1970 personal property tax and collection of an additional \$750,000 in delinquent taxes from the previous three years. On top of this, the staff has more time to serve the public by providing information on the tax laws and procedures.

Gentlemen, there is tremendous opportunity for productivity improvement in the services. We've just scratched the surface.

Let me turn, finally, but briefly, to the question of what the Federal Government can do to help improve productivity.

To accomplish a major advance in productivity, I believe the Government should sponsor an intensive program, initiated and supported by both the Congress and the President. This program would have three parts:

First, there must be massive and continuous research and development to get facts we do not yet have and uncover answers to dilemmas we have been content to ignore.

Second, there must be a concerted effort to remove many of the roadblocks and restrictions to productivity improvement which presently exist.

And third, we must put substantial time, money and evangelistic effort into the positive encouragement of productivity improvement than we have put into any program since the major national effort in agriculture that began a century ago.

This program should involve all sectors of the economy . . . the private sector . . . Government . . . education. Its aims should include the improvement of the methods, facilities, procedures and human motivation in all areas of work, but especially in the service activities where so little has been done. Such a program, properly carried out, should make it possible to put all of our available technical people to work as well as the unemployed in any category. Better productivity creates employment, not unemployment.

Looking at this three-point program in a little more detail, we need research in a number of areas. One is methods of productivity measurement. One of the basic reasons why productivity has lagged in the service sector is that it is extremely difficult to measure. In such areas as health care, education and police protection, for example, there is no convenient unit of output which can be related to the manpower required. The Federal Government could establish a task force to conduct research into methods of measuring the output of services to find units which could be the basis for productivity measurement.

Research is needed also for systems analysis in the services field. There are a number of qualified private organizations, including Westinghouse, which could develop opportunities for productivity improvement from the viewpoint of complete systems—not piecemeal efforts—if funds were available as they were in agriculture to support such projects.

Perhaps more than in any other area, research is needed in the motivation of people. Last week's issue of Newsweek carried a full page on this point with the headline: "Too Many U.S. Workers No Longer Give A Damn." Why not? There is no simple answer and no single answer. We find some techniques work in our plants; perhaps they wouldn't work elsewhere under other conditions. An over-all study of motivation in American industry and the services would be extremely valuable. After all, people must want to do the job better. Under the right conditions, they do want to.

And research still needs to be done on materials, methods and systems in industry. This is a never-ending task, just as it is in agriculture, and demands the same continuous effort. At present, it is apt to be on-again, off-again thing with many organizations.

When I talk about removing roadblocks to productivity, I'm referring to such things as restrictive practices, fear of lost jobs, reluctance to invest in capital improvements.

I am aware that the subject of union contract provisions which prevent new and improved methods from being introduced is a sensitive area. All the more reason it must be recognized as a serious roadblock to improved productivity. The problem of restrictive practices in the construction industry is well known, as is the problem of strikes or slow-downs to oppose the introduction of automatic equipment in the factory. No productivity improvement program can be fully successful without dealing with these problems.

Obviously, human problems must be of primary consideration. The fear of lost jobs would be greatly lessened if we had a broadscale program to retrain people. It encourages investments to improve productivity under all business conditions, procedures could be modified to provide specifically for training in new skills.

When new, more efficient plants and equipment are first put into use, the training of operators and the installation and shakedown costs usually reduce profits. This often causes business and industry to be reluctant to invest in more productive facilities. That is why a law like the Investment Tax Credit is so important.

It encourages investments to improve productivity under all business conditions. I hope it is never again removed from the books.

There are some laws which may, at first glance, seem to be roadblocks—such as laws requiring the hiring of less-qualified minority workers. These laws are right from the human standpoint. But we know also that they are vital to productivity improvement in the long run for society as a whole. Every time an individual's productivity is increased, society benefits. The minority worker must have a greater opportunity to play a more productive role in our society if we are to solve our national problems.

In the same light, anti-pollution laws may appear to slow down productivity by raising costs. But we know we must have them. We know also, however, that it will take increased productivity to help pay for the cost of solving our pollution problems. This is one reason why productivity must not be relegated to second place in our national priorities.

The third part of the national productivity program—positive encouragement efforts—is essential. Without strong encouragement from the Federal Government and enlistment of support at all levels, no effort of this magnitude can be mounted or sustained.

Government can bring to this program massive scope and national priority. Business can supply the incentive and creative input that has always characterized the profit and loss system. American industry has led the way in industrial productivity improvement over the years and can do the same job in other areas, too. Big business is, about all, productive. Admittedly, it has a lot yet to learn, but it also has a lot to teach others. Business and government must carry this program forward together.

If we can move ahead in productivity improvement it will solve some of our most pressing national problems. It will provide a positive means of controlling inflation by justifying higher wages through higher productivity. And it will be a means of maintaining leadership in the world economy of the seventies.

I thank you for inviting me here today to express my views.

Senator PERCY. Mr. Burnham, I thank you very much indeed. Before asking questions of you, it might be well to have Mr. Strasser give his statement.

Do you have the time to wait?

Mr. BURNHAM. Surely.

Senator PERCY. I think there might be some advantage in having the response of both of you to certain questions.

Mr. Gabor Strasser is presently director for planning at Battelle Memorial Institute, the largest nonprofit industrial research organization in the world. Battelle is a leader in promoting practical scientific research.

I might say that I remember some years back, there was a little item called Xerox that they were deeply involved in and which was initiated through their efforts.

The implications for productivity in the promotion of practical scientific research are perfectly obvious, but Mr. Strasser is also engaged in such diverse projects as improvements in the work environment of Government decisionmaking. In a previous incarnation, as the Executive Director of the President's Panel on Scientific and Technical Policies, Mr. Strasser undertook to develop techniques for evaluating the total effects of potentially conflicting Government programs, and I find that his prepared statement offers a valuable viewpoint into the whole issue of how Government policy might be directed toward improving resource allocation.

As I look at both of these prepared statements, it seems as though they could have been written by philosopher-kings. They are excellent prepared statements. I look forward to asking some questions, because both of these prepared statements raise certain very provocative ques-

tions. I am particularly pleased that you have been willing to lend your talents to these hearings as anchormen.

Mr. Strasser, would you also give, in your own way, a summary of your prepared statement. Whatever you do not give verbally, of course, will be incorporated into the record in toto.

STATEMENT OF GABOR STRASSER, DIRECTOR OF PLANNING, BATTELLE MEMORIAL INSTITUTE, AND FORMER EXECUTIVE DIRECTOR, PRESIDENT'S SCIENCE AND TECHNOLOGY POLICY PANEL

Mr. STRASSER. Thank you, Senator Percy.

Mr. Chairman, members of the committee, thank you for inviting me to participate in these hearings. This current concern with productivity comes on the heels of many other problems. These include environmental pollution, urban blight, poverty, or the things that prompted the emergency of the technology assessment concept, Undoubtedly, still other problems are incubating for the future.

I was recently told at a symposium that we live today in an era riddled by crises. Then the speaker defined an era riddled by crises as a transitional period in between two other eras riddled by crises.

Of course, there is nothing new about the nature of this dilemma. What may be new, however, is that the manner in which we have been coping with our problems may no longer be appropriate due to the following two reasons:

One, in this world of ever-increasing complexity, the interrelationships of our various problems, as well as their solutions, have become ever more significant.

In spite of all this, our practice has been, and continues to be, to deal primarily with one problem at a time. Intuitively we know that this is wrong. But we do it anyway, since a better integrated approach is much more difficult, and since there are strong pressures on us to solve problems that are singular, current, and pressing. Not infrequently, solutions of this type in one area cause more damage in another; or, the practice may create more problems in the future than it solves today.

The second reason why we are having difficulties in coping with our problems today is that the institutional frameworks within which we solve our problems are tailored, not to integrated, but to singular, problem solving. The built-in incentive, our rewards and punishments are all geared in this direction. Today's institutional systems are more likely to hinder than enhance efforts to confront problems in a broader context.

Therefore, even if we could develop a better integrated approach to our many problems, we could still not succeed, unless we also changed our institutional system correspondingly.

This is the theme that I would like to develop briefly today, with special focus on productivity. I believe it can be demonstrated that not only is it difficult to address our productivity problem within the context of other problems, as we should, but even an attack on productivity alone is hindered by insufficient understanding of the relationships among its many elements.

In this spirit, let me start by asking: Why is productivity so important as a national issue?

Historically we have tended to equate economic progress with national well-being. The validity of this concept is now coming under scrutiny with increasing frequency. The focus of our attention is shifting from mostly material considerations, as measured by the average per capita GNP and its various derivatives, to a host of social, environmental, and esthetic values. This may, in turn, warrant changing the focus of our attention from the Standard of Living Index as currently conveyed to a more general one, encompassing a broader spectrum of our quality of life. Improved educational and other opportunities, better health care, the reduction of urban blight, the amelioration of environmental pollution, personal safety, and many other similar considerations have taken on increasing importance under this concept. Looking at it another way, this shift may represent society's reexamination of its value structure, as a prelude to the reordering of its priorities. Indeed, this process is already underway. There are debates about societal versus personal well-being, esthetic versus material values, and the distributional aspects of personal disposable income.

However, irrespective of the nature of these objectives, achieving them will still cost money, and therefore will depend on the fruits of our economic progress.

This is the theme that I would like to develop briefly today, with solve our problems are tailored not to integrated, but to singular,

Hence, the rate at which we as a nation will be able to improve our quality of life in the future, will be inexorably tied to the rate of increase of our efficiency or productivity in producing goods and services. This extremely important fact is all too often overlooked by many of our quality-of-life proponents.

While today we may no longer simply equate economic progress to national well-being, there is ample evidence to view as axiomatic the extensive dependence of national well-being upon economic progress and productivity. This, I believe, will remain true irrespective of what turn society's reexamination of its value structure might take, what the lineup of new priorities will turn out to be, and how materialistic values will fare versus esthetic ones in the final analysis.

The fundamental concept of productivity is simplicity itself: Output over input. Or roughly, what got produced divided by what it took to produce it. However, this simple concept begins to get complicated when we examine what, in fact, are included in the quotient.

Input may be considered as labor alone; or, labor and capital; or, management may be added as a separate item. Then, perhaps as part of the input some of the social cost of the process may be included. One obvious manifestation of a social cost is environmental pollution, the cost of which is borne by the public by virtue of being exposed to it. This type of cost is often referred to as an external cost.

On the other hand, what is most commonly included in the output are the items and services that are produced, or the value of what is produced. Perhaps, when appropriate, external benefits should also be included when these accrue to, rather than are paid for by society. An example may be the building of a commercially viable plant in a depressed area, as a result of which welfare rolls or unemployment compensation could decrease, thereby benefiting society through the reduction of social costs.

It is clear that a host of tradeoffs are feasible. And, depending on what we include and how, there could be a wide variation in what we measure as productivity. This is further complicated by the fact that neither the elements of the input nor the elements of the output are readily commensurable. Dollars are easy to incorporate on either side. So is capital investment on the input side, as long as we know the cost of borrowing money. It gets a bit more complicated when we talk about R. & D. management, or labor, since even though the price of such services may usually be ascertained, their true cost may not be. When we talk about social benefits or costs, considerable subjectivity enters into the determination.

Hence, there is a variety of ways productivity could be viewed.

Understandably, when labor looks at productivity, it is primarily concerned with what is termed labor productivity, where the input consists of labor alone. Desires by management to improve productivity are often viewed by labor as "speed-up" which some equate to exploitation of labor. In this case, the objective is to maximize the return to labor for services performed by labor.

When management looks at productivity, it tries to orchestrate labor capital, and whatever additional resources may be appropriate to maximize profits. If, in the process, some costs can be externalized (for example, through environmental pollution), then from the point of view of corporate profitability, this may not be an undesirable course of action. In this case the objective is to marshal appropriate resources, and externalize costs to the extent permissible so as to maximize the return on investment. Incidentally, the attainment of this objective is hindered by the fact that we do not have a sufficiently good understanding of what to manipulate and how, in order to increase productivity.

When the Federal Government looks at productivity, we must first ask who in the Federal Government we are talking about.

We know that improved productivity, per se, would indeed help combat inflation. Therefore a posture advocating productivity improvements by the Price Commission is a most reasonable one.

We also know that the Departments of Commerce and Treasury would support a similar course of action, because this would improve our competitive position on the international marketplace and help with our balance of payments, respectively.

On the other hand, if such productivity increases can only be realized through "unacceptable" environmental pollution, then the Environmental Protection Agency or the Council of Environment Quality will object, based on another respectable but conflicting national purposes.

Also, if such productivity increases are dependent on courses of action which conflict with existing antitrust or patent laws, then the Justice Department will take issue for some, yet another respectable but different consideration.

What we are confronted with here is a manifestation of the problem of balancing often conflicting national purposes. As mentioned before, the generic nature of this problem is not new. What is new is that in our world of ever-increasing complexity, making essential trade-offs is becoming ever more difficult. This problem, of course, is not limited to considerations of productivity enhancement.

We seem to lack the ability to view our many problems and opportunities at a sufficiently high level of aggregation so that appropriate trade-offs could be made from the point of view of national interest. We need broader frameworks than what we have today, for laying out options and costs for the public to scrutinize, and for Congress and the executive branch to study and act upon.

The illustrated, differing hypothetical attitudes by different Federal departments and agencies toward productivity underscores the two points made earlier. Namely, if we are to attain desirable national objectives, we must be able to do both. One, somehow trade off apparently incommensurable objectives against one another. Two, modify existing institutional policies and practices so that they do not represent undue blockages to this process.

It is, of course, not improper for the departments and agencies to have different views on the same subject. Nor is it desirable to change this. It is most desirable, however, to bring about some system where such different views on the same subject could be somehow reconciled more expeditiously, in a more orderly fashion in the interest of the Nation.

Even though studies, books, and articles have proliferated on productivity, we still lack adequate understanding and appropriate mechanisms to manipulate it to our advantage. What are some of the more specific rather than general reasons for this?

While we have reasonable data on average quantitative productivities in certain groups of our labor force and in some of our industries, we have difficulty incorporating qualitative considerations into such measurements.

Even in our overall quantitative assessments, we don't seem to be able to ascertain the partial contributions of the elements of productivity (such as R. & D. labor, management, and so forth) to overall gross productivities.

We have not come to grips with the problem of how to determine when not to strive for productivity increases. For example, there may be certain industries where irrespective of what we might do within reason, they could still not become competitive. Or, there may be situations where an increase in productivity in an unskilled or low-skilled, and already saturated market may place the labor force on welfare. I am neither advocating anyone sitting in judgment over the life or death of any of our industries, nor indefinitely subsidizing unskilled or low-skilled labor. I am, however, advocating a better understanding of the issues surrounding such problems through some appropriate dialogs, which so far have been lacking.

What might be a promising approach to a better understanding of productivity?

There are many generic, economic studies. However, these are usually too abstract, and are in fact usable primarily in a theoretical sense. They are difficult to apply to complex and real situations.

There are also numerous pragmatic case histories that are relevant, practical, and real. However, these suffer from lack of transferability of their results to other situations.

A combination approach is believed to hold promise. Namely, the simultaneous undertaking of two kinds of studies. A search for the generic nature of the relationship between the appropriate causes and

their productivity-related effects, in combination with a study of a number of relevant case histories. If done in a parallel iterative fashion, the former approach should lend transferability to the results, while the latter should give it practicality and relevance.

With an approach like this, we may be able to shed some light on some of the missing links in our understanding of productivity, as well as test out some of the often talked-about notions, such as the following:

Impact of various changes in antitrust and patent laws on various productivities.

The impact of depreciation allowances of scientific/technical equipment based on scientific/technical, rather than physical obsolescence.

The interrelationship between (1) the way in which benefits of a productivity increase may be apportioned, and (2) the manner in which the increase is brought about in the first place.

The fruits of a productivity increase may be used in a variety of ways. For example, boost wages—increase profits—reduce the price of the product or service—increase dividends—pay more taxes—make social and environmental improvements—improve working conditions, et cetera. While we don't exactly understand the mechanism of a productivity increase, we do know that the just-listed benefits resulting from increased productivity accrue to many of those upon whom the increase depends in the first place. Some prior understanding of the distribution of these benefits may serve to stimulate the process.

I see a national thrust to confront our productivity problems as having the following objectives.

1. PUBLIC EDUCATION

Convey to the public the fact that it is only through increasing our productivity that we have any hope of maintaining our ever-increasing standard of living to which we have become accustomed. Excessive borrowing or inflating are temporary, unacceptable measures for the long run. We must compete with people in the international marketplace who have lower standard-of-living aspirations than we do.

2. A COMPREHENSIVE STUDY OF PRODUCTIVITY

Mount an extensive study—I prefer the combination approach just discussed—to better understand the relationships between productivity and the many factors upon which it depends.

3. AN EXAMINATION OF FOREIGN EXPERIENCES

Another area might be to analyze foreign initiatives, attitudes, and blockages to productivity increases. Even though much of this may not be transferable to our situation, I believe some very useful glimpses could be gleaned from such an undertaking. Japan, of course, is an interesting case in point. For example, what enhanced their phenomenal economic postwar growth could be attributed to such causes as: (a) plain hard work, dedication, and ingenuity, (b) collective personal commitment to national goals (a cooperative, rather than an adversary approach by labor, management and government toward

attaining goals), (c) privileged treatment given to them on the international market.

What may argue against their uninterrupted economic growth are items, such as the following: (a) undercapitalization of their industries when compared with the U.S.A., (b) extensive dependence of their domestic well-being on even slight perturbations in their exports, (c) extensive externalization of much of the cost of their production into the environment causing some severe pollution problems in Japan, (d) "westernization" of the Japanese, resulting in ever-rising personal expectations, (e) geographic confinement, placing a ceiling on expansion and growth.

Senator PERCY. Mr. Strasser, because we have now reached the time established for each of our witnesses, would it be possible for you to summarize the balance of your prepared statement in a minute or two? All of it, however, will be put in the record. Then we will get into the questions.

Mr. STRASSER. Fine. The objective of my prepared statement was to develop the following theme. Productivity generates the wherewithal to "buy" the quality of life we desire. Hence it is a most important as well as a most pervasive part of our lives. However, it is still only one of the means rather than one of the ends we desire. Often some of the very elements of productivity are in conflict with one another. Furthermore, these productivity-enhancing elements may be in conflict with some of our important objectives in different areas, for example, less environmental pollution, or better working conditions, et cetera. To resolve such conflicts I suggested in my prepared statement some institutionalized arrangements within the Government, to view our many problems, not only individually, but also from a sufficiently high level of aggregation, so that appropriate trade-offs could be made in the national interest among the many competing programs. An expanded scope of the technology assessment bill passed by the House and now before the Senate could possibly give such an overview to Congress. A strengthened "management" function within OMB could improve such capability within the executive branch. Thank you.

(The prepared statement of Mr. Strasser follows:)

PREPARED STATEMENT OF GABOR STRASSER

Mr. Chairman, members of the committee, this current concern with productivity comes on the heels of many other problems. These include environmental pollution, urban blight, poverty, or the things that prompted the emergence of the technology assessment concept. Undoubtedly, still other problems are incubating for the future.

I was recently told at a symposium that we live today in an era riddled by crises. Then the speaker defined an era riddled by crises as a transitional period in between two other eras riddled by crises.

THE NEED FOR INTEGRATION AND INSTITUTIONAL CHANGE

Of course, there is nothing new about the generic nature of this predicament of ours. What may be new, however, is that the manner in which we have been coping with our problems may no longer be appropriate, due to the following two reasons.

One, in this world of ever-increasing complexity, the interrelationships of our various problems, as well as their solutions, have become ever more significant.

Toffer, in "Future Shock" said that the rate at which things are changing all around us has increased to the point where we have difficulty adapting to it. Others say, it is not the rate of change but our apparent inability to affect or control the change itself that is bothering us, giving us the sensation that we

are no longer the masters of our fate. Whichever is the case, if either, the fact remains that: (1) Our technology and management techniques provide ever-increasing leverage, showing up in more severe consequences, shorter lead times and greater impacts, (2) our goals, as well as the approaches to the achievement of these goals are more complex and non-homogeneous, calling for interdisciplinary approaches, (3) the cause-effect relationships, as a result, are also more complex, (4) our potential mistakes are bigger and more costly, (5) there is an increase in the irreversibility of many of the actions that we take, (6) there is less damping; our environment is becoming less forgiving because of the use we have made of it.

In spite of these changes, our practice has been, and continues to be, to deal primarily with one problem at a time. Intuitively we know that this is wrong. But we do it anyway, since a better integrated approach is much more difficult, and since there are strong pressures on us to solve problems that are singular, current, and pressing. Not infrequently, solutions of this type in one area cause more damage in another; or, the practice may create more problems in the future than it solves today.

The other reason why we are having difficulties in coping with our emerging problems is that the institutional frameworks within which we solve our problems are tailored not to integrated, but to singular problem-solving. The built-in incentives, our "rewards" and "punishments" are all geared in this direction. Today's institutional systems are more likely to hinder than enhance efforts to confront problems in a broader context.

Therefore, even if we develop a better integrated approach to our many problems, we could still not succeed, unless we also changed our institutional system correspondingly.

With special focus on productivity, this is the theme that I would like to develop briefly today. I believe it can be demonstrated that not only is it difficult to address our productivity problem within the context of other problems, as we should, but even an attack on the productivity problem alone is hindered by insufficient understanding of the relationships among its many elements.

THE DEPENDENCE OF NATIONAL WELL-BEING ON ECONOMIC PROGRESS AND PRODUCTIVITY

I know you have been exposed during these hearings to eloquent testimonies by distinguished witnesses on the relationships of: productivity and inflation; productivity and international trade; productivity and the consumer; productivity and labor; productivity and industry; and productivity and economic theory. I would like to broach the subject in a manner that is both more simplistic, as well as broader in scope. More simplistic, because I will pursue neither in great depth nor with great precision the kind of singular relationships to productivity just enumerated. Broader in scope, because, instead, I will try to speculate on the interrelationships among the many productivity issues, as well as their relationships to other issues.

In this spirit, let me start by asking: Why is productivity so important as a national issue?

Historically we have tended to equate economic progress with national well-being. The validity of this concept is now coming under scrutiny with increasing frequency. The focus of our attention is shifting from mostly material considerations, as measured by the average per capita GNP and its various derivatives, to a host of social, environmental and aesthetic values. This may, in turn, warrant changing the focus of our attention from the Standard of Living Index as currently conceived, to a more general one, encompassing a broader spectrum of our Quality of Life. Improved educational and other opportunities, better health care, the reduction of urban blight, the amelioration of environmental pollution, personal safety, and many other similar considerations have taken on increasing importance under this concept. Looking at it another way, this shift may represent society's reexamination of its value structure, as a prelude to the reordering of its priorities. Indeed, this process is already underway. There are debates about societal versus personal well-being, aesthetic versus material values, and the distributional aspects of personal disposable income.

However, irrespective of the nature of these objectives, achieving them will still cost money, and therefore will depend on the fruits of our economic progress.

Hence, the rate at which we as a nation will be able to improve our Quality of Life in the future, will be inexorably tied to the rate of increase of our efficiency or productivity in producing goods and services. This extremely important fact is all too often overlooked by many of our Quality-of-Life proponents.

While today we may no longer simply equate economic progress to national well-being, there is ample evidence to view as axiomatic the extensive dependence of national well-being upon economic progress and productivity. This, I believe, will remain true irrespective of what turn society's reexamination of its value structure might take, what the line-up of new priorities will turn out to be, and how materialistic values will fare versus aesthetic ones in the final analysis.

WHAT IS PRODUCTIVITY?

The fundamental concept of productivity is simplicity itself: Output over input. Or roughly, what got produced divided by what it took to produce it. However, this simple concept begins to get complicated when we examine what, in fact, are included in the quotient.

Input may be considered as labor alone; or, labor and capital; or, management may be added as a separate item. Then, perhaps include a part of the input some of the social costs of the process. One obvious manifestation of a social cost is environmental pollution, the cost of which is borne by the public by virtue of being exposed to it. This type of cost is often referred to as an external cost.

On the other hand, what is most commonly included in the output are the items and services that are produced, or the value of what is produced. Perhaps, when appropriate, external benefits should also be included when these accrue to, rather than are "paid for" by society.

It is clear that a host of trade-offs are feasible. And, depending on what we include and how, there could be a wide variation in what we measure as productivity. This is further complicated by the fact that neither the elements of the input nor the elements of the output are readily commensurable. Dollars are easy to incorporate on either side. So is capital investment on the input side, as long as we know the cost of borrowing money. It gets a bit more complicated when we talk about R&D, management, or labor, since even though the price of such services may be ascertainable, their true cost may not be. When we talk about social benefits or costs, considerable subjectivity enters into the determination.

WHOSE PRODUCTIVITY?

Hence, there is a variety of ways productivity is viewed.

Understandably, when labor looks at productivity, it is primarily concerned with what is termed labor productivity, where the input consists of labor alone. Desires by management to improve productivity is often viewed by labor as "speed-up" which some equate to exploitation of labor. In this case, the objective is to maximize the return to, for services performed by, labor.

When management looks at productivity, it tries to orchestrate labor, capital, and whatever additional resources may be appropriate to maximize profits. If, in the process, some costs can be externalized (e.g., through environmental pollution), then from the point of view of corporate profitability, this may be a desirable course of action. In this case the objective is to marshal appropriate resources, and externalize costs to the extent permissible so as to maximize the return on investment. Incidentally, the attainment of this objective is hindered by the fact that we do not have a sufficiently good understanding of what to manipulate and how, in order to increase productivity.

When the Federal Government looks at productivity, we must first ask who in the Federal Government we are talking about.

We know that improved productivity, per se, would indeed help combat inflation. Therefore a posture advocating productivity improvements by the Price Commission is a most reasonable one.

We also know that the Departments of Commerce and Treasury would support a similar course of action, because this would improve our competitive position on the international marketplace and help with our balance of payments, respectively.

On the other hand, if such productivity increases can only be realized through "unacceptable" environmental pollution, then the Environmental Protection Agency or the Council on Environmental Quality will object, based on another respectable but conflicting national purpose.

Also, if such productivity increases are dependent on courses of action which conflict with existing antitrust or patent laws, then the Justice Department will take issue for some, yet another respectable but different consideration.

What we are confronted with here is a manifestation of the problem of balancing often conflicting national purposes. As mentioned before, the generic nature of this problem is not new. What is new is that in our world of ever-increasing complexity, making essential trade-offs is becoming ever more difficult. This problem, of course, is not limited to considerations of productivity enhancement.

We seem to lack the ability to view our many problems and opportunities at a sufficiently high level of aggregation so that appropriate trade-offs could be made from the point of view of national interest. We need broader frameworks than what we have today, for laying out options and costs for the public to scrutinize, and for Congress and the Executive Branch to study and act upon.

The illustrated, differing hypothetical attitudes by different Federal Departments and Agencies toward productivity underscores the two points made earlier. Namely, if we are to attain desirable national objectives, we must be able to do both. One, somehow trade off apparently incommensurable objectives against one another. Two, modify existing institutional policies and practices so that they do not represent undue blockages to this process.

It is, of course, not improper for the Departments and Agencies to have different views on the same subject. Nor is it desirable to change this. It is most desirable, however, to evolve some system, where such different views on the same subject could be somehow reconciled more expeditiously, in a more orderly fashion, in the interest of the nation.

THE STUDY OF PRODUCTIVITY

Even though studies, books, and articles have proliferated on productivity, we still lack adequate understanding and appropriate mechanisms to manipulate it to our advantage. What are some of the more specific rather than general reasons for this?

While we have reasonable data on average quantitative productivities in certain groups of our labor force and in some of our industries, we have difficulty incorporating qualitative considerations into such measurements.

Even in our overall quantitative assessments, we don't seem to be able to ascertain the partial contributions of the elements of productivity (such as R&D, labor, management, etc.) to over-all gross productivities,

We have come to grips with the problem of how to determine when not to strive for productivity increases. For example, there may be certain industries where irrespective of what we might do within reason, they could still not become competitive. Or, there may be situations where an increase in productivity in an unskilled or low-skilled, and already saturated market, may place the labor force on welfare. I am neither advocating anyone sitting in judgment over the life or death of any of our industries, nor indefinitely subsidizing unskilled or low-skilled labor. I am, however, advocating a better understanding of the issues surrounding such problems through some appropriate dialogues, which so far have been lacking.

What might be a promising approach to a better understanding of productivity?

There are many generic, economic studies. However, these are usually too abstract, and are in fact usable only in a theoretical sense. They are difficult to apply to complex and real situations.

There are also numerous pragmatic case histories that are relevant, practical, and real. However, these suffer from lack of transferability of their results to other situations.

A combination approach is believed to hold promise. Namely, the simultaneous undertaking of two kinds of studies. A search for the generic nature of the relationship between the appropriate causes and their productivity-related effects, in combination with a study of a number of relevant case histories. If done in a parallel iterative fashion, the former approach should lend transferability to the results, while the latter should give it practicality and relevance.

With an approach like this, we may be able to shed some light on some of the missing links in our understanding of productivity, as well as test out some of the often talked-about notions, such as the following.

Impact of various changes in antitrust and patent laws on various productivities.

The impact of depreciation allowances of scientific/technical equipment based on scientific/technical, rather than physical obsolescence.

The interrelationship between (1) the way in which benefits of a productivity increase may be apportioned, and (2) the manner in which the increase is brought about in the first place.

The fruits of a productivity increase may be used in a variety of ways. For example, boost wages—increase profits—reduce the price of the product or service—increase dividends—pay more taxes—make social and environmental improvements—improve working conditions, etc. While we don't exactly understand the mechanism of a productivity increase, we do know that the just-listed benefits resulting from increased productivity accrue to many of those upon whom the increase depends in the first place. Some prior understanding of the distribution of these benefits may serve to stimulate the process.

I see a national thrust to confront our productivity problems as having the following objectives.

1. *Public Education.*—Convey to the public the fact that it is only through increasing our productivity that we have any hope of maintaining our ever-increasing standard of living to which we have become accustomed. Excessive borrowing or inflating are temporary, unacceptable measures for the long run. We must compete with people in the international marketplace who have lower standard-of-living aspirations than we do.

2. *A Comprehensive Study of Productivity.*—Mount an extensive study (I prefer the combination approach mentioned before) to better understand the relationships between productivity and the many factors upon which it depends.

3. *An Examination of Foreign Experiences.*—Analyze foreign initiatives, attitudes, and blockages to productivity increases. Even though much of this may not be transferable to our situation, I believe some very useful glimpses could be gleaned from such an undertaking. Japan, of course, is an interesting case in point. For example, what enhanced their phenomenal economic post-war growth could be attributed to such causes as: (a) plain hard work, dedication, and ingenuity, (b) collective personal commitment to national goals (a cooperative rather than an adversary approach by labor and management toward attaining goals), (c) privileged treatment given to them on the international market.

What may argue against their uninterrupted economic growth are items, such as the following: (a) undercapitalization of their industries when compared with the USA, (b) extensive dependence of their domestic well-being on even slight perturbation in their exports, (c) extensive externalization of much of the cost of their production into the environment causing severe pollution problems throughout Japan, (d) "westernization" of the Japanese, resulting in rising personal expectations, (e) geographic confinement, placing a ceiling on expansion and growth.

Examination of the French situation may also be highly revealing, with their practices steeped in tradition. At a recent conference in Paris, I suggested increasing the productivity of their subway, the Metro, by considering turning to the token/turnstile operation, in lieu of their present system. In the Metro one person sells one or 10 tickets (nothing in between); another person punches it; whereupon everyone throws away his tickets, and a third person sweeps them up. They asked me what would they do with the people who, as a result, would become unemployed. I suggested that surely they could become engaged in more constructive work, especially since the accrued savings from such modernization could allow them to help subsidize the training of dislocated people. The discussion ended abruptly, when I was told that I just don't understand the French mentality, which I readily admitted was correct.

Our post-Korean war experience with the Koreans, in assisting them to rebuild South Korea shed some interesting light on what motivates those people, which is very different from our value system. This difference could perhaps account for the fact why our massive aid to that country, based on the incentives of western cultures, was not as effective as it might have been, had it been tailored to the oriental value system.

When I recently lamented to an English friend about the predicament we are facing as a result of the decreasing increases in our productivity, vis-a-vis some of the rest of the world, he told me that I am overlooking one of the most significant elements of the solution to the problem. Namely, that as time goes on other countries will experience similar problems to those of ours, and the gap I am worrying about will be reduced as much by the increasing problems abroad, as by the fixes we will be able to bring about in the United States.

While I have not thought through the nature of a study of foreign experiences in increasing productivity, I do believe it is a subject worth a closer look.

4. *The Stimulation of Productivity.*—Explore various ways to stimulate productivity in the U.S. with special emphasis on the following.

(a) The apriori allocation of the expected benefits of increased productivity among those who bring about such increases in the first place.

(b) Government incentives through appropriate changes in anti-trust, tax and patent laws.

(c) The removal of institutional and especially procedural blockages that stand in the way of productivity increases.

Obviously, this last item (4c) should be done with full cognizance of the impact of such actions on other national purposes and objectives. This brings me back to the problem of sorting out, balancing, and then choosing from among competing national objectives. Let me briefly return to this problem now, which is broader than productivity, and then conclude my presentation on that note.

THE IMPERATIVE OF MAKING ORDERLY TRADE-OFFS AND CHOICES

One of the easiest ways to focus on the problem of choices that are confronting us, is through an illustration drawn from the area of environmental pollution, where personal/materialistic benefits are pitted against societal/aesthetic ones.

Manufacturers have been discharging toxic effluents into the streams. The individually driven automobile has been polluting the air. Municipalities have been discharging raw or insufficiently treated sewage into the rivers. There are repeated demands to end these spillover costs and abuses. But this is easier said than done. Such spillover costs can merely be rerouted into the original cost of the product. And, even before the cost can be passed on, if at all, from producer to consumer, other problems emerge. For example, if a paper pulp manufacturer who has been polluting a river is to be prevented from doing so in the future, he must install devices to control or eliminate the discharge of his pollutants. This adds to the cost of his production, and in fact reduces his productivity. Since many such companies have been only marginally profitable, it would not be surprising if a massive effort to force certain industries to internalize their external costs would bankrupt them. Many similar examples could be cited. In total, they convey the message that many of our industrial products are profitable only because some of the costs have never been absorbed by the producer and ultimately by the consumer.

While this is not right, it is nevertheless a fact, and therefore must be considered as one of the relevant and hence necessary points of departure in our search for solutions.

Hence, the broad economics of the environmental problem raises two questions:

(1) how to reverse, as we must, this trend of spillover costs into the environment?

(2) how to devise expeditions and fair transitions, without causing unacceptable disruptions in our economic, social and political system?

In a way, these questions raise the dilemma of environmental/aesthetic versus economic/material values.

It is interesting to note the evolution of this dilemma. First, the conservationist, concerned with the preservation of our natural resources, sent up the danger signals. Next, the ecologist (biological ecologist, that is), concerned with the relationship between living organisms and their environment, showed us how our comfort, health and even survival may be endangered. Now, in our search for solutions we realize that the base of biological ecology is not sufficient. We must be sensitive to sociological ecology as well, addressing the relationship between the distribution of human groups with reference to material resources and the consequent social and cultural patterns.

In addition to being concerned about their physical environment, most people can be expected to be very much concerned with material goods, personal wealth and comfort, as well as the status that these possessions bring to them.

Hence, the upgrading of our physical environment will compete for the very same funds that people use for personal possessions.

The notion of: "Let the government clean up the environment" does not work, since the government must pass on the cost through taxes and thus reduce disposable personal income.

The notion of: "Let industry pay for it, they do the polluting" does not work either, since the cost ultimately shows up in the price of consumer goods and services.

The man of the 70's will be faced with nagging questions such as the following:

I don't want to give up my car, but at the same time I don't want to pollute the air. How much should I pay for emission control devices?

How much sewerage tax assessment should I vote for (and forego the purchase of a color TV set or a vacation) to improve the quality of the river in my back yard?

Should I turn off the air conditioner so as to reduce the galloping demand on our energy resources, as well as alleviate some of the concomitant pollutions?

Or more generally, how should I trade off environmental/aesthetic benefits for personal/economic ones as an individual? Or, with my vote as a member of society?

Necessary choices, as represented by these questions, will pose difficult problems, especially since our notion of what is desirable or intolerable has been upgraded. We expect more today. This condition raises a very crucial question.

Are the aggregate perceived needs or aspirations of this Country greater than its marshallable aggregate resources? But, more important, are the perceived needs increasing more rapidly than the resources? If so, the disparity between what we want and what we can have will likewise keep increasing.

Individuals are more concerned with such disparity than with needs or resources when viewed separately. It is fitting, therefore, that societal planning should also focus on such disparity.

What influences this disparity?

Population-increase, together with our ever-rising expectations combine into a rapidly expanding aggregate perceived need, while more ingenious and more efficient use of our natural, physical, and intellectual wealth increases the available aggregate resource.

The fundamental questions which need to be answered, therefore, are the following:

Have we a disparity in this Country today; that is, are our perceived needs greater than what we can have?

If not today, is such a disparity about to emerge?

If so, is this disparity expected to get bigger in the years to come?

How big can such disparity become before interfering with peaceful democratic processes in the resolution of societal differences?

Trade-offs and choices will have to be made. This will become more and more difficult, since not only our aspirations but also our options are getting more numerous, while our wealth, however enviable, is still finite.

Appropriate mechanisms to make these kinds of trade-offs and choices are simply non-existent today. If future governments are to enjoy the support of the people, they will have to develop such mechanisms, because only through them will they be able to explain not only what is in the budget, but also what is not, and why.

It is clear that desirable, defensible programs could be postulated in a host of areas that could absorb not only the entire Federal budget, but the GNP many times over. Hence, the need for some overall integrated approach to our affairs seems to be overdue. The current, fragmented one only works acceptably when available resources substantially exceed the demands that we place upon them. As our resources and demands for such resources come into balance, or turn negative, the necessity for efficiency, overall understanding, and better management becomes obvious. This is the problem we are facing today. When crises occur intermittently with long periods of lulls in between, it is not imperative that we look at our problems in their totality. But, when crises begin to overlap (e.g., intermittent sporadic wars throughout the globe, international monetary crises, social unrest, urban blight, environmental pollution, and many others), it behooves us to sort out these problems and their interrelationships and ask ourselves questions like the following: How can we better use what we have for those things that we consider most important? How do we keep support for important programs from falling below some acceptable threshold level? How can the political system get credit from the public for embarking on some essential course of action that is tedious and time-consuming, with the pay-off well in the future, rather than having to prove itself primarily on the basis of what it can fix today? Most of our current pressing problems won't respond to quick-fix treatments.

In the Executive Branch the strengthening of the "Management" in the Office of Management and Budget (OMB) could help attain this objective. In Congress, setting up some mechanism to look at what the technicians call cross impact analyses, or how to fit things together and how they affect one another, could provide the Legislative Branch with the needed overview.

Incidentally, the Technology Assessment Bill passed by the House and now before the Senate embraces such a philosophy, but limits its concern to the deleterious side effects of programs. What seems to be needed is a similar thrust, that would look at simultaneously the various opportunities and options that Congress is considering, with all of the conflicting and often incommensurable ramifications, so that integrated sets of optional programs could be assembled and weighed against one another in the national interest.

If we had such a capability today, we would be in a better position to assess the real importance of improving our productivity, the best way to stimulate it, the areas in which it should be stimulated, acceptable interactions with other objectives, and reasonable expectations from, and roles by labor, management and government.

Senator PERCY. Thank you, Mr. Strasser.

I am very happy to welcome Congressman Moorhead into these hearings.

Inasmuch as this is your first appearance in these three days of hearings, if you care to make an opening statement, I will be glad to afford you the opportunity; otherwise, we will go right into questions.

Representative MOORHEAD. Thank you. I would prefer to go to the questions.

Senator PERCY. Mr. Burnham, how are you able to measure productivity in the service industries? How do you translate this into specific concrete terms for office workers, factory workers, and even for executives?

Mr. BURNHAM. Well, you have to use different methods for different types of work. For factory workers, of course, you can measure how many pieces they produce over a given amount of time and if a change in method allows them to produce more, then you can figure that is an improvement in productivity. You can get an overall idea of how productivity is improving in an organization by measuring what the output is in overall product of the total number of people employed in an enterprise. It gets more difficult to measure worker's output as you go up the scale to management. And I guess when you get up to the top management, you have to measure their output by the productivity improvement of the overall enterprise.

This is one area, especially in the services and in operations that are not industrial factory-type operations, where we need some real research on how to measure productivity. If the effort is spent on studying it, I do not think it would be too difficult. I believe we just have not spent the time to try to measure it.

Senator PERCY. Do you feel that the creation of productivity councils by industry, by region or area, by company and plant and department by department—such as we certainly experienced in World War II, when we had a common goal to turn out more goods of better quality at lower costs to meet a national need—would be a way of focusing attention on this problem and getting labor and management working together on the problem?

Mr. BURNHAM. Yes, I think it would focus attention on it. This is needed and we certainly need to have labor and management work together on it.

It is getting a lot of attention now, in the papers, these hearings, and many other places. I think we are beginning to realize how important productivity improvement is to the economic welfare of the Nation. It is important that we get this interest right down to where

everyone, every person in the country, understands the importance of it. I certainly think productivity councils would help do that.

There is one question that I might add. I think there tends to be a feeling that improving productivity means getting people to work harder, to put more effort into the job. That is not what we are talking about in productivity improvement. That is only a part of it. Sure, you have to have an employee come to work; you have to have his attendance; you have to have him put in a fair day's work. But once he has done that the only way he can produce more is to change the way he is doing the job, change the methods. And this is something that sometimes the employee can himself devise, a new method. Where he can, we should encourage him to do so.

But generally, continued productivity improvement depends upon some other people in the organization, who are studying how the work is done and how the methods can be changed. It may be a change in procedure, it may be a change in the material handling. It may be a new machine tool that is more efficient. It may be a change in the product design so it does not take so many operations or so much material to produce it. But generally, you cannot expect the worker doing the job to make these changes that make for a basic productivity improvement.

In industry, we have found that we have to have engineering departments which are continually improving the design of the product so that it can be made with less labor and less material. We have to have manufacturing engineering and industrial engineering departments whose sole responsibility is figuring out new methods and procedures. We have to have people working in our accounting departments to study new procedures of keeping the records, new ways of controlling inventories, new ways to apply computers, perhaps, to these operations. But the productivity improvement really occurs only when you have people studying how to improve productivity. Once the man doing a job is giving a fair day's work and good attendance, only by changing the methods and procedures can we improve his productivity.

In industry, we have learned to do this. They did it in agriculture a hundred years ago when they established the experiment stations and county agents to teach the farmers new methods. That productivity has improved greatly.

In many of the services, though, such as police departments—there must be thousands and thousands of police departments around the United States—not one of them is really putting the effort into studying, like a big business does, how to improve doing that job. We need sponsorship for real studies of how to change the methods and the way things are done to improve the productivity.

I fear that sometimes we think it is just getting people to work a little harder. That is only part of the job.

Senator PERCY. Mr. Strasser, you are the first witness we have had of our distinguished panels over the past three days to point out that we must figure social costs and social benefits into our calculation of the input and output of the productivity equation. I wonder if you would care to comment on Mr. Burnham's statement about how he measures productivity and his practical problems in dealing with increase in productivity?

Mr. STRASSER. I don't consider my position as being in conflict with that of Mr. Burnham. He is concerned with a pressing present problem, requiring immediate pragmatic attention. If we are to increase wages in real dollars, and if we are to compete successfully on the international marketplace, we must increase real productivity in terms of marketable outputs. I also fully agree with Mr. Burnham that the real key to improved productivity is the ingenious orchestration of the efforts of constructive willing workers and resources. This is often called good management.

Furthermore, I readily admit that the inclusion of social costs and benefits into our productivity calculations would not help us with our current international trade and balance of payments. However, if we take a longer view of our problems, in the context that increased productivity is not an end but a means to "buy" a better quality of life, then perhaps questions like the following are not unreasonable. What are the social costs and benefits, associated with a productivity increase, that impinge on our working conditions, or on the environment in which we live?

Obviously, neither of the following two extremes is acceptable: One, maximum output with no concern for the individual or the environment. Two, maximum job satisfaction and total environmental protection, with no concern for our output. Therefore, what is obviously needed is some acceptable balance through appropriate trade-offs. This requires a much better understanding of the issues at hand, than what we have today.

Hence I don't view my position as being in conflict with that of Mr. Burnham. It is looking at the same problem from a different perspective.

Senator PERCY. Thank you very much.

I am very happy to welcome our chairman, Senator Proxmire, and yield at this point to Congressman Moorhead.

Representative MOORHEAD. Thank you, Senator Percy. I feel as though I am surrounded by chairmen. I am in a very distinguished position.

First, I would particularly like to welcome both witnesses, but I would have to make particular welcome to Mr. Burnham, who is the chairman of Westinghouse Electric Corp., which is headquartered in my congressional district.

I can tell you, Senator Percy and Senator Proxmire, he is a very distinguished member of our community and a civic minded person, in addition to being a tremendous businessman.

Senator PERCY. I would like to say, though, everyone is a chief down here. We have a distinguished chairman of a Government Operations subcommittee right here.

Representative MOORHEAD. No Indians around here.

Mr. Burnham, I think that your testimony in bringing out the shift of our working force from agriculture to industry to services points up what I believe is the most difficult problem to solve—increasing productivity in the services. There are probably some areas where there just is no hope for increased productivity in the service industry. But I think you pointed out where there are certain areas where we could increase productivity if we make a united, coordinated effort.

Where the individual units are small, and you mentioned, for example, many thousands of police departments just as an example, we would probably have to have the research that is necessary done on a national level. Is that the thrust of your testimony?

Mr. BURNHAM. On that part, yes, I think so.

Representative MOORHEAD. And I think you suggested in your testimony that there be a task force, a Federal Government task force on productivity. Were you thinking particularly of those areas where there is a big business which can carry on its own research, or in those areas where there is no single entity large enough to do the necessary research.

Mr. BURNHAM. Yes. I think where so many of these services are small units, the Government could very well sponsor some massive studies of how to improve their productivity. They could contract some of this to some of the bigger business and bigger educational institutions who could do it.

I think you may feel that there are some service activities that could not be improved, but I wonder if some of those perhaps have never been looked at to see if they can be improved. In industry, I do not believe I have ever found any operation or any product that, if you really concentrated on it, could not be improved.

I will have to cite industry examples; that is where I have spent my career. We have restudied a product that the division and the regular engineers have worked on—a new product was a great improvement over the previous one. We have taken that same product and put it in what we call a cost reduction laboratory. There we assemble people of various disciplines like perhaps a physicist, a manufacturing engineer, a purchasing man, an industrial engineer. We take them off their regular jobs, put them in a room with this product, and say to them “for the next 2 weeks, we want you just to study this product to see if there is any further improvement you can make.” And you know, we have never put one product in there yet that we have not been able to improve 10 to 30 percent, even one that we thought was already fully improved.

So I think we have just not focused on these services activities the attention that we have on some industrial activities. If we could get some major programs to study some of these services—and I think in many cases, they might have to be sponsored by the Government although they might not have to be done by the Government—we can make the same kind of improvement in services that we have made in industry in the past. It was done in agriculture a hundred years ago. We are doing it in industry now. And I see no reason why it will not work in the services. We just have not put the effort on them.

I am not talking about little studies of a few people. I mean real effort, real massive effort put on some of these services activities to improve them.

Representative MOORHEAD. Mr. Burnham, what do I say to my unemployed constituent or the man who figures that he is next on the line to be laid off when he says, more productivity means fewer jobs, therefore. I am going to be out of work?

Mr. BURNHAM. Again I will have to cite from my own experience.

In looking at various companies, the ones that have increased their employment and grown are the ones which have improved their pro-

ductivity. The ones that do not put people on the task of improving how they do the job and improving their products, gradually decline. I think the best job security a man can have is to be working in an operation that is improving its products and improving how it makes its products. In our own company, we put a lot of effort on improving productivity. Our employment—in the United States, we have about 141,000 employees now—is nearly 30,000 more than it was 7 or 8 years ago. And, during that time, we have made great productivity improvement. We made enough productivity improvement that despite the 6- or 7-percent annual wage increases that have been granted to our employees, in the last 5 years the prices of our products have only gone up 1.3 percent, in the aggregate, each year during that time.

So productivity improvement does not necessarily end up in unemployment. It causes, perhaps, some shifting of people from one kind of job to another. But, really, the productivity in agriculture is what freed people to come into the cities to let us have industrial growth. And I think our progress in industrial productivity is enabling the people to go into the services. And from my own experience, there is a need for more competent people in the services.

I think we need to retrain them for the jobs; I think we need to steer people who are coming into the market into places where they are needed. But I don't think that productivity improvement overall can do anything except encourage, really build jobs, and better jobs, for people.

Representative MOORHEAD. Do you see any improvement in productivity in the homebuilding industry, other than, of course, the use of mobile homes as dwelling places?

Mr. BURNHAM. Oh, yes. As a matter of fact, although we were mainly just a builder of electrical equipment for many decades, we have looked at charts like the one in my prepared statement, showing that the employment in industry has pretty well leveled out but is growing in the services. We looked at things in the services area where we thought we could help improve productivity and we have gone into some of those businesses.

For example, we are building some prefabricated room units in a factory, where the work can be done with better tooling, more productivity. We are building units where you take all of the kitchen appliances, like the refrigerator, dishwasher, range, and the bathroom appliances, and install them in a unit that can be hauled to the site and put into place. We find these techniques cut down the man-hours of effort required to build a building.

Just the week before last, I visited Coral Springs, Fla., a city we are building. When I was down there 2 years ago they showed me how they were going about preparing the land for putting in the streets and building the houses. They had a very good method. Of course, the water table is only down about 3 or 4 feet. And they had a big dragline that would dig out this rather hard, coral-like material. It would dig it out and pile it up. When they would dig it out, the water would come in and make a pond in that area. So they dug it out, piled it up and let it drain. Then they would have a machine scoop up this material, put it in trucks and they would take it to another location to help build roads. This looked like a pretty good thing; you were making canals to drain the land and you were using the

material to build the roads, and doing it very efficiently. That was 2 years ago.

Now I find they are doing it much more efficiently. They have cut the work about in half. They dig one hole in the ground about 15 feet deep, put a big pump there and start pumping the water out, using perhaps an 8-inch diameter pipe. They pump the water out, draining about 100 acres. And they keep this pump going. Then instead of having to work underwater to dig out this material, and having to pile it up and let it drain, they bring in big earthmoving machines, dig the canal, and put the material in one place in one operation. Then they remove the pump. The canal has all been dug, the water comes back in and this whole operation, which I thought was efficiently done 2 years ago, is done with about half the effort now.

This makes those homesites cost less than they would otherwise. I think there is great opportunity for productivity improvement in homebuilding.

Representative MOORHEAD. Mr. Strasser, in your prepared statement, you refer to "impact of various changes in antitrust and patent laws on various productivities." Could you expand on that please?

Mr. STRASSER. I believe the history of our antitrust legislation started with the Sherman Act of 1890, to make it illegal to "monopolize trade." Much has happened since then. I know that many industrialists feel that some of the laws on the books today no longer serve the purpose for which they were enacted, while at the same time they handicap U.S. industry on the international market. Also, some small businesses cannot take collective advantage of some R. & D. or other resources which practice, ironically, may be not against but in the public interest.

All I am advocating is to examine the validity of such assertions, and consider modifications where, on balance, such are desirable.

Insofar as our patent laws are concerned, allegedly some similar arguments hold. One example is the numerous U.S. patents which could be licensed only on a nonexclusive basis. If I understand it correctly, there is great reluctance to undertake on a nonexclusive basis the turning of such patents into marketable and hopefully profitable products. The process is risky and expensive, and unless the entrepreneur has some protection against others moving in on him, he will be reluctant to proceed.

In short, some adjustments in our present laws might enhance our productivity, as well as our competitive position on the international market. If such adjustments would not violate the original intent of the law, or change something that we are no longer concerned about, then why not consider such adjustments?

It is the examination of such possibilities that I have advocated.

Representative MOORHEAD. Thank you.

Thank you, Senator Percy.

Senator PERCY. I might say that Secretary Peterson has testified that these are some of the areas he has discussed with the President and they are taking a good look at them.

Let's go off the record for a few minutes.

(Off the record discussion.)

Senator PERCY. Senator Proxmire.

Senator PROXMIRE. First, I want to apologize for being late. Senator Percy is the reason why we have had these hearings. He has had a deep and abiding interest for many years, as you gentlemen know, in productivity. He has been a leader in Congress in favor of getting into it. It is very appropriate, although he is a member of the minority party, which I hope—I hope he will remain with us, but I hope also his party will remain the minority party—although he has been chairing these hearings, it could not be more appropriate.

But I am late this morning because I thought I had to handle a bill on the floor and the bill has been postponed.

On both of these prepared statements, I have only, unfortunately, just had a chance to glance at them here, but I am deeply impressed. I think they are both excellent. I think you gentlemen very, very well complement the very good testimony we had before.

Mr. Strasser, you, I think, make a very persuasive analysis of the productivity concept and you, I think, in a way are going to scare a lot of people from using it very much. Mr. Grayson answered me when I asked him several months ago when he came before this committee about his use of productivity in the wage-price control program. I asked him how many of the tier I industries—that is, the firms that have sales of over \$100 million, presumably the most ably managed, most sophisticated—how many of them really understood their productivity or used it. He said well, he thought it was practical to say that maybe 50 to 75 percent did—no, he said 50 to 75 percent had some knowledge. This was of the simple minded, simple aspect of productivity, output per man-hour. Now, you say that we need to look at the problem from a sufficiently high level of integration; in other words, it is much more complex than this.

Well, if these fellows are having difficulty with a relatively simple concept, you can imagine the kind of complexity they are going to have if we recognize, as you perhaps properly do, that it is so complicated.

Don't we compound the present confusion if we expect business managers and those who are in Congress to use a more highly integrated concept of productivity? Shouldn't we at least start with the simple first steps here?

Mr. STRASSER. I fully agree with your concern, and I certainly do not wish to further compound the present confusion. Unfortunately it is bad enough as it is. Nor, for that matter, do I want to belabor this notion for the need for mechanisms to look at our problems from higher levels of aggregation.

The question, however, seems to be not whether we are overcomplicating a relatively simple thing. Rather, it is whether we can simplify a complicated thing and still come up with correct answers.

As I alluded to in my prepared statement, productivity, a complicated problem in itself, is still only part of a bigger problem. An analogy to this bigger problem, if you will permit me, may add something to what I have already said.

No airplane is more complicated than the collection of our Federal programs, which collectively should serve the national interest. Yet, there are some similarities worth exploring. The ultimate objective in my analogy is the bringing forth of a system, an airplane, meeting prescribed performance specifications. In the process there are differ-

ent project leaders in charge of the fuselage, the propulsion system, the control surfaces, and so forth, each of whom wants to do the best job he can on his subsystem. If allowed, however, the pieces—suboptimized subsystems—will not fit together, and no airplane will come into being. Subsystems usually must be compromised within the overall system—in this case the airplane itself—which they collectively must support.

I certainly do not wish to equate the United States to an airplane, or our welfare program to a wing, or our efforts in environmental protection to a fuselage, or perhaps international trade to a propulsion system. I do wish to suggest, however, that if each of our programs is pursued independently of the others, and if we don't take advantage of situations when they mutually support one another, or don't blunt the conflicts which they invariably create, then we will have a number of independent programs which, however desirable on their own merits, we couldn't possibly afford, nor would they necessarily make sense collectively. Today we compromise primarily on the basis of financial considerations, rather than on the basis of some in-depth understanding of the relative merits of the many things that we desire. Without a more integrated approach, giving us the necessary overview of the collection of our programs, it is difficult to see how the current system can be improved.

Senator PROXMIRE. What is your answer to my question about what effect this is going to have on our urgent need for improving productivity if we give those we are so anxious to have it the notion that it is far more complicated than what we have?

Mr. STRASSER. While productivity improvements, based on the present criteria, if you will, should be pursued by the various industries, unless such efforts are also examined within some broader context of national interest, we will continue to have unpleasant surprises.

Senator PROXMIRE. Maybe I will come back to that. I want to get Mr. Burnham's view on this.

You have a great record as a successful businessman and one who, as you say in your prepared statement, has been deeply interested in productivity from the very beginning. You recognize that it is the answer to economic progress and to business progress.

We have had, I think, a report from Mr. Grayson that they have changed their method of using productivity in permitting price increases. I would like to get your appraisal of whether the present method permitting price increases based on productivity improvement represents a disincentive, has a neutral effect, or encourages productivity?

Let me just say that in the beginning, as I understand it, what they did was to indicate that if a firm's productivity increased, they would project, of course, somewhat higher profits and lower costs and, therefore, there would be less justification for a price increase. So to the extent that their productivity increased, they would have less chance to get higher prices and to get the return that they might feel they needed in higher profits. So it was a disincentive.

Now, Mr. Grayson has come in and said they have changed this and they have adopted industrywide productivity measurement so that if the firm is above or can move above the industrywide average, then it can justify a higher price and if it is below, it will have to be penalized.

I am just wondering how, in your view, this works out or is there a better way we can do this?

Mr. BURNHAM. I think that we should encourage productivity improvement and allow the firm to recover some of this. But I find that, in most cases, the competition in the marketplace is determining what price you can get, and relative to any other firm in your same business, the prices are controlled by the marketplace.

Senator PROXMIRE. Then controls are pretty much irrelevant? It is the competition?

Mr. BURNHAM. Yes. When you talk about competition, if you can improve your productivity more than your competitor improves his, you are going to gain on him. So I have not felt any disincentive on us. I am still pushing our people to improve their productivity as much as they can. And even though you cannot increase prices as much as you might, if you improve productivity—get your costs down—there is still enough allowance for some improvement in profit percentage on the base period and you can pass on any extra improvement to the customer and get more business.

Senator PROXMIRE. There is always an incentive to improve productivity, I am sure of that. I am sure it hasn't killed it. But I am just concerned that perhaps regulations might discourage it somewhat so it is not as intense as it was before. So we have to do all we can to make that productivity incentive as sharp and clear and effective as it can be.

Mr. BURNHAM. I don't think that this change, to use industrywide productivity figures, would be a disincentive.

Senator PROXMIRE. I think it is a move in the right direction. And you think it results in a kind of neutral effect?

Mr. BURNHAM. As far as our company has been concerned, it hasn't had any bad effect.

Senator PROXMIRE. Yesterday for the first time, we had a witness who argued against the conventional view that the United States is losing in international competition. This was Edward Denison, who is a man of great reputation and has done a lot of fine work in the area, has written several good books on it. He argued that we are still the most efficient country in the world, we still have a big lead; there is no question that these other countries were gaining, they had to. They were prostrate, they started from an infinitely lower base. But he gave the impression to me, at least, that we have very little to worry about. Now you, I think, contradict that, as do a number of other witnesses.

Mr. BURNHAM. Yes.

Senator PROXMIRE. We had Mr. Grayson yesterday, who said we were dead last, 11th out of the 11 leading industrial countries, in productivity improvement. Would you give us your own judgment, No. 1, of where we stand; No. 2 of what we can do if—you don't think that we are in a strong position, what we can do about it?

Mr. BURNHAM. I think that in general, we do the job with higher productivity, but we pay our workmen a lot more so that their standard of living is a lot higher than the workmen in the other countries. Yes; I think our productivity is better than theirs. The output per man-hour or man-day is better. I still think we are in the lead on that.

But our pay and our standard of living is much higher and we want to maintain that high standard of living. If we want to continue raising the real standard of living, increasing wages, I think that we do need to improve our productivity more or we will not be competitive.

Senator PROXMIRE. My time is up, Senator Percy.

Senator PERCY. Thank you, Senator Proxmire.

We did get into the question, Mr. Burnham—I would like to ask both of you this question—of the division of the proceeds of increased productivity. I wonder if you could roleplay Henry Ford for us. Yesterday we discussed Ford's request for an increase with Mr. Grayson which was turned down, on certain industrial products. They have just announced a 49-percent increase in earnings over the first quarter of last year, \$252 million in earnings. And the automotive industry has benefited, of course, from a temporary border tax which impeded imports somewhat, repeal of the excise tax, investment tax credit, and wage controls, which presumably held down wage increases beyond productivity increases, beyond the 5.5 percent allowable level.

When you are faced with this situation, then, what do you do? Ford, of course, reduced the price of some of their more popular cars by \$13. It is a three-tenths of 1 percent reduction in the sales price. But are we now going to be in a position where companies are not going to want to show increases in earnings? It is going to be embarrassing to them, they are going to be charged with exploiting the public when we are living in a control period. It presents the problem of having to apologize for improved efficiency and increased earnings.

Mr. BURNHAM. That is right. Well, Mr. Ford is passing more of it on to the customer in reduced prices. I guess if I were he, I would probably be telling my organization, now that our prices are lower, I expect you to get a higher percentage of the market from the other manufacturers and build our volume up. The control is on the percentage of profit per dollar of sales, I believe. You can push to get more volume, so even within the controlled profit percentage increase, the total dollars of profit could be greater and the stockholders could win out as well as the customer.

Senator PERCY. Do you want to comment, Mr. Strasser, on the dilemma that management finds itself in in this area?

Mr. STRASSER. Only that this seems to be one example of what I suggested before; namely, that one of the most effective ways to enhance productivity, is through credible apriori arrangements of the specifics of how those who bring about an increase will benefit from it. Insofar as the interrelationship between productivity increase and permissible price increases is concerned, I am not sufficiently familiar with the issues to comment on whether this specific practice of the Price Commission would encourage or discourage management's efforts to increase productivity.

Senator PERCY. We have had some discussion of productivity bargaining, and I would hope that increased productivity benefits everyone. In the Ford case, the stockholders should benefit some; the customer should benefit some; and certainly, the workers. To the extent that the improved efficiency and earnings are a result of increased productivity, they come in under the so-called Percy amendment on the Wage and Price Control Act, which totally exempts wage increases that have a direct relationship to productivity increases, thereby en-

abling everyone to benefit from increased productivity. If we can just get it implemented in some dramatic cases such as this, I think we will have convinced the worker and management of it.

Some question, Mr. Burnham, was raised by Jerome Rosow yesterday when he claimed that one impediment to increased productivity was middle management, which he said was the main stay of production in the country and yet the group which was slowest to try new and improved ways of doing things. From your own industrial experience in Westinghouse and broad-gaged experience with other industries, is this a fair charge? In working with the problem of increasing productivity, must we consider not just the worker but also endeavor to educate middle management of their great responsibility and need for innovation in this area?

Mr. BURNHAM. Oh, that is right. Middle management is the very key to making productivity improvement in an enterprise. It is not done by the top boss figuring out these new methods and better ways to do things. To be really successful, you have to get middle management interested in devising better methods to do the work improvement under their management.

I do not see how they can be left out of the picture and have it succeed. They are vital to it.

Senator PERCY. You strongly recommend Government interaction with the private sector to improve productivity. Have you had any working relationship with the Productivity Commission, any suggestions for what could be done to strengthen that particular activity? Do you believe that this type of Federal commission is the proper body to promote productivity throughout the country?

In other words, should Government be used as a catalyst to bring labor and management together?

Mr. BURNHAM. Yes, I think it can prove a catalyst in that area, and it can certainly publicize the need. But I think you need more than that in order to do the great amount of research and actual studying of how we can really do this productivity improvement. I don't think it is doing the massive job that I visualize could be done.

It does do the promotion and calls it to the attention of everyone. It probably could get management and labor interested. But I think the actual studying of how to improve productivity in the services and other areas will take massive programs way beyond anything that the Productivity Commission is working on.

Senator PERCY. We have had a lot of discussion in these hearings about changing attitudes among workers—their attitude toward their work, the quality of work, and the sense of satisfaction they get out of a job. It almost seems as though there is a correlation between youth and more education and less satisfaction out of monotonous, tedious work.

I mentioned my visit to the Chrysler plant 2 weeks ago in Belvedier, where they have a top executive whose job is job enrichment. His responsibility is to try to cut down the horrendous turnover they have had in that new plant—100 percent every 13 months. What is Westinghouse's turnover in your total labor force? What is your total employment worldwide?

Mr. BURNHAM. Worldwide, it is 180,000.

Senator PERCY. Is your turnover significantly higher in this country than in other countries?

Mr. BURNHAM. I cannot give you the exact figures on it. I do not recall. In the United States, we have 141,000 employees and as I recall it, we hire about 15,000 to 20,000 employees a year to maintain that. So that is nowhere near the turnover you are talking about.

Senator PERCY. So you're 20 or 21 percent, something like that?

Mr. BURNHAM. Yes, even lower than that. It is not a serious problem.

Senator PERCY. Have you had any particular problems with younger workers and the need for finding ways to enrich their job experience to keep them interested and satisfied and challenged?

Mr. BURNHAM. Yes, I think it is a problem. I think we have to pay more attention to it.

I talk with all of the college graduates that we hire, which numbers in the hundreds each year. I meet with them, answer their questions and chat with them informally. These people may have long hair and look a little different, but they are very serious-minded. They want to do a good job, they do not want to do a routine job. They want to do something that not only earns a living for them but is important for society. And I think we have to see that they get that kind of job.

I think we have to do a better job for all of our workers in the plant, letting them be part of the operation. We have to recognize that a worker on the line is just as much an employee of the company as the chairman of the board and let them be part of planning how they do their work. I think this job enrichment program is a good one. We are trying to promote more of that in our company.

Senator PERCY. When we consider that by 1980 we will have twice as many high school graduates coming out as we did in 1950, I presume you concur that the American industrial structure must be somewhat altered, changed, and adapted to this huge new labor force, which is better educated, more highly motivated and socially more conscious, possibly, than those who came out in the 1950's?

Mr. BURNHAM. Yes. We were talking about productivity. I think everyone in the organization can contribute some to improving productivity. I do not think we have always given them an opportunity. In addition to the specialists who just work on major new methods, I think everyone can work on improving his own job and doing it better. And I think we have to encourage this.

Yes, I think we have to change our viewpoint. I don't think we can just supply a machine and the materials and tell the man, sit there and do that every minute, all day long. I think we have to treat him as a person who has ideas and wants to do something useful and treat him like we would want to be treated.

Senator PERCY. Mr. Nader suggested that every chief executive officer and top executive ought to put in at least 2 to 3 weeks a year out in the plant, on the line, and that he would be a lot better man. Maybe we would show a lot of time wasted and tell him, these are the problems that the man is facing.

Mr. BURNHAM. I don't disagree with that too much. I think it is awfully important for the management to get out in the plant and see what is going on.

Senator PERCY. I know you do a great deal of that.

Mr. BURNHAM. I think you did it, too. You can't sit in the office and read reports and not know how things are going. So the idea of getting

top executives out there where the action is, right down to the end of the line, I am all for that, too.

Senator PROXMIRE. You know, the mainland Chinese do a lot of things wrong. At least, they are certainly not an example of good productivity. They are about as unproductive as you can imagine. I think with that colossal number of people, their GNP is about equivalent to Italy's. Yet here is one thing they do right. They do get their executives on the assembly line.

As a matter of fact, as I understand it, a man who runs a factory with 15,000 employees in mainland China will spend a great deal of his time—probably much too much—but a great deal of his time right down there doing the tough, greasy, hard, mechanical work. And he does, I am sure, get an understanding of it. Now, they have many reasons for it. I doubt that we will or should press executive participation that far.

But I do think you get not only the appreciation of what productivity problems are, but you get a feeling of identification, both the management and the worker, that this is one team, they are all undergoing the same hardships and difficulties, which is useful.

Mr. BURNHAM. Yes.

Senator PROXMIRE. Mr. Burnham, this is by no means universal, and sometimes you get a fine attitude by organized labor, but doesn't it happen sometimes that you have to negotiate productivity improvements with great difficulty with a union, that a union may be concerned about preserving the jobs of their members, and if an innovation which will make an operation more productive, permit your man-hour production to go up, will result in fewer workers—and many of them do; this is the name of the game—the union will resist it?

Mr. BURNHAM. Yes.

Senator PROXMIRE. Since this is a fact, shouldn't the Federal Government recognize that one of the principal contributions we can make to improving productivity in this country is to provide policies which will encourage economic expansion, which will sharply diminish our heavy unemployment, and therefore make it much easier to negotiate productivity improvement?

It seems to me it would be a lot easier for you as the head of Westinghouse to negotiate productivity improvements with the unions if unemployment were at a 4 percent level instead of the present 6 percent level.

What are your thoughts on it?

Mr. BURNHAM. I agree with you. This is one reason that I have felt that it is important for our company to grow. When you are hiring people, expanding a work force and putting an addition on the plant, you don't have the resistance to putting in new methods and improving the way things are done. This is one reason I think it is important for an individual company to grow, because it does cut this resistance to new methods, and I think it is important for the whole country to grow, too, for the very reason you mentioned.

Senator PROXMIRE. This, you see raises the other part of the inflationary problem. The classical notion has been that to the extent that you have a growing, surging economy, unemployment dropping, employment moving ahead, resources pressing on limited capacity and limited manpower, that you have certain inflationary pressures at

work. I think there has been some—whether it has been conscious or not—there has been some resistance by those who want to fight inflation, who are perfectly sincere and honest about it, that we have to slow down the economy some if we are going to be able to make progress and overcome inflation. That runs into the fact that when you slow down the economy enough, you get a situation where productivity improvement is harder to put into effect.

Mr. BURNHAM. Yes.

Senator PROXMIRE. It is a difficult thing to achieve and strike a balance, isn't it?

Mr. BURNHAM. Well, right now we have some controls that are helping hold down inflation and the economy is starting to grow. I think this is good.

Senator PROXMIRE. Now, you stated that the real spur for, the real incentive to productivity was competition.

Mr. BURNHAM. Yes.

Senator PROXMIRE. That when you are in competition, the way you compete with your competitors is to get your costs down.

Mr. BURNHAM. That is right.

Senator PROXMIRE. You do a good bit of defense work, I understand.

Mr. BURNHAM. We do, yes.

Senator PROXMIRE. I am sure that some of that defense work is based on advertised competitive bidding, some on negotiated competition, some perhaps on sole source procurement.

We have had testimony from Admiral Rickover and others that wherever you get away from competition, you can expect the costs to be 30 percent or more higher in procurement. This is a very serious problem for our Federal Government. It means, of course, I suppose translated another way, that your productivity is less because you don't have the pressure. There is less competition. Do you think of any we can get around this?

Now, we have a provision in the law that advertised competitive bidding should be the principal system of procurement. Yet only 10 percent of our procurement is by advertised competitive bidding; 90 percent is by negotiation. How can we in the Federal Government do a better job of putting this on a competitive and therefore more productive and lower cost basis?

Mr. BURNHAM. Well, most of our major government work has been competitive, even through the design stage.

Senator PROXMIRE. Advertised competitive bidding?

Mr. BURNHAM. On a major system, where just not everyone could do it, they have picked two or three people. Then you have to do the job and have the best cost for the ongoing production or you don't get the contract. So there is great competition. There has been on our major contracts. So I think this has certainly kept the costs down. I think that, with close watching of the costs and, if savings can be made, some sort of sharing of the savings should be made with the Government.

Senator PROXMIRE. We have been pressing for a "should cost" approach; that is, the Federal Government will do its best to get the expert engineers to make a careful, meticulous analysis of how much the weapon system should cost and then get industry to do that. Should we do more of that?

Mr. BURNHAM. We are starting to do that with some of our jobs. I think this is good. I think this could promote better productivity.

A "should cost" figure is really a competitive figure that you are working against in your actual performance. It really introduces the element of competition even if there is only one organization making a product.

Senator PROXMIRE. Surely.

Both Mr. Grayson and Mr. Peterson spoke of disturbing evidence that young Americans are dissatisfied with the notion of work itself, just the notion of going to work. I think there is something to it. I think our whole economic system is based on the theory that work is a disutility. If it were not a disutility, people would not be paid for it. A lot of us love our work, we in Congress are lucky enough to have work we enjoy. But that is not the lot of everybody. Maybe it is not the lot of most.

But at any rate, this seems to contrast with the Japanese, who, former Ambassador Reischauer says, have a profound work ethic and the Germans seem to have the same. Would you argue that we should strive to be more disciplined, strive to establish a higher value rating for work on the part of our young people for work, or not? If we don't do this, can we expect to have a productive America in the future?

Mr. STRASSER. Well, I suppose the real question is what it is that we have to do to have young people perceive things differently, because it is not what we tell them, but what we do, that they react to. Most of us seem to be somewhat stunned by the rapidly changing world around us. Value systems are being scrutinized, priorities are being reordered. In the process, young people are placing increased emphasis on esthetic/social values, as opposed to materialistic ones, and what it takes to acquire them, namely, work. What escapes many, is the fact that it will also take work and materialistic wherewithal to pay for the desired objectives in the aesthetic and social areas. We should strive to make young people understand this, as well as strive for more meaningful job contents. Neither of these objectives is easy to attain, and both take time.

Senator PROXMIRE. Maybe we are hung up on the wrong concept. We keep saying "young." I do, you said it. We say it. It is not a matter of being young. It is a matter of having certain conditioning in your background. It is a matter of having education. It is much harder for a fellow with a college education to work on a routine assembly line—I think. Maybe that is a snobbish view. Maybe if I only had a fourth grade education, I would be more satisfied working in a routine assembly line job than if I had college and maybe some graduate work and had a more philosophical attitude and greater sensibilities—more refined sensibilities, I should say.

Mr. STRASSER. I believe it is based on one's perception of his options.

Senator PROXMIRE. Young people now are much better educated. That is the big difference.

Mr. STRASSER. A more educated person perceives himself as having more options than the less educated one, who nowadays feels lucky to have a job. Some aerospace engineers, who are out of work, may not agree with this. However, in general, a more educated person, by virtue of perceiving more options, may also view himself as being more mobile on the job market, and hence, perhaps, feel more secure.

Senator PROXMIRE. So if we are going to improve education in the future—I don't think we ought to play 1984 here, try to play God, but we ought at least to discuss the notion of considering our education in a way, changing our education in a way that would make it possible to have a deeper appreciation than young people are now getting of productivity.

Mr. STRASSER. I believe that is right.

Senator PROXMIRE. If I could just ask a couple more questions?

Senator PERCY. Sure.

Senator PROXMIRE. I am very disturbed by the continuing lag in productivity in recent years right up to the present time. We are told that right in the middle of a strong recovery, usually when productivity increases, Senator Percy pointed out the other day that in the first quarter of this year, the most recent figures available, productivity dropped from the last quarter of last year. It shouldn't be doing that. It should be going up. It dropped from a modest level to an even more modest level—I should say the rate of increase, not the productivity.

Could each of you tell me what you think is wrong?

Mr. Burnham.

Mr. BURNHAM. Well, it is hard for me to make a comment on a short-term change like that. I can't see what would cause it for a quarter. I think that the important trend in productivity occurs over a longer period of time than that. Generally, when business is expanding, growing, productivity will improve, because perhaps half the people in your organization are white-collar workers who do the engineering, design the product, run the computers, and keep the records. If you can increase the output of the factory by 20 percent, you need 20 percent more people on the direct labor jobs in the factory, but you don't need any more engineers. You have no more engineering design work to do if you are making just more of the same product.

So when business is expanding, productivity improves because you only have to add essentially the direct workers, who produce the added output. I would think that productivity overall, would vary quite a bit with how business is going.

But I cannot explain the short-term drop. I am not sure how significant or how accurate our measuring system is.

Senator PROXMIRE. It doesn't seem to bother you very much. You don't think it is very significant? You would look at it over a longer period?

Mr. BURNHAM. I would look at it over a longer period of time and I would think the real effort put into basically improving our productivity over a long period of time is most important.

Senator PROXMIRE. Well, to put it a little differently, what about the fact that it is low? It has been at a low level for years now.

Mr. BURNHAM. Oh, it bothers me that it has been at a low level for several years. I think this is more significant. Although business has been relatively level, the productivity has not climbed much.

Senator PROXMIRE. You see, that is the contradiction in the question I was asking Mr. Strasser. We have always thought that education would improve productivity. That is what we have been banking on for so long. We have enormously increased our education. There has never been a period in our history when the investment in education has increased nearly as much—the amount of money, the amount of time

spent in school, I think the quality of teachers has been much improved. Yet our productivity is disappointing.

Mr. BURNHAM. Yes.

Senator PROXMIRE. Mr. Strasser.

Mr. STRASSER. I think this goes back to what I said before about changing values, or as you put it, attitude. Namely, in an era of changing human aspirations and concerns some of our economic equations or models—at times using inputs based on yesterday's concerns—may not give us accurate answers in today's world. One example is the recent shift of our Phillips curve, relating inflation to unemployment.

Senator PROXMIRE. The Phillips curve tradeoff is not performing as it did in the past?

Mr. STRASSER. No.

Senator PROXMIRE. That is right.

Mr. STRASSER. The Phillips curve relating inflation to unemployment, is influenced by many subjective, people-related considerations. Since what seems to be important to people is changing, perhaps the shift in the Phillips curve is one reflection of this change in the attitude of people.

Senator PROXMIRE. What does the Phillips curve have to do with productivity?

Mr. STRASSER. Productivity, together with what makes it work and what may enhance it, is more complicated, as well as more influenced by changing human values and aspirations than the Phillips curve. The analysis of productivity takes place within the discipline of economics. Great strides have been made in economic theory as well as in practice. Equation in econometrics, for example, are often so sophisticated as the ones in nuclear physics. However, the fact remains that in econometrics many of the inputs or variables—upon which our answers depend—are more subjective than objective. They are often people-related, reflecting human moods, concerns, hopes, and fears. This is in sharp contrast with the coefficients and variables in the equations of the physical sciences, which deal with inanimate, reproducible things. Reasons such as these are perhaps primarily responsible for our difficulties in adequately understanding the underlying causes of productivity, so that we may manipulate it to advantage.

Senator PROXMIRE. So what you are saying is we don't know why our productivity is low? We just don't know? The facts aren't available.

Mr. STRASSER. It is difficult. We have to learn more about it, though some things we can do now.

Senator PROXMIRE. How can we possibly do anything about it? Senator Percy and I are here trying to do something about it. How can we do something about it if we don't understand it? The first element in improvement is knowing what you have to improve?

Mr. STRASSER. I fully agree with you; namely, we have to mount an effort to better understand the mechanisms governing productivity. Otherwise we cannot really decide what to change and how to go about it.

Mounting a well-thought-out, focused study in this regard, is not necessarily the same as procrastinating. A number of possible approaches are discussed in my prepared statement. I favor a combination one, which includes some pragmatic treatment of current real problems.

Also, I have high hopes for the National Commission on Productivity under the chairmanship of Mr. Peterson, Secretary of Commerce. Through his many public statements, he made it repeatedly clear that he is committed to increasing our national productivity; appreciates the difficulties associated with it; and recognizes that we can only succeed through the concerted efforts of labor management and government.

He also seems to be prepared to do what is needed from his vantage point in the Government to bring about some constructive initial steps by the Government. This may serve as a stimulus to labor and management to do likewise.

Senator PROXMIRE. It has taken me all morning. Now I see where I disagree with you or what my problem is with your presentation. I have been very unhappy with the Productivity Commission. They have had 2 years and done nothing. They have had very few people working on it. They have had, as pointed out the other day, two or three staff people—that is pitiful. They have more people cleaning up a couple of rooms at Camp David than they have working on what President Nixon thinks is the most important element in improving our economy.

Now from what I take it you say, it is going to be helpful for them to continue to study it. We have had studies and studies and studies. This is complicated. We should understand it, it is true. But I think somehow, we just have to get at what I was saying in the beginning, the simple concept of just improving the output per man-hour, and settle for that and maybe these other things will take care of themselves. But we are in a tough competitive situation. We have a serious inflationary problem. Time is of the essence. This is not something that we can wait for 20 or 30 years to solve. We have to move in fast.

Mr. STRASSER. If I may, just for the record, state that I was not commenting on the history of the Productivity Commission. I was merely stating my reasons, why I had hopes for the future impact of the Commission, under the chairmanship of Secretary Peterson.

Senator PROXMIRE. Thank you.

Senator PERCY. I think Senator Proxmire would certainly concur with me that we have one hole in these hearings. We did not hear from an outstanding labor leader. It was not because we did not try. We invited George Meany to testify, who was a member of the Productivity Commission until he resigned a few weeks ago. He was not able to come, and the AFL-CIO was not willing to provide another witness to us. The UAW is holding their first annual international convention since the death of Walter Reuther, so it is understandable that they could not be here.

I did contact Mr. Hunter Wharton, the general president of International Union of Operating Engineers, to testify. We sent word to him yesterday that we would appreciate his appearing here and inviting him to testify. But he is also in the process of conducting his own convention. The International Union of Operating Engineers has a membership of 402,000 with 300 locals. They are engaged in the construction industry, in the installing and operation of heating and refrigeration of plants, including the operation of oil refineries. I saw a speech that Mr. Wharton gave a few days ago at the Washington Hilton and a member of my own staff went over and attended part of

this convention. Walter Cronkite commented on his speech. It was one of the most remarkable statements by a labor leader I have ever heard. We always tend to think of someone else's faults. Here was a labor leader who started looking at himself and his union and the industry he is in and all work forces and asked a number of provocative questions. I would appreciate the comments of our panelists this morning, but I think it is important that we do put into the record extracts from this speech. I will not read all of the extracts that I will include. Those will be given for incorporation in the record. Without objection, they will be incorporated. But I will read a few extracts that give the essence of what he had to say.

I think it is very interesting that he has served as a member of the National Commission on Productivity. Possibly sitting around a table talking about the problems, thinking about them, has caused him to reassess some of the policies and attitudes that organized labor have had. Now, I hope that business management will do exactly the same thing, because they have many things to rethink.

Reviewing the events of the 4 years since the union's last convention, Mr. Wharton said:

What have we learned from it all? I believe sometimes an honest answer would be "not too much."

We have, as the proverbial saying goes, "succeeded in spite of ourselves."

I believe an analysis of our position would be good for all of us, for you, the leaders of your respective local unions, for you the rank-and-file members that are here.

You will find that our progress seems to have peaked. We have reached and reached and reached until we find ourselves on the decline. Yes, we have reached beyond our grasp. . . .

I know many of you leaders here today are extremely proud of your achievements over the last few years in your negotiations of your agreements. The large increase you gained for your respective membership was a fine job done, but I wonder how we received those increases, and what they will do to our future, and was your ability greater than that of your opposing negotiators. Yes, I wonder, too, as I say, how much the fabulous increases that we have been able to negotiate over the last few years will retard our progress.

Just think, how long could an employer take a prolonged work stoppage; how long would he be able to continue operations if subject to interrupted progress of his project, a job in which he may have his total finances invested?

The employer in many instances had but one course to follow, and that was to submit to your demands.

If one trade got more than the other, then the representatives of our trade or some other trade had to get as much, and he had to do that by getting either as much or a little more to show he was a better negotiator than the other fellow.

All the time these wages were going up, productivity was standing still, and in many instances, instead of standing still it was even falling below the norm. These constantly spiraling wage rates with no end in sight created a condition where all eyes were turned toward the construction industry.

The construction industry employees were taking and receiving increases beyond reasonable expectation, and at the same time, with no increase in productivity, and, as I say, in fact, many times the productivity fell off.

Had productivity increased as wages began to rise, we would not now be faced with our present-day problems.

As demands were made upon and met by the employers, the telltale effects of our system without reasoning began to show in our loss of construction to other than union employees, and the change of attitude on the part of many of our fair employers, the activities of the employers and employees had an effect on the construction industry to a degree that another new set of factors entered our relationship.

Owners, bankers, government agencies, employer associations, all formed alliances to counteract the activities of the construction trades.

These groups made studies of the problems and came to the conclusion that the time was ripe for them to join hands, and they decided no longer to allow us to fragment their position as we had in the past, and, in addition to the higher wages, loss of maintaining productivity level, loss of continuity of operations due to jurisdictional disputes, continued and mass or individual picket lines caused a further decline in the industry because of all of these added costs.

We have reached and reached until now what we have fought for over the years, more union construction, is becoming beyond our grasp * * *.

Where are we going, and how long is it going to take to get there on our present course? In my judgment * * * it is not going to take us too long * * *.

Labor must rededicate itself to pride of workmanship—a fair day's work for a fair day's pay.

(The extracts from a speech of Mr. Wharton, referred to above, follow:)

[Extracts from a speech by Hunter Wharton, General President, International Union of Operating Engineers, at the 29th convention of the International Union of Operating Engineers, Apr. 24, 1972, Washington, D.C.]

General President WHARTON: Well, I certainly want to welcome all of you here to this great Convention, and I think it will be a great one. I want to thank all of the distinguished speakers for their kind words, and particularly for the nice things they said about Jay Turner.

This is the first Convention, as was mentioned earlier, that has been held in the city of Washington, since 1940; 32 years ago the 21st Convention was held here, and held in the old Raleigh Hotel, which no longer exists. There is a great office building there on that site.

Many of our Delegates who are here today stayed either at the Raleigh or at the Hamilton, which was our second headquarters.

The Hamilton is still here and is the home for many of the labor leaders when here in Washington.

This is the largest Convention in our history; more than 900 Delegates are here representing over 400,000 of our members.

In 1940 we had 212 Delegates representing 57,911 members, so you can see what that period of time has done for us.

Washington, as you were told a moment ago by one of your co-host chairmen, is the home local of two of our real old local unions, Local 77, chartered June 8, 1901, and is the home local of Vice President Turner; Local 99, was chartered March 24th, 1902, and is the home local of our former General President Milton Snellings, and also our former Chairman of our Board of Trustees Charles Callan.

These locals represent both branches of our membership, the Hoisting and Portable and the Stationary, and we certainly appreciate them, and I extend to them the sincere thanks of this Convention for their cooperation in working out the details so that we would have the proper surroundings and facilities for the Convention.

This is the third Convention that I have had the privilege of chairing, the 27th, 28th, and now the 29th; and as Secretary-Treasurer of the 26th; and also many, many times have I served on the various committees with other previous Conventions.

The Conventions are forums for the members to express themselves through their elected Delegates, a forum for reporting of achievements, a forum for reporting on the stewardship entrusted to the officers, and, of course, the ultimate ruling body of our International Union.

We have attempted to give a complete report of the stewardship and progress of the International Union in the Officers' Reports you have received.

The Committee on Officers' Reports has reviewed this report over the past week, and I am sure will be ready early in the Convention to give you an analysis of that report and their comments.

The events since the last Convention and the years intervening must be used as our guide into the future. Hindsight is fine; Monday morning quarterbacking is good, yes, it is good if we are to profit from what we have learned from our past mistakes, and chart our future course accordingly to avoid those same mistakes.

We are in a changing period, a changing period in the history of labor. changes that few of us went looking for or want to cope with; changes taking place affecting the industries in which we earn our livelihood, yes, the attitude that "it

can't happen to us." is very prevalent today without any effort made to correct the mistakes that we have made.

If we are to profit just a small bit from our experience, the leaders could do great service to the future of the industry and our membership.

The changes taking place must be met by all of organized labor. No one organization can change this course alone.

Never in our history have we had as great problems as we do today, or more of them. What we do at this Convention will have a great effect on our future. I trust that those who follow us will see the wisdom of our actions.

I am pleased to report to you that your International Union has in its individual way, and on its own, met many of the problems and have found solutions, though many of them have been criticized for our actions, but we have met them as we see them, and we have weathered the criticism; and many of those who formerly criticized our actions have now adopted the policy that we adopted, formerly frowned on in the early days.

We urge you to read carefully the Officers' Report in detail so that you will become more acquainted and more knowledgeable of the activities of your International Union.

Our staff has had a hard job over the past four years. Their approach in handling of the problem assigned to them has been in the best interest of the International Union and its membership.

It is with great concern that we approach our daily tasks, but our greatest concern is to leave our International Union a little better than we found it.

President Heddel and his administration left the organization in the hands of President Posschl a little better than he found it, as did President Posschl to President Maloney, and President Maloney to President Delaney, and President Delaney to the present administration—all left it each a little better than he found it, and our job is to see that those that follow us will find it a little better as they take over.

We have had many problems throughout our history. They were problems of the particular era in which we were living.

We feel that our problems, of course, are the greatest, and that may be true, but they, too, many of them, are problems in the period in which we live.

I am sure that the history of the International Union when studied and analyzed will reflect that each period presented enormous and unusual problems, many peculiar to a specific period.

However, many have continued to plague us throughout our history.

We must, when we review our history, pay tribute to our founders and our predecessors for the foundation upon which this Union was built, and for those who followed for the structure built upon that solid foundation.

December 7th, as we have said, 1971, was our 75th Anniversary.

We tied the two together, this Convention, along with that 75th Anniversary, and we are proud of the history that we have.

75 years is a long time in the life of an organization, a long time in the life of an individual.

We have grown in membership; we have grown financially. We have the largest membership in our history. We are about twelfth in size of the whole American labor movement.

We have grown at an annual rate of approximately 10,000 new members, while other International Unions are losing membership; and we can meet our obligations, our financial obligations, without too much concern.

When we speak of our continued increase in our membership, our financial position, we naturally assume that we are well off, well-to-do, but how well off are we?

We, as an organization, can perhaps temporarily meet our individual problems. Meeting the problems on an individual basis is only temporary. The problems of all organized labor and the industry we serve must be met by all the trades.

As I review the history of our International Union, and I have had 42 years as an officer in the International and the Local Union, and 47 years of membership—

[Applause.]

I have seen much of the history made, and have had some interest in part in making some of it, so I speak with some knowledge of the past, the present, and can see a way into the future based on that experience.

I will not attempt to review the history of our International Union, some of which we can be proud of—some would be better not recorded.

Our good deeds, no matter how many, cannot remove those that we are not proud of.

The Secretary in the recent issue of the *International Engineer*, sent you and prepared a brief résumé of our 75 years. We hope that it is interesting.

So we go from one period to another, seeing drastic changes in our way of life, in the method of construction, communication, power sources, transportation, rockets to and around the far outer planets, men landing on the moon and returning safely. All of these and many more have come in the life span of many of us here.

What have we learned from it all? I believe sometimes an honest answer would be "not too much."

That seems a bit blunt, but if we were to take stock, we would soon find that our employer-employee relationship and our public image is wanting and needs new direction.

We have, as the proverbial saying goes, "succeeded in spite of ourselves."

I believe an analysis of our position would be good for all of us, for you, the leaders of your respective local unions, for you the rank-and-file members that are here.

You will find that our progress seems to have peaked. We have reached and reached and reached until we find ourselves on the decline. Yes, we have reached beyond our grasp.

Now is the time for every one of you who are leaders to display leadership within the bounds of our Constitution and our bylaws, your bylaws; and where your local bylaws do not meet today's needs, for your future salvation I urge you to change them.

It is time, if it is not too late, to turn ourselves around and approach our problems as they exist.

We are the makers of many of our problems. Therefore, instead of just complaining, we should be seeking answers together, and I know we can find those answers.

Our progress has not always been because we are smarter than the employer or his representatives, or because of our individual outstanding ability in handling our affairs.

I know many of you leaders here today are extremely proud of your achievements over the last few years in your negotiations of your agreements. The large increases you gained for your respective membership was a fine job done, but I wonder how we received those increases, and what they will do to our future, and was your ability greater than that of your opposing negotiators. Yes, I wonder, too, as I say, how much the fabulous increases that we have been able to negotiate over the last few years will retard our progress.

Just think, how long could an employer take a prolonged work stoppage; how long would he be able to continue operations if subject to interrupted progress of his project, a job in which he may have his total finances invested?

The employer in many instances had but one course to follow, and that was to submit to your demands.

The results of our actions are not always the great victories we claim, and what I have said may strike where it hurts. What I have said may not be to your liking. What I have said you may wish to challenge. If there is such a desire, I urge such a challenge.

The great volume of construction and the duration of construction projects today as against the past has warranted long-term contracts.

Employers urge such long-term contracts because they give them an opportunity to protect themselves against unforeseen contingencies.

Likewise, Business Managers of our local unions, looking for protection, gambled on those long-term contracts because they could not look too far into the future to determine what the future might bring.

With these two factors coming together, the employer was willing to pay a price for the knowledge of the future. Otherwise he could be found with undetermined labor costs. The employees' representatives also needed protection for themselves and for their membership; therefore, they must get all they possibly can, and on many occasions, they would lead to unsound reasoning in their approach to their wage and working conditions.

While these two factors were dominating employer-employee relations, another entered the picture. We call it sometimes in our discussions "leap-frogging," or "me too-ism."

If one trade got more than the other, then the representative of our trade or some other trade had to get as much, and he had to do that by getting either as much or a little more to show he was a better negotiator than the other fellow.

All the time these wages were going up, productivity was standing still, and in many instances, instead of standing still even it was falling below the norm.

These constantly spiraling wage rates with no end in sight created a condition where all eyes were turned toward the construction industry.

The construction industry employees were taking and receiving increases beyond reasonable expectation, and at the same time, with no increase in productivity, and, as I say, in fact, many times the productivity fell off.

Had productivity increased as wages began to rise, we would not now be faced with our present-day problems.

As demands were made upon and met by the employers, the telltale effects of our system without reasoning began to show in our loss of construction to other than Union employees, and the change of attitude on the part of many of our fair employers, the activities of the employers and employees had an effect on the construction industry to a degree that another new set of factors entered our relationship.

Owners, bankers, government agencies, employer associations, all formed alliances to counteract the activities of the construction trades.

These groups made studies of the problems and came to the conclusion that the time was ripe for them to join hands, and they decided no longer to allow us to fragment their position as we had in the past, and, in addition to the higher wages, loss of maintaining productivity level, loss of continuity of operations due to jurisdictional disputes, continued and mass or individual picket lines caused a further decline in the industry because of all of these added costs.

The International Union saw the storm clouds on the horizon but were helpless to do much about it ourselves.

At every meeting that we attended, I personally, or a representative of our International Union, advised of the problems I had.

Today existing labor laws and the autonomy granted and exercised by our affiliated local unions has much to do with the failure of the International Union to take action for our local unions' own salvation.

Local leaders cannot be blamed individually for what has happened. Each leader is a political animal, and if he fails to meet or exceed the achievements of other leaders, of other organizations representing their membership, he cannot survive. He must demand and get all the "traffic will bear," because there are other potential leaders in the back ground demanding and promising greater achievements with little or no possibility of achieving them.

All of these promises are made with complete disregard for their effect on the industry and not for the good of the membership.

We have reached and reached until now what we have fought for over the years, more Union construction, is becoming beyond our grasp.

What is the answer? For a considerable time at each regional meeting, at each Business Managers' Conference, where I or our staff have spoken, we have brought these problems to your attention.

We advised a program of stock taking; we have offered our assistance. In some instances it has been accepted freely; in others, very reluctantly, and in many instances, not at all.

Also, we accept the fact that no local could change the course or alleviate the problems by themselves. Unity of action was necessary, and is necessary by joint action of all trades.

Each Building Trades Local Union and each Building Trades Council must rally their forces for a change of course.

In such efforts, there have been great failures in the past—no one willing to take the lead.

Now we find our aims beyond our grasps, and our position has weakened to the degree that it is now becoming very difficult even to hold on to what we have.

In many localities, the leaders of labor are seeing the results of their actions and are succumbing to the pressures for changes that have caused in many instances a turnaround beyond belief.

In many areas, there is almost a complete stampede to accept the contractors' and owners' offer and with little or no opportunity on the part of the trades to do anything in the negotiations.

Where are we going, and how long is it going to take us to get there on our present course?

In my judgment and from what I can see, it is not going to take us too long. It is not too late. In my judgment, we can by proper action recover our position.

We have the greatest source of skilled mechanics. They are readily available to our employers. Our employers will continue to be our employers, and they'll want to continue to deal with us and with our local unions so long as we make it possible for them to be in a competitive position.

Labor must rededicate itself to pride of workmanship—a fair day's work for a fair day's pay.

Our local leaders must show the way. They cannot continue to create jobs by having unproductive labor on the job.

Our leaders can no longer demand and have standby labor on the jobs so as to create a job for those who have no desire to work for his pay.

I know what you are thinking and saying to yourself is, in all probability, "Why is he, our General President, talking to us as if we were to blame for it all?"

Well, I don't blame you for the problems. The other trades are just as bad as we are, and I know that is what you are saying, but blaming each other does not give us the answer to our problems.

The condition must be rectified, and it cannot be rectified by just saying the other trades are as bad as we are, if not worse.

You as local Building Trades leaders must work to bring the leaders of all the trades together, to create a solid front for your own future.

Senator PERCY. When I addressed the Illinois Federation of Labor, which is our AFI-CIO convention, with 2,000 or 3,000 delegates, and I said the day of labor demanding more and being willing to give less ought to be over, they stood up and cheered. And I was perfectly amazed—not too surprised, though—but pleased. Walter Cronkite, I think it was, reported that they stood up and gave him a standing ovation when he spoke these candid, honest facts instead of just giving them the same old pabulum, the kind of stuff they want to hear, which they all know is strictly baloney if we are to maintain our competitive enterprise as we know it in this country.

I would very much appreciate any comments any of you would like to make on that and would certainly welcome comments from our Chairman, Senator Proxmire.

Mr. Burnham.

Mr. BURNHAM. I think that is an enlightened viewpoint. I am glad to hear it.

Senator PERCY. Do you think it is representative?

Mr. BURNHAM. I guess I don't know. I have not heard enough labor people express themselves on this. But I think the top labor leaders are very intelligent men, and my guess is that they recognize the importance of improving productivity and giving a fair day's work. I think probably most of them really feel that way, whether their speeches say it or not.

Senator PERCY. Mr. Strasser.

Mr. STRASSER. This attitude conveys the appreciation for the fact that we as individuals, as industries, and as a nation must remain competitive, and that we can only do so through increased productivity. It also conveys the understanding that an active adversary attitude about how productivity increases should be shared is futile, as long as we are having difficulties bringing them about in the first place.

Senator PROXMIRE. Let me just say that I concur, but I frankly think, Senator, something that you may know well. You put it awfully well. I think that when people hear what they expect to hear, they, of course, like it, and they react, as you say, to the old pabulum all of us

like. But when they get the rare example of honesty and guts and courage by somebody who deeply means it, even though they disagree, they are likely to respond just humanly—not just to what the man said but the fact that he had the courage to come up there and look them in the eye and say it. So while I hope that this view is beginning to pervade organized labor—and maybe it is, and this is a way to make it do so—I am a little less optimistic about the notion that the people I know in organized labor would buy this. I think that the colloquy I had with George Meany about a week ago is a little more typical.

Senator PERCY. Well, there was quite a crowd here. Yet I feel that organized labor for the most part, through the years, has had a great pride in their patriotism, their sense of associating themselves with national purpose, even to the point of backing the war—which I think is wrong and they may think is wrong—but as a nation, they say, as long as our President says we have to be in that war, we have to support it.

I think it would help a great deal if we could find a way to dramatize that this is in the national interest, and that is the purpose of these hearings, of course.

My last question deals with efficiency in Government. Both of you have had years of experience in working with Government. There have been attempts in the past to establish an Office of Goals and Priorities Analysis in the Congress in order to lay out on a more rational basis the policy options available to legislators and their likely consequences. Legislation along these lines was passed by the Senate 2 years ago but was stalled in the House. Would you care to comment on the need for establishing an Office of Goals and Priority Analysis within the Congress? We want to increase our productivity here. We have a lot of employees that both Senator Proxmire and I feel do not belong here and should not be on the payroll; they make no contribution whatsoever to our increased output in productivity. But I am shocked at the tools that I had available in industry and the lack of tools and resources that I have available to me in government to even bring facts to bear to make judgments.

Do you feel that such a proposal to strengthen the Congress through a division of goals and priority analysis might be a help?

Mr. STRASSER. I, of course, agree with the reasons behind such a concept. The primary thrust of my statement was for appropriate mechanisms to gain badly needed overall insights into our many and often differing aspirations. This, in turn, could help improve the quality of public debate, executive leadership, as well as legislation, through a better understanding of the many variables at play. Such mechanisms could help make our deliberations, decisions and actions more reasoned and hence more rational.

But, where should such mechanisms be institutionalized? I believe they are needed in both: within the executive, as well as within the legislative branch of Government. The former needs it to better plan design and implement Federal programs in their totality, as well as assist, not dictate, other national efforts within some common context; the latter needs it to bring about more rational public debates, to view the many options against one another, and to be in a better position to rationalize not only what is in the budget and why, but also what is not, and why not.

Now, how do we bring about such mechanisms? This is yet another story. Much of the existing system views such mechanisms as threats to entrenched vested interests. I hope I am not too naive to overlook this most important consideration. However, I have approached this issue primarily from the point of view of "desirability" rather than "feasibility." Since I believe that "desirability" will soon turn to "necessity," we will have no choice but to overcome this "feasibility" impediment eventually, one way or another.

Within Congress some Division or Office of Goals and Priority Analysis, as you mentioned, Senator Percy, is certainly the kind of function I have been advocating. Within the Executive Branch, the mere strengthening of the Management function of the Office of Management and Budget would be a step in the same direction.

Senator PERCY. Thank you, Mr. Strasser, very much.

Mr. Burnham.

Mr. BURNHAM. I think it would certainly be important to do this and to do it the way Mr. Strasser was saying. But I would hope along with that they would also have some people going right ahead and making improvements when they find them and putting them into effect. I have a fear that in this whole subject of productivity improvement, no matter where it is, if we do too much studying we might try to solve the whole major system and miss an opportunity to go ahead someplace and improve productivity. I can't see anything bad about improving productivity on any operation, any place we can. And I don't think we need to wait for complete system studies to make progress. So I would urge that we have a doing group along with this overall study group, which, when they see a place where they can make an improvement, would move ahead.

Senator PROXMIRE. Mr. Burnham expresses my view awfully well. We need a doing group.

I think Senator Percy has hit just on the nose what this subcommittee he is chairing this morning is supposed to be doing. The title of the subcommittee is "Priorities and Economy in Government." The title could be "Goals and Priorities." Economy is the province of the Joint Economic Committee. I think Senator Percy is right. If we could highlight it somehow, let people know there is a separate committee working on it, maybe we could get more recognition. But I think that should be the purpose of this subcommittee, and certainly the purpose of these hearings to do exactly what Senator Percy was addressing.

I do have one other thing I would like to do. We have in the room this morning one of the outstanding experts on productivity in the country, Professor John Kendrick. At our request, he has very graciously prepared a brief statement on productivity. If there is no objection, I would like to have it placed in the record.

Senator PERCY. It is so ordered.

Senator PROXMIRE. He has been attending these hearings. Mr. Kendrick is right over here. He has some tables that are most informative and helpful and I hope we can call it to the attention of all the other members of the committee. We will certainly rely on that.

Senator PERCY. We welcome you very much indeed and appreciate your participation. This will be entered in the record.

(The statement referred to follows:)

STATEMENT OF JOHN W. KENDRICK, PROFESSOR OF ECONOMICS, GEORGE WASHINGTON UNIVERSITY

I am pleased to respond to Senator Proxmire's gracious invitation to me to express my views on some of the issues that have emerged in these hearings.

In the first place, I am convinced that there has been a significant slow-down in the rate of productivity advance since 1966. I must take issue with my good friend Edward Denison in that I believe the retardation is considerably more than can be explained by the slower rate of growth in real gross national product (GNP). As shown in Table 1 below, which presents rates of change between business cycle peaks since 1948, the rate of growth in real private GNP 1966-69 was still well above that in 1953-57 and 1957-60, but the rates of productivity advance were well below. In the recession of 1969-70, as shown in table 2 below, real private GNP per manhour rose by less than one percent, and total factor productivity declined fractionally. In previous recessions the declines were much less. In 1970-71, productivity increased by somewhat more than the trend-rate, as is usual in recoveries, but the increase was not enough to offset the abnormal retardation during the recession.

Mr. Denison's colleague at the Brookings Institution, George Perry, argued in one of the *Brookings Papers* last year that only about one-third of the slow-down in productivity can be attributed to the slow-down in economic growth, based on his econometric studies. Other more fundamental forces must be at work in the retardation.

In an article in August, 1971, *Business Economics* entitled "*The Productivity Slow-down*," I listed four main reasons for the poor productivity performance in recent years.

(1) The decline in research and development outlays as a percent of GNP from 3.0 percent in the mid-1960s to 2.6 percent in 1971, which meant a significant retardation in the growth of productive knowledge and know-how.

(2) Changes in the composition of the labor force, particularly the influx of younger, less experienced workers. George Perry estimated that this factor accounted for nearly a third of the productivity slow-down.

(3) The acceleration of price inflation between 1965 and 1970, which diverted resources from more productive activities toward efforts to mitigate its unfavorable effects.

(4) Negative social tendencies, including increased drug usage and crime, social divisiveness exacerbated by the activities of the radical left, and some weakening of the "work ethic" epitomized by the "hippie" culture. It is impossible to quantify the net effect of recent social tendencies, but it seems clear that they must have had a negative impact on productivity advance.

What can be done to accelerate the rate of productivity advance, or at least bring it back to the historical trend? For the short-run, I agree with Senator Proxmire that the most important force will be a continuation of the strong economic expansion of the past six months. If the rate of increase in real private GNP per manhour can continue to rise at an annual rate of between 3½ and 4 percent in 1972, and the increase in average hourly labor compensation further decelerates towards the Pay Board guideline of 5½ percent, then the chances are excellent that the rate of increase in the implicit price deflator for private GNP will decelerate to less than 3 percent by the third quarter of 1972.

As to more fundamental forces affecting productivity I am glad to see that the President's budget for 1973 calls for a significant increase in federal funding of research and development expenditures, and I hope that the required appropriations will be forthcoming. Significant increases should also be made in the other types of "intangible investment" that increase the quality and productivity of our human resources—investments in education and training, health and safety, and worker mobility. The growth of intangible investments as a percentage of GNP has been a major factor in past productivity advance.

Beyond that, I agree with Mr. Denison that the chief concern of Congress should be the maintenance and improvement of the legal and institutional framework within which a vigorous competitive free-enterprise system can operate. In that connection, I concur with Senator Percy that as soon as inflation is brought under control the present wage-price control apparatus should be largely dismantled, but with stand-by authority for renewed controls in case inflationary fires are rekindled at a later date.

On the other hand, I would urge that the National Commission on Productivity be made a permanent agency of the Federal Government, with a large enough staff to perform and coordinate the many lines of productivity which are needed, as underscored by these hearings. The United States is one of the few major countries of the world without a permanent productivity agency of some sort, but our experiences of recent years indicate that we can no longer afford to be complacent in the belief that strong productivity advance will continue automatically. So many governmental measures affect productivity that it is very useful to have one agency evaluate existing and proposed legislation from the viewpoint of its impact on productivity, and to recommend other measures needed to promote productivity increase. I hope that the Commission, as recently reconstituted, will rise to the challenge. If not, further reorganization would be indicated, since the basic conception is a sound one.

TABLE 1.—TOTAL AND PARTIAL PRODUCTIVITY RATIOS

PRIVATE DOMESTIC ECONOMY AND MANUFACTURING SECTOR, PERCENTAGE RATES OF CHANGE, 1948-69, BY SUBPERIODS

	Subperiods					
	1948-69	1948-53	1953-57	1957-60	1960-66	1966-69
Private domestic business economy:						
Real product.....	3.9	4.6	2.5	2.6	5.2	3.4
Real product per unit of:						
Total factor input.....	2.3	2.8	1.9	2.3	2.9	1.1
Labor-weighted man-hours.....	2.9	3.5	2.6	2.9	3.2	1.6
Unweighted man-hours.....	3.2	4.1	2.7	2.6	3.6	1.9
Capital.....	.3	.3	-1.2	.3	1.8	-1.0
Capital/labor ratio.....	2.4	3.2	3.8	2.6	1.3	1.0
Total manufacturing:						
Real product.....	4.1	6.0	1.1	1.2	6.5	3.4
Real product per unit of:						
Total factor input.....	2.3	2.9	1.5	2.0	3.2	1.4
Labor.....	2.8	3.3	2.1	2.5	3.5	2.3
Capital.....	.4	.9	-2.1	.2	3.1	-2.3
Capital/labor ratio.....	2.6	1.9	3.6	2.6	1.7	4.8

Source: John W. Kendrick, "Productivity Trends in the United States," Princeton University Press, 1961, with estimates updated through 1969 by the author.

TABLE 2.—U.S. PRIVATE ECONOMY—REAL PRODUCT, PRODUCTIVITY, UNIT LABOR COSTS, AND PRICES
(Average annual percentage rates of change, 1948-71)

	Real product	Total factor productivity	Real product per man-hour	Per pay man-hour	Unit labor cost	Implicit price index	Consumer Price Index
Years:							
1948-57.....	3.7	2.3	3.3	5.4	2.0	2.1	1.8
1957-66.....	4.4	2.6	3.5	4.6	1.0	1.5	1.6
1966-71.....	2.4	1.0	2.0	7.0	4.9	4.0	4.5
1966-67.....	2.3	.8	2.1	5.8	3.7	2.9	2.8
1967-68.....	4.8	2.1	2.9	7.6	4.6	3.6	4.2
1968-69.....	2.6	-2	.5	7.5	7.0	4.5	5.4
1969-70.....	-7	-1	.9	7.2	6.3	4.9	6.0
1970-71.....	2.9	2.6	3.6	6.9	3.2	4.3	4.3
Quarters:							
1968-69:							
I.....	4.4	(¹)	1.7	7.9	6.1	4.1	4.9
II.....	2.8	(¹)	.4	7.6	7.2	4.5	5.4
III.....	2.2	(¹)	.1	7.4	7.3	4.8	5.6
IV.....	1.2	(¹)	-3	7.2	7.5	4.8	5.8
1969-70:							
I.....	-3	(¹)	-6	7.6	8.2	5.0	6.2
II.....	-5	(¹)	.6	7.1	6.5	4.7	6.1
III.....	-6	(¹)	1.9	7.5	5.5	4.7	5.7
IV.....	-1.3	(¹)	1.9	7.0	5.0	5.2	5.7
1970-71:							
I.....	1.5	(¹)	3.8	7.1	3.2	4.9	4.9
II.....	2.2	(¹)	3.6	7.5	3.8	5.0	4.4
III.....	2.5	(¹)	3.1	6.7	3.6	4.4	4.3
IV.....	5.3	(¹)	3.9	6.3	2.3	3.1	3.5

¹ Not available.

Source: Bureau of Labor Statistics and John W. Kendrick, April 1972.

Senator PERCY. I have about a 4-minute commencement address, or closing comments, and certainly our witnesses are excused, with our deep appreciation. You do not have to stay to hear me, but both Senator Proxmire and I very much appreciate your giving up a day to be here and are most gratified at your testimony and response to questions. I think it certainly culminated three very, very productive days.

Today marked the third and last day of a series of hearings on productivity, but I have hope that it helps mark the beginning of a national concern with this important subject. The witnesses we have had over the past 3 days have presented a wide spectrum of provocative, sometimes conflicting views. Secretary of Commerce Peter Peterson, for example, stated on Tuesday that "what we need . . . is to mount a comprehensive 'national crusade' to boost U.S. productivity," while the eminent economist Edward Denison came in the very next day to say that "I see absolutely no evidence as yet of any productivity crisis, but only the usual cyclical pattern."

The means of improving national productivity also have been described differently. Yesterday, Jerome Rosow brought convincing evidence of the effect which productivity bargaining can have on a firm's productivity record, and this approach was endorsed by Price Commissioner Grayson. However, I gleaned from Ralph Nader's testimony that productivity bargaining does not go far enough. Nader's vision of productivity improvement would encompass at least his concept of "initiatory democracy" by individual citizens or larger social organizations, be these organizations unions or corporations for whom they work.

Another input into these hearings has been from the press, which has finally taken an interest in and seen the importance of the issue of productivity. In February of this year, *Fortune* magazine ran a feature article entitled "The News About Productivity Is Better Than You Think," whose thesis was just that: the news about productivity is better than you think.

Offsetting such pabulum—and I have to call it that—is the excellent, gummy series in the *Washington Post* entitled, "The Unions," which emphasized the effects on productivity and craftsmanship which changing worker attitudes have had, and one would wonder whether the respective authors are talking about the same country and work force.

The difficulty of finding some order out of the mass of conflicting evidence is best exemplified by quoting from one of our witnesses, Mr. Denison. "To inquire into productivity," Mr. Denison said, "is to investigate almost every aspect of economic life."

During this week we have heard about human motivation, crime, physical surroundings, research and development, business competition, safety and health, monotony, product hazards, recycling, freedom of information in business and government, education, resource allocation, advances in knowledge, advertising—the list is almost endless. Each of these factors has been said to impact directly on the issue of improving national productivity. Each of these factors, and many more, will have to enter into any Federal effort to deal with the productivity issue.

Without any slight meant to our very capable and provocative witnesses, I get the impression that the issue is so big that the individuals we have heard from are like the six blind men and the elephant. Each person approaches the problem with his own particular background and prejudices. Human frailty prevents anyone from seeing the problem in its entirety. While it may be inconsistent for a U.S. Senator to admit to human frailty, especially in an election year, my own "prejudice" in approaching the productivity issue is that we indeed dealing with a human problem and a national one. The human issue relates to the fact that the current entrants to our labor force have brought a skepticism of national values to the work place itself. "Idealism's gone," says the Washington Post series, and in its place we are apparently finding—especially among the 22 million members of the labor force under 30—a frustration, anger, rebellion, and disenchantment which must concern businessmen and policymakers at all levels.

The national problem, of course, relates to our competitiveness in world markets, and I am pleased to see that some of the most forceful statements of the week have been on this crucially important issue to—to put it bluntly but accurately—national survival. We must improve our productivity over the long run if we are to compete worldwide. The inevitable alternative is to suffer the effects of a weakened domestic economy, repeated dollar devaluations, and a critical failure of U.S. leadership in the world economically. These hearings have been directed toward finding a way to prevent this. I am grateful to Senator Proxmire for convening them. I think if we reassess where we stand as a Nation and take into account all the legislative programs we might devise on the floor of the Senate, all the grand plans for reforming the world and remaking it are going to be for naught if we continue to have a trade deficit and run the kind of balance-of-payments deficit that we have been running. The end is coming; it is in sight. It is for that reason, hoping we can turn ourselves around in approach and attitude, that I thought these hearings were so vitally important. I am extremely grateful for the fine, intelligent direction that our Chairman and our very, very dedicated staff has given these hearings.

The subcommittee is adjourned.

(Whereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.)

APPENDIX

STATEMENT OF GABOR STRASSER, DIRECTOR OF PLANNING, BATTELLE MEMORIAL INSTITUTE, ON RECONCILING OUR PRODUCTIVITY-RELATED CONCERNS WITH RECENT ECONOMIC INDICATORS WHICH DON'T "LOOK SO BAD"

There are lots of things we can measure in many contexts. I am aware of the fact that many consider the current perturbation in productivity a normal cyclic phenomenon. Fortune Magazine in February discussed the problem in a similar vein, and the April 24 issue of Newsweek implied that things are improving.

The reasons for such variations are many-fold. First, conceivably things were never quite as bad as we feared 6 or 12 months ago. Second, whether we compare our productivity as such, or its first, or second derivatives with those of other countries, the results can be startlingly different.

What, however, do remain facts, after all is measured and said, are the following:

(1) For the first time in our history our service sector, with chronically low productivity increases, makes up over half of our labor force, thereby markedly decreasing our national average.

(2) We have been experiencing an "unacceptable" combination of unemployment and inflation (The Phillips Curve has shifted).

(3) We must compete on the international marketplace with nations of rapidly increasing economic and industrial power. Furthermore, these nations have lower standard-of-living aspirations than we do.

(4) We have become used to an ever more rapidly increasing standard of living (positive second derivative) which inexorably depends on our real productivity increases, which, of late, have been sagging.

Hence while based on certain historic measures of productivity, we may not be as badly off as we originally feared, things have changed sufficiently to warrant our continuing concern about productivity. These changes manifest themselves on both the international scene (emerging new economic powers, international trade), as well as the domestic scene (changing values, rising expectations).

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY, ON PRODUCTIVITY AND FULL EMPLOYMENT

Increasing the productivity of labor is seemingly one of the present-day imperatives if we are to douse the fires of inflation and meet foreign competition. Greater output per man-hour at a given level of wages will, of course, reduce the cost of production. The forces of competition, to the extent that they operate, will then also reduce the cost to the consumer. If wages rise less than productivity the consumer will enjoy lower prices. If the wage level rises in equal proportion to productivity prices will stand still, other things being equal. Of course, if wages rise faster than productivity prices would be expected under normal conditions of supply, to rise. At least, so goes the catechism of economics.

The imperative of increasing productivity has been raised almost to the majesty of the absolute.

It is desirable therefore to examine some of the credentials of this towering imperative. While its very simplicity makes it attractive, the side effects it may produce may detract from any inclination to extend blank endorsement to the mandate.

CREDENTIALS OF HIGHER PRODUCTIVITY

In the first place, productivity can be increased in any meaningful sense only by displacement of labor. This follows from the fact that some 80% of the

corporate production costs consists of employee compensation. It was not the faster shoveling of coal by the coal miners that so greatly increased the output per man-hour in the coal industry. It was the introduction of mammoth machines and strip-mining that accomplished the decimation of the miners' ranks. The result was a great gain in competitive standing, not only in opening foreign markets but in avoiding eviction of coal from our domestic market by petroleum and natural gas.

The output of coal per man-year increased from 1,239 tons in 1950 to 4,261 tons in 1968. The number of coal miners on the other hand, as might be expected, declined from 415,000 in 1950 to 127,000 in 1968. (Statistical Abstract of the United States, 1971, Table 1049, p. 642). In other words as productivity rose 3.4-fold between 1950 and 1968, the number of miners declined in almost equal proportion, or by 70%, or to a level of 30% of the 415,000 employed in 1950.

One of the results was, of course, the great distress of the coal-mining region, usually referred to euphemistically as "Appalachia", which has cost the Treasury hundreds of millions of dollars without curing the blight. Meantime our exports rose to 50 million tons, or 10% of our domestic output. Obviously our amazing productivity achievement that brought us gratifying exports and competitive prowess did little to help the displaced mine workers—some 300,000 of them or 70% of the work force! Since the number of bituminous coal miners (responsible for over 98% of our coal production) had fallen to 127,000 by 1968, the 10% exports saved the jobs of some 12,000 miners. Such a meager result should give pause to those who would raise increasing productivity to the level of a virtual categorical imperative, to be loved, honored and obeyed.

In the field of economics hard facts armed with a warhead of real meaning are not often encountered. When we do encounter them we should be grateful and learn something from their significance, rather than dismissing them because they raise disconcerting questions.

For example, higher productivity in other fields need not be looked to much more hopefully as a source of higher employment than coal *under the present status of world trade and our position in it.*

The further notion that we can pull ourselves out of our present unenviable economic position either at home or abroad by increasing our exports, an endeavor that is seen to rest on rising productivity, is almost totally false. This is especially true of increasing exports of agricultural products made possible by rising output per man-hour. In the 1930's nearly half of our total exports were agricultural products. After the permanent displacement of some two-thirds of agricultural workers by greater productivity our exports of farm products were only some 16% of total exports.

It goes without saying that for the coal mining industry the productivity leap was unquestionably an imperative, indeed the only means of survival; but its cost in employment prevents its conversion into a justification for a similar course to be adopted by other industries.

THE HISTORIC ROLE OF INCREASING PRODUCTIVITY

It is true, on the other hand, that rising productivity has been both the source of greater employment and higher wages in this country. In fact what was our unique economic system until a few years ago owed its genesis in great measure to the rising productivity that flows from invention and proliferating technology.

The fruits of technology, to be sure, were not enough of themselves to build our system, but they represented one of the cornerstones. Without them we would not have cut our anchorage that held us to the more pedestrian European system some seventy years ago. Technology by itself was not enough because the mass-production of which it was the efficient cause did not and cannot stand on its own feet. It needs the complement of mass-consumption; and this fact, a strictly American perception, though in no sense abstruse, long evaded comprehension by our European forebears. Their skepticism, as reflected by the British was no doubt sustained many years by the negative attitude of their leading economists, such as Ricardo, toward wages and their economic function. The British economists were in a sense apologists for the factory system that revulsed Dickens and Burke before him, and others, who were appalled at the employment of children and the inhuman working conditions imposed on factory workers and miners in general.

ORIGIN OF FREE TRADE

English leadership in the world rested on her commerce, protected by her navy. Since she was short on natural resources she depended on imports of raw products to feed her factories. These in turn not only supplied the home market but also produced surplus output for export. The latter brought her the exchange necessary to sustain her necessary imports.

The English situation indeed gave rise to the elaboration of the blessings and benefits of free trade—a system that was well suited to England's interest in holding her colonies as sources of raw materials (i.e., as agrarian and raw material economies) and as markets for her factory output. Our own academic economists drank deeply of the Adam Smith vintage of free trade and, failing to note the great difference between our economic situation and that of the British, undertook to apply to us what was good for England but not necessarily for us. They took the words of the British economic apologists as the gospel and using our chairs of university economics preached the gospel of free trade to generation after generation of students. The result was an intellectual and emotional conditioning of our economists that has not yet achieved the ability to break through to reality. What was good for colonial England in the 18th and 19th centuries was fastened on us as if it were also a superb prescription for our economic health. Actually we flouted the theory in great part in practice and erected a protective tariff, beginning in 1816. This action made possible our economic independence of England, as we had earlier gained our political independence.

However, it was not until after the Civil War that we began to lay the basis for a new system (still capitalistic, to be sure) that greatly modified our economic heritage. The point of departure was not immediately visible but in time produced a divergence of great proportions.

Once the post-Civil War heavy concentrations of capital built trusts and virtual monopolies we began to see the need for anti-trust legislation if the lowered costs of production that were made possible by our mechanical developments were to be passed on to the public, i.e., the consumers. 1890 marked the passage of the Sherman Anti-Trust Act. This was followed in some 25 years later by the Clayton Act, the Federal Trade Commission and Federal Reserve Acts. After another 20 years we put the Robinson-Patman Act on our statute books: another anti-monopoly measure.

After the turn of the century we turned more and more to the mass production made possible by our inventiveness and industrial talent. Then came the redeeming recognition of the link between mass-production and mass-consumption. By itself mass production would only accumulate indigestible surpluses of goods. It was necessary to place higher purchasing power into the hands of the consumers.

Very well, who were the principal consumers? Potentially they were those who in the aggregate have the most money to spend, rather than the few who receive the highest income.

In 1969 the number of males employed in this country was 48.8 million while the number of employed females was 29.0 million. The average pay of the males was \$7,659 and of females \$3,958. Here then was a potential consumer market of \$370 billion among the employed males and \$114 billion among the employed females, for a total potential market of \$488 billion. Had the per capita income been only \$1000 per year instead of the higher figure, the potential market, assuming the same price level, would have been very much smaller, or about \$79 billion instead of \$488 billion. Yet such a low level of income would still have exceeded by far the average per capita income of the Chinese (mainland) population of some 750 million and that of the Indian population of some 550 million, not to mention the great majority of the 265 million (plus) of Latin American population.

U.S. DEVELOPMENT

This country was not noted as being in the forefront of wage levels until the twentieth century; nor was it noted as an industrial nation, except perhaps as being on the threshold of new departures.

Given our mechanical, technological and managerial talent it nevertheless did not follow that we would know what to do with it. We had no greater endowment in those fields than the Europeans from whom we sprang. We did have greater distances staring us in the face; and it may be guessed that, much as the auto-

mobile is being castigated today as the mother of many of our ills, the need for farther and more agile locomotion, to tame our distances, may have motivated and sparked the mass-production outbreak to which we gave ourselves in the early years of this century when we tinkered with the automobile. In any event there can be little question that the connection between mass-production and mass-consumption was grasped by the great entrepreneur of that industry who put it into actual effect before it was recognized and implemented elsewhere.

It needed vision, obvious as the equitation is today, to perceive the great market possibilities that would open if the cost of a highly useful and enjoyable product could be brought to a level low enough to come within the pocketbook reach of the mass of the people. It needed not quite so much sharpness perhaps to see further that achievement of the objective could be helped if the income of these masses could rise and thus meet the lowering cost half way.

Monopoly power would perhaps have led the automobile makers to concentrate on the upper levels of income. If we would gain an idea of the difference between the two approaches, i.e., a limited high-income market and a mass market, we must move to recent dates because of the state of availability of statistical data.

In 1962 the number of "Top Wealthholders" in this country, i.e. those with gross assets of \$60,000 or more, was 4.13 million of a population of over 180 million. Of these 4.13 million over half had gross assets under \$100,000. Those with gross assets of \$200,000 or more numbered 670,000 and those with assets of \$1 million or more numbered 59 thousand. This was one person out of 3,000 of the 1962 population. (*Ibid.*, 1971, Table 523, p. 327).

If we turn to actual income as distinguished from gross assets we come to a different but nonetheless very useful measure so far as market potentials go.

In 1969 the median income of males aged 14 and over was \$6,429. For females the median was \$2,132. Of the men 92.5% had an income; and 65.8% of the females.

The males with an income of \$10,000 and over were 24.1% of the total; females 2.4%. Males with an income of \$7-9,999 were 21.6% of the total; females 5.9%. The next lower bracket of \$6-6,999 showed 7.6% of the males and 4.8% of the females. From \$5-5,999, the percentages were 7.0% for males and 6.9% for females. (*Ibid.*, Table 509, p. 320.)

A yacht manufacturer might aim at the market represented by the 670,000 who had gross assets of \$200,000 or more.

The earlier automobile manufacturers no doubt also aimed at the higher but sparsely populated high income levels, because of the high unit cost of their product. Monopoly power might have elected to stay at that level, preferring a small volume with a high profit per unit.

That was not, however, what happened. Henry Ford is usually credited with the breakthrough. He had no Census Bureau statistics to show him the various layers of income of the people, but he could guess that he would have a much larger market if he could bring down his costs to a level that would tap the mass market. This he did, thanks to his vision, his courage and productive genius. He also recognized the market-boosting effect of adequate wages.

He did have some conditions weighted in his favor, such as a toil-willing population, free enterprise, a national patent system, free trade among the States, low tax levels, no import competition distorting his timing options, and skilled labor. There was adequate competition, but, in view of his glimpse of the potentials of a mass market it is doubtful that he would have traded his vision for a more limited but high-price market.

The advent of the automobile, of course, boded ill for the wagon and carriage industry, not to mention horse breeding and growing of feed grain.

There was a fruitful lesson still to be learned. This lurked in the meaning of an *elastic* demand. Not all products enjoy the species of growing demand that greeted the cost reductions accomplished by the automobile industry. Had Henry Ford been a wheat or corn farmer he would have faced a wholly different market prospect. The reason is simple and obvious. Every person has only one stomach. Therefore biology sets a limit to consumption. This is true also of domesticated animals that may consume grains.

Had Mr. Ford come into possession of millions of acres of crop land so that he could have devoted his mechanical talents to mass production and sharp reduction in the price of wheat or corn per bushel, he would not have been greeted by a happily expansive market. The demand for food products is quite *inelastic*. While everyone has a stomach not everyone had an automobile. While everyone needed a stomach in order to live he did not need an automobile but could perhaps

use one if he could afford the cost and expense of having one. He could even own more than one machine, if it came to that. A second or even auxiliary stomach is perhaps not yet even on the drawing boards, much as gourmets might like an extra one.

Mr. Ford might have succeeded in reducing the number of man-hours to produce wheat but this achievement would not have increased the number of stomachs that might be fed. The planters and harvesters whom he would have displaced would not have been rehired because of a ballooning of demand such as greeted his automobile. In the latter instance the increased demand led to the hiring of more and more workers. The distressed carriage and wagon makers and horse and feed grain producers would become absorbed in the work force, albeit not directly or overnight. If there were other products to follow the example of the automobile, the labor market would take up the slack instead of settling into stagnation.

Mr. Ford's wheat would have accumulated huge surpluses in search of storage space. Presumably he might have sought export markets and might indeed have found some. Even so he would not have encountered an indefinitely expandable demand beyond the head-count of the population here or abroad.

The national experience with agricultural labor in this country under the farm program completely supports these observations. The six or seven millions of farm workers who have been displaced by modern agriculture in this country and the phenomenal increase in productivity of our farming operations, have not found resettlement and reemployment on the land. Inelasticity of demand for food products, which account for more than three quarters of our farm acreage, is the bar absolute against achievement of the employment expansion characteristic of new or radically modified nonessential products produced by industry.

Rising productivity in the production of *essential* goods, be they agricultural or mineral, represents a countervailing force working against full employment. When we released agricultural workers from the land because of rising productivity they could no longer remain on the land. They poured into the cities. The higher productivity of farmers did not lead to significantly higher consumption of farm products. Therefore the displaced workers remained displaced. They could hope to find reemployment only in the industries or services that catered to an *elastic* demand. While the number of products for which the demand is elastic is very large absorption of displaced workers is a slow process. Witness Appalachia. With respect to nonessential goods the only limit to demand is income, assuming wage increases in keeping with the higher productivity. (Today, to be sure, other limitations are raising rather ugly heads in the form of resource exhaustion, pollution, etc.)

We have obviously not lacked rising employee compensation in recent years. We have, however, encountered a different obstacle to absorption of the work force. Time was, until recently, when we could depend on new products or revolutionized methods of producing established products, to lead to additional sales as costs were brought down, as witness radio, television (for a time), household appliance of a great variety, synthetic textiles, etc. This meant new job openings sufficient to absorb the net additions to our work force which are now well in excess of a million per year.

Now, however, even though costs can still be reduced by mechanical and other innovations, the incentive is no longer what it was. We can no longer rely on our domestic market to supply the customers for made-in-U.S.A. products as we could in the past.

Our high productivity has been exported, so to speak. Foreign costs are below ours because foreign wages, while rising quite rapidly, did not bridge the gap. Foreign productivity came much closer to our heels than foreign wages, partly because our companies established manufacturing facilities abroad and used our own patents in these facilities, and partly because we licensed foreign producers to use our patents.

A budding young Henry Ford today, looking about himself, would see a vastly changed world-setting from the one of Henry Ford two generations ago. The latter had all the time he needed to develop and improve his product. Every substantial improvement in production meant more sales as he cut his costs. If anyone contested his market, his competitor, whoever he might be, operated under the same wage levels as himself, or not so far below that Mr. Ford could not cope with the difference within the amount of time he had available.

He (the elder Ford) was not likely to awaken one day as does his young successor in some other industry, to be confronted by a chilling challenge from abroad where some entrepreneur, either American or foreign, offers for the American market an acceptable competitive product, as good as his own, or better, at a cost so much lower than he could match that he must look beyond this country for additional sales territory. Unlike his young successor the elder Ford had no import competition, and needed none to stir him into a maximum effort.

His young counterpart would now be in much the same straits with his marketing as the elder Ford would have been with his wheat surplus had he gone into vast wheat acreage as previously pictured. While the young Ford's sales of non-food products would not be limited by the one-stomach per person as it would be with wheat, it would be limited nevertheless by the import intrusion that would despoil his market, upset his planning and his timing no less than darken his prospects for serving an expanding market. The imports would do what the inelastic demand does for wheat.

He would now look abroad for an increasing part of his expansion. The higher employment that would have happened here under the old condition would now be shared with his foreign plants and with other foreign producers.

The cry for greater efficiency is now an ironic mockery as it reverberates through the manufacturing community, be it automobile, steel or textiles, electronics, office machines or a hundred varieties of other consumer goods. Others can now manufacture the same thing the American industrial leader does, and do it cheaper, be it in Japan, West Germany, Italy, or wherever our technology has taken root. Moreover, they need foreign markets because their low wages do not provide a sufficient home market.

The competitive margin needed for holding our home market or expanding it for our own products, has been greatly narrowed and in a number of instances has disappeared. The market for the nonessential product, which is the mainstay of our employment, has been converted increasingly into the relatively static characteristic of the essential product so far as job-generation is concerned—for the reason already given.

When rising imports strike the market for an essential product like wheat, meat or other food product, they may take away a certain share of the market and thus deprive the growers of that much acreage output. They must then curtail their acreage or run the risk of creating a price-depressing surplus.

Yet the effect is not as serious as the invasion of our market for nonessentials of the kind that enjoy an expanding market as the costs are reduced, the product improved, made more useful, pleasurable and more attractive. *When the imports cut off the potential expansion or cut the expansion down to merely supplying the increase in population, our coefficient or ratio of expansion is destroyed or severely crippled and the nonessential product is converted into the same pedestrian pace as the nonessential one in point of job creation.*

Capital will not come forth readily or eagerly to be poured into research and development, consumer research, market cultivation, plant expansion and similar activities. Rather a cautious atmosphere will prevail. Venture capital aimed at production of nonessentials is notoriously timid for the simple reason that the consumer can for a variety of reasons curtail his spending, postpone his buying or reduce his consumption. If possible the venture capital will hedge by going overseas to participate in the low labor-cost advantage that confers the competitive margin on foreign producers by dint of which they have penetrated our market.

Established industries will undertake foreign manufacture to supply foreign markets from within. They will in many cases equip their foreign plants with American machinery and equipment and thus boost exports of these products. In 1971 our exports of machinery continued to run a strong surplus while nearly all other manufactured goods sustained heavy trade deficits. The indication is that foreign productivity will continue to rise as our export of machinery continues at a high level.

However, this may be a short road, since our imports of machinery have grown much more rapidly in the past ten years than our exports. The recipient countries of our exports are fast learning how to build their own machinery and to gain world markets for their exports.

If we insist on confronting our problem with a hypnotic chant citing our superior "know-how", hand in hand with a worshipful attitude toward increasing productivity, and a nostalgic attachment to free trade while refusing to accept the meaning of cumulative evidence of the sterility of this posture we

will surrender the motivation that brought us world industrial leadership in the first instance.

It needs no heavy protectionist onslaught to preserve what this country built in pioneering fashion. No turning back of the clock is needed nor injury to our trading partners in the world: only adaptation to radically changed conditions.

STATEMENT OF ROBERT F. WEISKOTTEN, PRESIDENT, NORTH AMERICAN DIVISION,
H. B. MAYNARD & Co., INC., MANAGEMENT CONSULTANTS, ON PRODUCTIVITY

Unfortunately it was not possible to appear before your committee during the recent hearings on productivity. However, after extensive conversations with members of your staff, it appears that H. B. Maynard and Company because of its wide background and experience in this very field, would be able to contribute significantly to the information you have received.

I have been talking to many government officials lately who are directly involved in the execution of the wage and price policies of the administration. I have read the transcript of the testimonies your committee has heard on productivity. In both cases I find a consistent thread of uncertainty, a broad use of generalities rather than concrete, practical concepts. I am sure it is not deliberate, but a vast number of red herrings are dragged across the productivity trail, seeming to make the definition of productivity indefinable, the comprehension of it incomprehensible, and the problems of improving it unsurmountable.

We hear that you can't just analyze productivity purely as the tangible result of human effort. There are "qualitative considerations." There are social aspects—ecology worker safety and health, job enrichment, the probable elimination of jobs. We need intensive study on the relationship between productivity and scientific/technical obsolescence, depreciation allowances, anti-trust laws. How does investment capital affect the formula? What is the relationship of labor productivity to "energy productivity"? To the "quality of life"?

Taking all these factors together, the problem does indeed seem so vast and complex that one easily becomes discouraged. I do not disagree that there is a great deal of truth in what is said, but I think that the immediate objective of the president's policy is to make *people* aware of the urgency for improved productivity, and of their role in achieving this. If we can cut through the ancillary factors and get to the core, it's not really so complex. Productivity *can* be raised through better working methods of *people*, and this improvement *can* be measured accurately. The British proved this with their Prices and Incomes policy.

For six years I was president of our British company, and was greatly involved in the execution of this policy. Not only did the Prices and Incomes Board recognize specific ways to evaluate productivity, but they also had the power to force widespread acceptance of these parameters through their ability to disallow salary increases without proven productivity increases.

Israel, too, had teeth in their policy. The Institute of Productivity, for example, maintained a staff of men who examined new productivity programs in companies. If the program met their standards, bonus earnings of the employees were taxed at a special, considerably lower, rate. The incentive for companies and unions to cooperate under these conditions is obvious.

One of the most widely held misconceptions about productivity measurement is that, while it may be possible in direct labor, you can't measure the productivity of white collar people, or management, or research and development, or people in service areas, or in *government!*

Again, the British experience has proven this false. The Prices and Incomes Board investigated productivity and reported its findings on such occupations as lawyers, nurses, and bank employees. Its report on bus drivers started the movement toward one-man bus operation. It reported proven increases in productivity of BOAC pilots of 15% to 20%. (How many people know that there is a consulting firm that does nothing but airline work? They have been analyzing the work content of pilots for years.) The board rejected the insurance companies' attempt to use a broad index of productivity for its salesmen and staff, and insisted on detailed work measurement and job evaluation.

Let me quote from the board's report on hospital staff:

"We put forward an outline for an Efficiency Scheme, based on organization and methods studies and appropriate group work study analysis techniques."

(In our terminology this means work measurement, operation analysis, work sampling, and other normal industrial engineering techniques.)

"These techniques would seek to establish for a group of ancillary workers changes in organization and methods and the appropriate manning standards for their duties, which would require to be carefully defined. When these manning standards had been achieved, bonus would be payable in accordance with the measure of operating efficiency derived as a function of the group's performance and utilization."

There are countless examples of this in this country, where enlightened management is determined to maintain a steady, *measurable* increase in productivity. I am attaching a few exhibits which might be of interest to you.

Exhibit 1 is a federal government ammunition plant. It shows the cost per hour of maintenance of the plant, and how it went from \$11.90 to \$6.00 in six months following a productivity program.

Exhibit 2 represents the entire staff of a County Clerk and Recorders office. It shows that their performance against specific productivity measures rose from 39% to 65% in just four months.

Exhibit 3 shows that the cost of a standard hour of work in that department went from \$10.32 to \$5.93.

Similar results, with specific measures of productivity, can be shown in schools, banks, and other areas generally thought difficult to define.

Finally, I read with great interest that the Productivity Commission is concentrating its attention in three areas: construction, health services, and state and local government. It does not seem widely known that a great deal of work has already been done in these fields, and considerable expertise is available. There are, for example, a number of consulting firms that deal in nothing but health care activities. We have done extensive work in the state and local government areas and are even now working on productivity measures in the construction industry. I can only speak for my own company, but I am quite sure that the other major management consulting firms would be more than willing to share their experience and specialized knowledge with the Commission if given an opportunity. We know the urgency of this problem, and its importance to the economic health of the country. I certainly hope we can be of help in this effort.

Exhibit 1

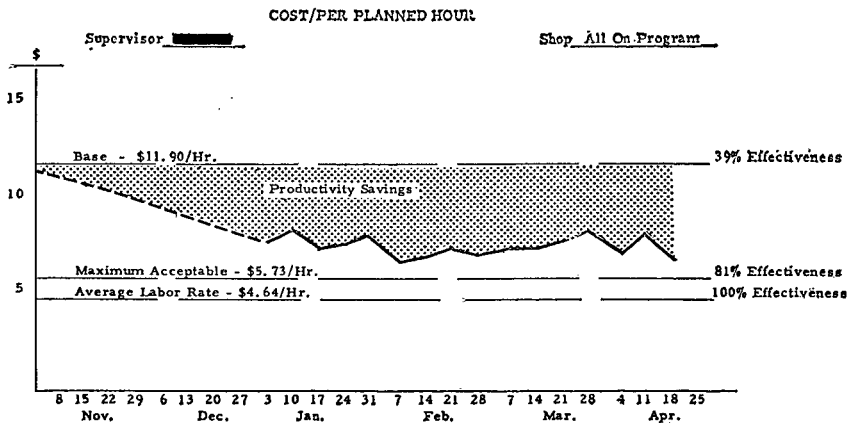


Exhibit 2

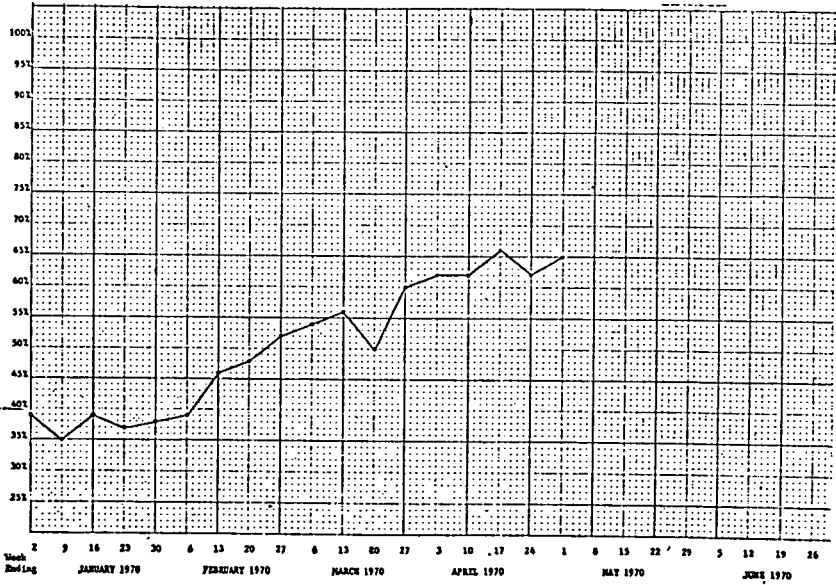
COUNTY OF HENNING
COUNTY CLERK & RECORDER'S OFFICE

ADMINISTRATIVE IMPROVEMENT PLAN (AIP) PROGRAM

Average Performance

for

COUNTY CLERK & RECORDER'S OFFICE



COST PER STANDARD HOUR

COUNTY CLERK & RECORDER DEPT.

Allocations Measured - 48	1969 12/26	1970 1/2	1/9	1/16	1/23	1/30	2/6	2/13	2/20	2/28	3/6	3/13	3/20	3/27	4/3
NUMBER OF PEOPLE	15.6	24.5	23.8	24.8	39.0	37.2	39.7	40.1	41.4	40	46	39.6	42.6	45	46
PERFORMANCE	42%	38%	35%	39%	37%	38%	39%	46%	48%	52%	54%	56%	50%	60%	62%
TOTAL HR. WORKED	497.8	785.1	953.3	1115.0	1559.4	1487.6	1589.3	1604.1	1659.4	1597.5	1836.7	1585.0	1704.1	1803.1	1842.1
OVERTIME HR. WORKED															
STRAIGHT TIME PAY \$	3.64	\$3.64	\$ 3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64	\$3.64
OVERTIME PREMIUM															
TOTAL WORK PAY*	\$ 1812	2858	\$ 3470	4059	\$5,676.	\$5,415	\$5,769	\$5,839	\$6,040.	\$5,815	\$6,686	\$5,769	\$6,203	\$6,563	\$6,705
I.P. MEASURED	430.5	616.0	695.1	737.6	996.2	973.5	957.3	856.6	908	909.9	1047.2	1020.9	1093.9	1165.8	1292.4
I.P. UNMEASURED	67.3	169.1	258.2	377.4	563.2	514.1	632.0	747.5	751.4	687.6	789.5	564.1	610.2	637.3	549.7
COVERAGE	86%	78%	73%	66%	67%	65.4%	60%	53%	55%	57%	57%	64%	64%	65%	70%
STANDARD HR. MEASURED	182.6	235.2	245.6	289.0	366.9	369.8	374.9	392.9	435.5	479.5	561.1	575.3	545.7	699.1	790.3
STANDARD HR. UNMEASURED	28.3	64.3	90.4	147.2	208.3	195.4	246.0	343.8	360.7	357.5	426.3	515.9	305.1	382.3	340.8
TOTAL STANDARD HR.	210.9	299.5	336.0	436.2	575.2	565.2	620.9	736.7	796.2	837.0	987.4	891.2	850.8	1081.4	1131.1
BASE COST/STANDARD HR.	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32
CURRENT COST/STANDARD HR. \$	8.59	9.54	10.32	9.30	\$ 9.86	9.58	9.30	7.92	7.58	6.95	6.77	6.47	7.29	6.06	5.93
SAVINGS (LOSS)/STANDARD HR.	1.73	.78	-	1.02	.46	.74	1.02	2.40	2.74	3.37	3.55	3.85	3.03	4.26	4.39
SAVINGS (LOSS)/WEEK	364.86	233.61	-	444.92	264.59	418.24	633.31	1,768.	2,182.	2,821.	3,505.	3,431	2,578.	4,607.	4,965.
CUMULATIVE SAVINGS	364.86	598.47	-	1043.39	1,308.	1,726.	2,360.	4,128.	6,309.	9,130.	12,635.	16,066.	18,644.	23,251.	28,215.
*DOES NOT INCLUDE PAID TIME OFF	OFF														