2nd October 1950

Mr R.C. G e a r y,
27, Leeson Park,
D u b l i n,
Ireland.

Dear Geary,

Under separate cover I am sending you as printed matter the English text of my wage model (A) as well as the Dutch text of the popular version I derived from it (C). Please, find enclosed annex B, an English summary of the popular version.

You wil remember that on the basis of these considerations it was advised to hawe no second wage increase, but instead an attempt to decrease prices. As I told you this proved, however, to be impossible, because it was considered technically impossible to force price decreases on the employers. Under these circumstances social reasons made it unavoidable to have a wage increase; these social reasons being that since 1949 employers incomes have risen considerably. From the pure employment stand-point this wage increase is,however,a disadvantage.

It was a great pleasure to see you again. We enjoyed your presence very much, and I hope to have another opportunity soonn

Yours very sincerely,

Annex B

Summary

THE SIGNIFICANCE OF WAGE POLICY FOR EMPLOYMENT

by

J. Tinbergen

1. Introductory. Different Broblems.

In this introductory some attention is paid to previous attempts of measuring wages and employment.

Attention is drawn to the existence of consequences: 1° of a temporary character (speculative), 2° in the short run, and 3° in the long run, the latter consequences being those to be attributed to the influence of wages on rationalization, a time consuming process. Furthermore, the problem is different for a country without international trade, and a country with important international trade. Finally, it makes a difference whether one speaks of real wages of of money wages. A fall of e.g. 10% in money wages will lead to a fall in the cost of living, say, of 3%, meaning that real wages will only fall by 7%. The resulting increase in employment will therefore show a higher elasticity with respect to real wages than with respect to nominal wages. This should be borne in mind when one is considering such approaches as the one by Douglas, who always thinks of real wages.

2. The Influence of Wage Rates; other Circumstances being Equal.

This is the usual setting of the problem. The "other circumstances" have to be only the data, not the variables such as prices, income, etc., because those latter cannot but change if wage rates are changing. In this section the results are discussed of a Dutch Official Report of 1939, of Prof. Witteveen's thesis, of Douglas' "Theory of Wages", and of Keynes' treatment. Finally the reader is told about the results from my own model (cf annex A).

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3. Wage Policy under Simultaneous Maintenance of the Balance of Payments Position.

It is stressed that the problem of wage policy should, however, been seen in the framework of political reality, which implies that the government or other groups of the population will react on the possible wage change just as we think of one market party reacting on changes in behaviour of the other parties in the theory of oligopolistic competition. Using a number of co-efficients, such as wage quota in prices, and the elasticity of imports and exports (for imports price elasticity as well as income elasticity) the author finds that under the side conditions given in the title of this section, a 1% wage increase leads to a decrease in the volume of production of 0,37%, and a corresponding fall in employment. If in addition the other groups of the population try to obtain an income increase proportional to the wage increase, a 1% wage increase will even lead to a decrease in production of 0,85%.

4. What may be obtained by an Increase of Labour Productivity ?

In this section the proposal is discussed made by the trade unions to counteract the wage increase by an extra increase in labour productivity. It is maintained that an increase in labour productivity may neutralize the unfavourable effects of the wage increase, but not under all circumstances. It will only do so if in the initial situation a state of over-employment existed. It is shown in a foot-note that in the short run total demand (exports and home demand) will not change if a combined wage rate and labor productivity increase of the same size occur. Hence employment will fall unless when over-employment (i.e. inflationary pressure) existed before.

5. Conclusions.

Here a summary of the conclusions is given.