

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 16, 1936

To Chairman Eccles

Subject: Wage Rates and the Cost of

From Lauchlin Currie

Living

R.C.

The steel companies and General Electric have recently started a movement to tie wage rates to the cost of living. A widespread adoption of this plan would, from the monetary point of view, raise serious problems.

Our best hope of attaining some degree of stability rests on the continuance of an orderly and steady recovery movement. To this end it is desirable that profits do not increase too rapidly at the expense of wages, which comprise the bulk of consumers' buying power. A boom is characterized by excessive investment in producers' goods. The higher the profits the greater the attractiveness and ability of increasing investment.

To restrict rises in wage rates to rises in the cost of living would facilitate excessive growth of profits. The cost of living index is comparatively steady, being held down by various slow moving prices such as gas and electric rates and rents. On the upswing it is to be anticipated that the income of corporations, under the influence of rising prices, increasing volumes and technological improvements, will expand much more rapidly than the cost of living. If we suppose the cost of living to remain stable, then to tie wages to the cost of living would mean freezing the standard of living and denying workers a share in the increased productivity of industry. That way would lie disaster.

Finally it may be pointed out that there is no more justification in economic theory for tying wage rates to the cost of living than there is for tying the rates of profit to the cost of living.

The President endorsed the proposal a few days ago but last Friday he said he was not in favor of it if it prevented wage advances. There is perhaps not much we can do about it, but at least we can make sure that the idea does not obtain official sanction.

ARGUMENTS AGAINST A FURTHER SHORTENING OF THE STANDARD WORK WEEK FOR UNSKILLED LABOR

1. The standard of living of the American people depends on the output per capita of those gainfully employed. In the past, when hours of labor were excessively long, it was found that shortening hours actually resulted in an increase in efficiency and in output per capita. It is obvious, however, that this result cannot be expected to attend an indefinite reduction in hours. It is estimated that the average work week is now 43 hours. This is considerably less than in 1929. It seems unlikely that the increase in efficiency since 1929 has been sufficient to counterbalance the decrease in hours. It is certain that it has not been sufficient to counterbalance a further decrease in hours worked. The conclusion is that if a 36-hour work week were extended to all industry we would have a lower standard of living, assuming no more relative unemployment than we had in 1929.

2. If the alternatives were, on the one hand, a continuation of the present volume of unemployment and, on the other, a reduction in unemployment because of a shorter work week, there would be much to be said in favor of shortening the work week. These, however, are not the alternatives. Employment and production are increasing rapidly. There are now excellent prospects for a continuation of the recovery movement until comparatively full employment is attained.

~~3.~~ 5. Up until fairly recently the increase in employment has lagged behind the increase in production. This was due to the widespread prevalence of part-time work throughout industry. Recently, however, there is evidence that most workers are employed at the standard work week,

so that a further increase in production will lead to a proportionate increase in employment. ^{3. ~~F~~} If the work week is shortened now it will be very difficult to lengthen it again as we approach full employment. The consequence, therefore, would be, as pointed out above, a lower output per worker and, hence, a lower standard of living with full employment than we have had in the past.

4. It would be difficult to restrict a reduction in the work week to unskilled workers. If applied to skilled workers, however, it would act to intensify a shortage that is already beginning to appear. A shortage of skilled labor not only retards production and, hence, total employment, but also contributes to rapidly rising prices and speculation in inventories, -- conditions that are inimical to the attainment and maintenance of stable prosperity.

5. The best contribution the Government can make, both to the solution of the problem of the unskilled unemployed and of maintaining an orderly recovery movement, is to provide technical training for the unemployed. In this way opportunities for employment of the unskilled would become quickly available and the threatened acute shortages in skilled labor would be ameliorated.