

COMMENTS ON THE PROPOSAL TO FREEZE WAGE RATES

A wage rate freeze is unnecessary. It will not appreciably help in preventing inflation. It will be impossible to enforce. It will break organized labor, damage public morale, and create difficult obstacles to the attainment of post-war prosperity. Almost inevitably it will lead to conscription of industrial labor.

These are strong statements, but I believe they are sound. They are based on the assumption that retail and wholesale prices will be frozen, profits restricted, forced savings adopted, and other fiscal controls tightened -- all of which are necessary and desirable.

Unnecessary and ineffective:

1. Basic wage rates have risen 10 per cent or less. Only a small part of this rise has increased the inflationary gap more than it would have increased in any case. Most of it has been offset by increased productivity. If wage rates had been frozen the productivity gains would have gone to profits and higher taxes would have taken only part of them.
2. Wage income is not wage rates. Wage income is the real inflationary force and it will keep on increasing even if wage rates are frozen.
Reasons:
 - a. Civil employment has already increased 5 million and must increase 3 million more if the production program is to be reached.
 - b. Large numbers of workers have shifted from low wage rate employment in consumer goods industries, trade, service, self-employment and agriculture to high wage rate war industries and employment gains have been concentrated in high wage rate geographical areas. Many more millions will have to make such shifts.
 - c. Hours of work have increased (especially in high wage rate industries where the proportion of skilled workers is large). Overtime pay has been at premium rates. Hours and overtime pay will continue to increase.
 - d. Large-scale upgrading of workers from unskilled to semi-skilled and from semi-skilled to skilled categories has increased wage income.

Expansion of wage income can not be stopped by freezing wage rates because wage rate advances are not the basic cause of the expansion.

3. Productivity will continue to increase as new plant and equipment come into full operation and as more and more industries reach a 160 hour week basis of plant operations. We have not reached capacity yet. We have an unutilized labor reserve of 10 to 15 million.
4. Wage rates can rise as fast as productivity with no significant inflationary effect. If wage rates do not rise as productivity increases, profits will rise. The only net increase in the inflationary gap, that would not occur in any case, is the difference between tax rates on profit recipients and on wage recipients, and the difference in saving habits of employers and workers. The amount of these differences will depend on a variety of factors. In any case, the differences would not be large and they could be eliminated by the adoption of proper fiscal policies.
5. Freezing wage rates might reduce productivity by eliminating the incentive for hard, intelligent work. If productivity declines, frozen wage rates will not prevent labor costs from rising and profits from falling. In such a case, tax receipts will be reduced and OPA will be under pressure to raise price ceilings.
6. Wage rates have two functions:
 - a. To measure social status.
 - b. To allocate labor where it is most needed. What other devices can be used to induce workers to shift to the right job at the right time? Conscription? Is it easier to induce American labor to go where it is needed by a rigid wage rate policy and the use of force or by a flexible wage rate policy which is subject to government influence and moderation?
7. Where will pressure for wage rates come from if prices are frozen and profits are limited? Unorganized labor? Union labor? If the latter, will more than the increase in productivity be demanded if retail prices are frozen and profits are cut by heavy taxation? If demanded, how can large wage rate increases be won? Workers can not strike. Employers can bid up wage rates only from profits or increases in productivity. Is it really important to discourage wage increases at the expense of profits? Why not encourage increases in productivity?

A flexible wage rate policy will be an incentive for workers and employers to increase productivity.

8. Wage rates have not yet achieved their 1929 balance with manhour productivity. Wage rates always go up by sharp jumps and then level off. This is merely the end of a period of jump, not an "explosive" situation.
9. Post-war prosperity requires a wage rate structure closely keyed to productivity. If productivity advances during the war and wage rates are frozen the disparity will be a serious obstacle to the attainment of the post-war balance necessary for prosperity.

Impossible to administer:

1. How about piece rates? A wage rate freeze will encourage hourly workers to loaf, piece workers to speed up. Employers will shift to a piece rate system as fast as possible. Is this a desirable change? Won't it create further administrative difficulties?
2. The problem of enforcement will shift from wage rates for which some scattered information is available to occupational classifications for which practically no information is available. There are 23,000 separate jobs groupable into 1,200 occupations in the nation. USES have not yet defined all of these. A policeman can recognize a tire or a pound of sugar. He can not recognize 23,000 separate jobs or 1,200 occupations. "Phony" classifications of new jobs and misclassifications of old ones can rarely be detected and if detected, will be difficult to stop.
3. How can employers be prevented from offering higher wage rates concealed in the form of free lunches, free transportation, less than cost housing, cheap entertainment and so on?
4. Why would public opinion help to enforce frozen wage rates or proper classifications, if local business is helped by higher wages, employers want to pay them, and workers want to receive them?
5. How can 10,000 workers be put in jail? If they are, who will produce the planes, tanks, and guns?
6. Few people realize the number and extent of wage rate differentials in the nation. For most of the 1,200 occupations there are geographic, urbanization, industrial, sex, and sometimes age differentials which may amount to 200 or 300 per cent or more.

Labor relations:

1. A campaign to eliminate the New Deal is already under way. A wage rate freeze will ensure its success. Workers have given up the right to strike. Frozen wage rates will remove the last important

reason for joining a union. As soon as possible the anti-labor bloc will freeze the union security issue too. Result: demoralized unions. The only solution is a government guarantee of union security granted when wage rates are frozen -- if union organizations are to be preserved.

2. Will organized labor accept emasculation without a fight which will split national unity? Will not organized anti-labor blocs press the advantage a wage rate freeze hands them?
3. A wage rate freeze is a wonderful road to power for John L. Lewis. Are the President's brilliant and successful maneuvers to isolate Lewis within the labor movement to be thrown overboard?

Conclusions:

Wage income, not wage rates, is the inflationary force. It must be prevented from increasing more than is necessary to ensure the expansion of production required for victory. It can not be prevented from increasing by freezing wage rates. Fiscal controls are necessary.

Wage rates ought not to be frozen. Advances in them should be directed and moderated, where it is necessary, by indirect methods such as: having the War Labor Board grant increases sparingly; or having the Board trade union security or other things important to labor for wage increases; or extending industry stabilization agreements more widely, etc.