

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date August 6, 1942To Chairman EcclesSubject: War wage policyFrom Martin Krost

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The attached memorandum, in a slightly different form, was drafted by Mr. Kenneth Williams. On June 16 it was sent by him to Dr. Paul Dodd who is an Associate Public Member of the War Labor Board and Professor of Labor Economics at the University of California at Los Angeles. Dr. Dodd made a few alterations and sent it on with a personal note to Chairman Davis and the other members of the War Labor Board. If you will glance at the first few sentences I think you will find that you will want to read the whole memorandum. Do you think that other Board members would be interested in this document?

WAGE POLICY AND THE THREAT OF INFLATION

A Memorandum

Addressed to

Chairman Davis and Members of the National War Labor Board

The threat of inflation is more real today than at any time since Pearl Harbor, and the National War Labor Board has still within its grasp the means to an effective control, so far as national wage policy is now or in the future may become a factor contributing to inflation.

All groups within the nation recognize the compelling necessity for stabilizing wage rates in the face of the present crisis. There are, however, wide differences in opinion as to how the wage portion of the President's seven-point program should be applied.

One group contends that regardless of what the consequences may be, wage rates should be frozen along with prices generally. This, they argue, would insure fixed labor costs, which, in the absence of being frozen in the course of time will inevitably creep upward until price ceilings generally are adjusted to absorb them or a subsidization policy is launched to cover these increased labor costs.

Others ~~claim~~ that wage rates should be left free to react to the normal economic forces of collective bargaining and competitive bidding among employers. Patriotic appeals, so it is argued, should be relied

upon to achieve the amount of wage stabilization necessary to avoid an unchecked upward bounding of price levels generally. Those who subscribe to this wage policy believe that a fair treatment of workers requires that wage increases should parallel increases in living costs. They often insist that restraints should not be imposed, at least until incomes of most workers are adjusted to levels indicated by family budget surveys as the amounts needed for decent family living.

A sound wage policy dictates a course of action running somewhere between these two extremes. Neither program outlined above allows fully for all the factors which must be considered in establishing a national policy. Wage rates cannot be frozen arbitrarily, for so to do would be to perpetuate inequalities and injustices among individuals and groups which have existed in the past at a time when this dark hour of national emergency is calling loudly for an all-out war effort before it is too late. Those favoring wage-freezing often overlook this critical need. They also overlook the fact that higher wage rates can and often mean lower labor costs and thus lower total unit costs. Advances in wage rates, in the face of other factors which increase consumer income and widen the inflationary gap, are not often of crucial importance if such increases are moderate only. Of far greater importance is the pressure against ceiling prices arising out of overtime earnings, expansion to total employment, and the labor migration from low to high wage rate industries.

Those in favor of a wage-freezing policy also tend to under-estimate the administrative problems involved, and give too little weight to the

adverse effect such a policy might have on morale, productive efficiency, and the process of collective bargaining. They fail to realize the competitive advantages which would be perpetuated on behalf of those who, in some instances are paying relatively high wages, and of others whose paying wage levels are relatively low at the time of freezing.

Of greatest importance, however, is the fact that those advocating a wage-freezing policy fail to see that effective price-fixing necessitates the effective control of supply. The supply of commodities can be controlled without serious infringement upon the principles of democracy. But control or direction of the supply of labor with wage rates frozen is likely to lead to its conscription. Arbitrary labels such as "ceiling price, \$5.00" can never be imposed upon free men. A static rigid wage policy within a dynamic war economy will create more problems of production than it can be hoped to solve.

But those who maintain ~~that~~ wages, in the full view of the national emergency, should be kept parallel with the increases in living costs so that workers will not be forced to suffer decreased purchasing power and thus lower living standards hold what appears to be an equally untenable position. This is war time, everyone is called upon to sacrifice for the good of the cause. This nation or, in fact, any nation cannot deliver half its total national income for war purposes without causing great sacrifices to be borne throughout its social structure. Landlords, entrepreneurs, stockholders, agriculturalists, laborers - each group must do its individual part. The chain is not stronger than its weakest link, and the nation expects wage earners to do their part along with all others.

Those who argue that no restraints should be placed on wage rate advances fail to understand fully the drastic shift which has occurred within the reservoirs of labor. Not so long ago there existed substantial labor surpluses throughout the nation. Today in almost every phase of war effort acute shortages persist. A few years back very little overtime was worked by American laborers in most industries. Everyone today is familiar with the size of the pay checks of millions of war-time workers. Total earnings - including overtime pay - in many industries, have advanced substantially above the increasing price levels, thus leaving the worker with a larger purchasing power than he had prior to the advent of war - even though, it is true, he works longer hours for what he gets.

Wages constitute too large a portion of the shares of national income, and are responsible for too large a part of production costs, for wage rates to increase sharply and without restraint without setting into motion counterbalancing forces which would doubtless prove disastrous for laborers and for the nation generally. Those who seek marked advances in wage rates unaccompanied by increased output per man hour are in effect (if not in principle) quite similar to the profiteers who, without moral or ethical conscience, take advantage of the national crisis to demand exorbitant prices for scarce commodities.

There is now no time to waste. The plain bald fact is that per capita consumption throughout the entire nation, among all classes and communities, must be reduced to levels far below the 1940 peace-time

standards and the 1942 war-time standards thus far reached. Everyone has felt the pinch of war; each must be prepared to sacrifice more and more. To acknowledge that there are serious shortages of labor, raw materials, power, and transportation facilities - to say nothing of tanks and ships and airplanes - is to admit the economic impossibility of hoping to keep real wages up to living costs. If we are wise we shall, from now on, emphasize the necessity of keeping living costs down to present wage levels. Before the war it was impossible to provide all workers with at least a living standard of comfort and decency. How then can we hope to attain these levels at a time when half our total national income is sorely needed to protect our future as freedom-loving men and women?

#### NECESSITY FOR STATEMENT OF POLICY

In full view of these considerations, it is necessary to find a middle way between the rigid freezing of all wages and the unrestricted movement of wage rates under the impact of an almost unlimited war spending. Such a middle road, to be in complete accord with President Roosevelt's seven-point program and at the same time in complete accord with the democratic way of life and of strength to morale and war productivity, should include:

- (1) A basic understanding and agreement between employers and employees that for the duration of the present emergency, it is contrary to national interest to offer or to seek general

increases in wage rates, unless it can be demonstrated that "inequalities" exist, or "substandard" wage rates are being paid.

- (2) A further understanding which, in justice to the grieved parties, would provide for adjustments in wage rates only when it can be shown that they are out of line with rates for the same or similar work throughout the plant or area. Under certain circumstances rates for the same or comparable work paid within the industry as a whole should be given weight in adjudging whether the rates in question are "inequitable" or "substandard."

A clearcut statement of policy along the lines suggested above would provide the flexibility necessary, to administer a program of wage-stabilization in line with the Presidential policy. Thus upon a basis of the merits of individual situations within plants, between plants, within industries, and between industries adjustments in wage rates should be made when such changes are deemed desirable to allocate workers to the most essential jobs, to obtain maximum output, to establish fair competition among employers for labor, to remove inequities, or to permit the raising of substandard wages.

## IMPLEMENTATION OF POLICY

In order to make effective this policy the National War Labor Board is respectfully urged to adopt the following course of action:

(1) Present a clearcut frank public announcement that the National War Labor Board shall grant general wage rate advances only in instances in which in the judgment of the Board such advances are warranted because of inequities or substandard wage conditions, or are essential for the maintenance of morales and war-time production.

(2) Persuade the OPA not to permit higher costs (occasioned by general wage rate advances agreed to after April 27, 1942) to constitute grounds for raising price ceilings or obtaining subsidies, except in cases in which general wage advances have been certified by the National War Labor Board as necessary to the national war effort.

(3) Provide that in plants with war contracts in which no dispute is involved, notices of intended general wage rate advances shall be reported 30 days in advance of their effective date to a National Wage Stabilizations Committee composed of the Chairman of the War Production Board, Chairman of the War Manpower Commission, the Administrator of the Office of Price Administration, the Secretary of Labor, and the Chairman of the National War Labor Board or a representative of the Army and Navy.

This Committee should have the authority to veto any intended wage rate advances, if in the views of at least three of its members such advances are without merit or are contrary to national welfare. The



Committee should appoint an executive director selected from the ranks of labor to receive such reports of intention and to make recommendations to the Committee. Veto of wage rate advances by the Committee should not prevent the issue from coming before the National War Labor Board later if properly certified to it by the Secretary of Labor after an industrial dispute develops.

(4) Formulate a clear public announcement that changes in living costs, unless sufficient to create substandard conditions of employment, are not to be considered grounds for wage rate increases. Where living costs are given consideration, they should be related to weekly earnings, not to hourly rates or piece rates of pay.

This principle should set forth also the fact that because an individual employer is able to pay higher wage rates than he now pays is not in itself justification for higher wage rates.

In all cases, only changes since 1939 should be considered in questions involving living costs, man-hour productivity, etc.

(5) As rapidly as possible encourage the governmental agencies concerned to undertake to obtain regional wage stabilization agreements for all important war industries not yet covered by such agreements.

This is a stern, harsh policy, and its administration would call for substantial further sacrifice from millions of workers throughout the nation. But the threat of inflation is at our door, and were it to break into the nation's markets, untold damage and dislocation would undoubtedly result. The price of such a wage policy, by comparison, is cheap.

The National War Labor Board has held, since its inception, a strategic position in the final settlement of labor disputes. That the wage issue will continue to be, as it has been in the past, one of the fundamental issues follows without need of comment. The Board still holds authority and responsibility to deal with this issue.

If the Board will take courage and deal sternly with this problem it can serve as a tremendous force against the growing danger of inflation. If it denies its responsibility in this regard, or if it hesitates too long before it acts, irreparable damage may result. Or it may be forced to give way to some other authority with greater courage and foresight.

Will the Board meet this challenge of national wage policy before it is too late?

Respectfully submitted,

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