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2/9/43
(G. Brynes)

THE WAGE-PRICE SPIRAL

During the depression, budget balancers said "the nation can not spend itself rich any more than a man can drink himself sober". They were tragically wrong then. The nation did spend for aid to agriculture, to the unemployed, etc., and it did become richer.

Many people, impressed with the depression experience, think we can continue to spend ourselves richer and richer. But now the nation is at war. The limits on production are physical, not financial. Conditions have changed. More money going to consumers does not mean people can live better; it only means economic trouble. Like the budget balancers of 1932, those who clamor for higher incomes now are tragically wrong. Now it is true that to attempt to spend ourselves richer is to be as foolish as the man who tries to drink himself sober.

Those who demand higher wages, higher farm prices, larger profit margins, and bigger fees are victims of an economic fallacy. They forget that war means sacrifice and destruction. It requires labor and materials to make guns, but guns do not produce tires or gasoline. It takes labor and land to feed soldiers, but soldiers do not make shoes or butter. The materials and labor to make guns and feed soldiers must be purchased by Government payments to workers and farmers but in the real sense workers and farmers labor for nothing. For nothing is produced with which to pay them but money. Without production of goods, production of money is a trick, a bow to economic convention.

If there were no money and every man exchanged what he produced against what his neighbor produced, the economic facts would be clear. It would be readily apparent that when each man gave half of his products to a soldier who is not producing goods, he would have only half of his products left to exchange with his neighbor.

What has happened is that large segments of the population have been playing a game. The rules of the game call for each man to give his due share to a soldier and then to pretend in bargaining with his neighbor that he is exchanging just as much as before. The neighbor plays the same game, accepting the pretense by marking up his products an equal or greater amount. It becomes a process of trading two \$500,000 cats for one \$1,000,000 dog, as small boys are likely to do.

Unfortunately, large groups are unable to play the game of "cats and dogs". They are forbidden by law or economic circumstances to pretend their products have doubled or tripled in value. They are people with fixed incomes -- the old-age pensioners, the soldiers'

dependents, the teachers, those living on annuities from insurance, and others. These people are seriously hurt by the competition of workers with farmers and of profit seekers with both, and the efficiency of the economic machine deteriorates. These large groups of people must be protected and the economic machinery kept at top efficiency. Their only real protection is to stop the competitive scramble now, before it becomes even more frenzied.

The cost of living has already advanced 22 per cent since June 1939, 4 per cent since last May. Food costs, which constitute about one-third of the average wage-earner's budget have advanced 42 per cent since before the outbreak of war in 1939 and over 9 per cent since last May. Rent and most other elements of living costs have advanced much less than food.

Wage-earners, as a group, are ahead of the game. Weekly earnings in factories have increased about two-thirds since June 1939 and are up over 40 per cent since January 1941, the starting date for the "Little Steel formula". After allowing for the increase in costs of living since the summer of 1939, the average factory worker has increased his "real" wages by over one-third. He can pay the current high prices for food and other things and still have money left over with which to buy bonds and pay taxes. In part, of course, this increase in earnings is attributable to the fact that he is now working substantially longer hours, many of them at over-time rates, than he worked in 1939. Average hourly earnings in factories have increased 40 per cent since June 1939 and 31 per cent since January 1941. Both increases are only moderately less than the rise in retail food prices in the same periods. But since the other elements of living costs advanced much less than food prices, the average factory worker is substantially ahead even in terms of hourly earnings.

The farmers are also ahead of the game. Prices received by farmers have advanced over 100 per cent since June 1939, and 17 per cent since last May. On the other hand, prices paid by farmers have increased less than one-fourth since June 1939, and only 3 per cent since May 1942. The ratio of prices received by farmers to prices paid by farmers rose from 70 per cent of parity in June 1939, to 100 per cent of parity in May 1942, and to 114 per cent in December 1942 -- a net gain in "real" prices of 63 per cent since the summer of 1939, and of 14 per cent since last May.

Some farm leaders justify demands for higher prices on the grounds that they must pay higher wages. It is true that farmers will have to pay hired workers better wages. But, it should be noted that even in January 1943, the average hired farm worker earned less than 30¢ an hour (without board), in many states the average is less than 20¢. These are sub-standard wages and if workers on farms are to produce efficiently the food we need, they must be paid wages more closely approximating those paid in other industries. However, let us face the

facts about the farmers' ability to raise wages. In 1942, net income of farm operators totaled over \$10 billion (gross income was almost \$19 billion). This sum is nearly \$3.5 billion, or over 50 per cent above 1941. It is substantially more than double net income in 1939, and the highest on record, even exceeding by a wide margin the previous peak reached in 1919.

The level of wages paid hired labor is not as important to farmers as one might think. Last year, for example, although farm wages increased sharply, they totaled only about one-twelfth of gross farm income and less than one-sixth of net income of farm operators. If farm operators had paid wages double those they did pay last year they still would have left a net income about as large as in the "lush" years of 1918 and 1919.

Another fact is important. Many farmers believe that if they could pay the high wages paid workers in some war industries, they would have no difficulty in obtaining help. This is a mistaken idea. There just is not enough manpower to go around. Manpower supplies are short for all industries. If farmers succeeded in attracting workers away from war industries, war industries would then be forced to raise wages still higher to attract the workers back. The war industries need the workers they have and will need more in the period ahead. The farm manpower problem is only in part a problem of low wages. If farmers are to obtain more workers, the workers can come from only two sources: 1) a slowing down of the rate of expansion of the armed forces; or 2) an increase in hours of work in non-war industries which will release workers for other jobs.

The blunt fact is that the nation has reached a critical phase. The decisions made now will determine whether the economic system is to destroy itself in a spiral of higher wages, higher prices, still higher wages, and still higher prices or whether we have the courage and good sense to stop now the competitive scramble for advantage. At the moment, labor is demanding concessions which will equalize its position with agriculture. At the same time, farmers are demanding higher prices to keep even with labor. The fact is that farmers and workers are now relatively equal and both are far ahead of the ordinary consumer. If the price-wage spiral is not stopped now, consumers will be shoved even farther behind, the economic system will be damaged, and neither workers nor farmers will gain any real advantage.

This is the issue: Are we American citizens, proud of our part in victory sure to come or are we, as Hitler claims, not a nation but an aggregate of pressure groups interested only in obtaining self-advantage at the expense of each other?

If it is essential to ease the social and political tension that is created by the competitive demands of agriculture and organized labor on the consumer, it is essential that the link between farm prices and wages be broken. This might be done by giving the housewife, whenever she buys food, war savings stamps sufficient to compensate for the rise in food prices that has occurred since wages were frozen in September. The value of stamp given with each dollar purchase of food would be increased if it became impossible to prevent further increases in food prices. The cost to the Government of issuing such stamps would be substantial but it would be small in comparison with the social cost of permitting the food price-wage spiral to continue.

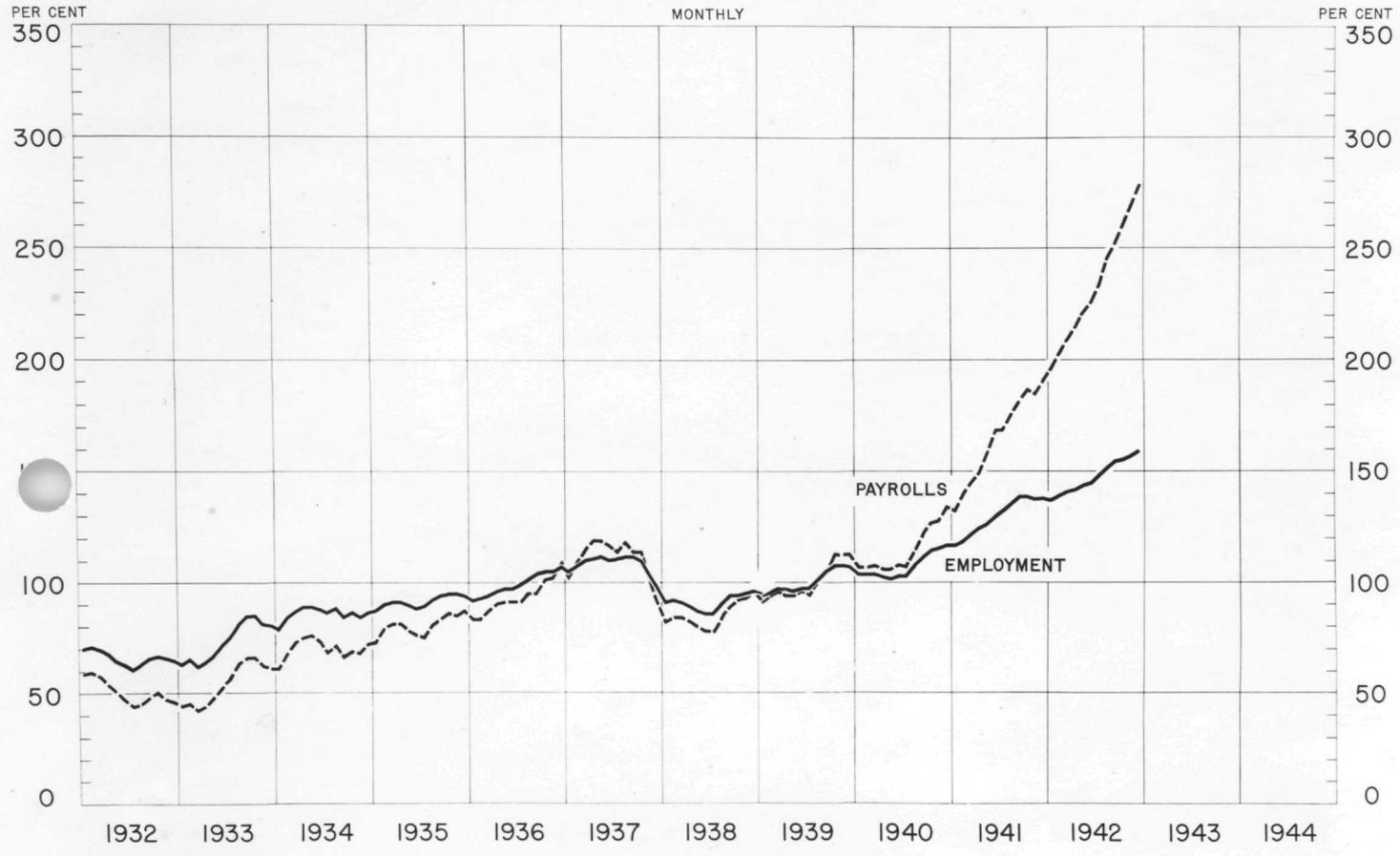
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2/18/43
(Hurst)
For J. B. ...
Frank's address

FACTORY EMPLOYMENT AND PAYROLLS

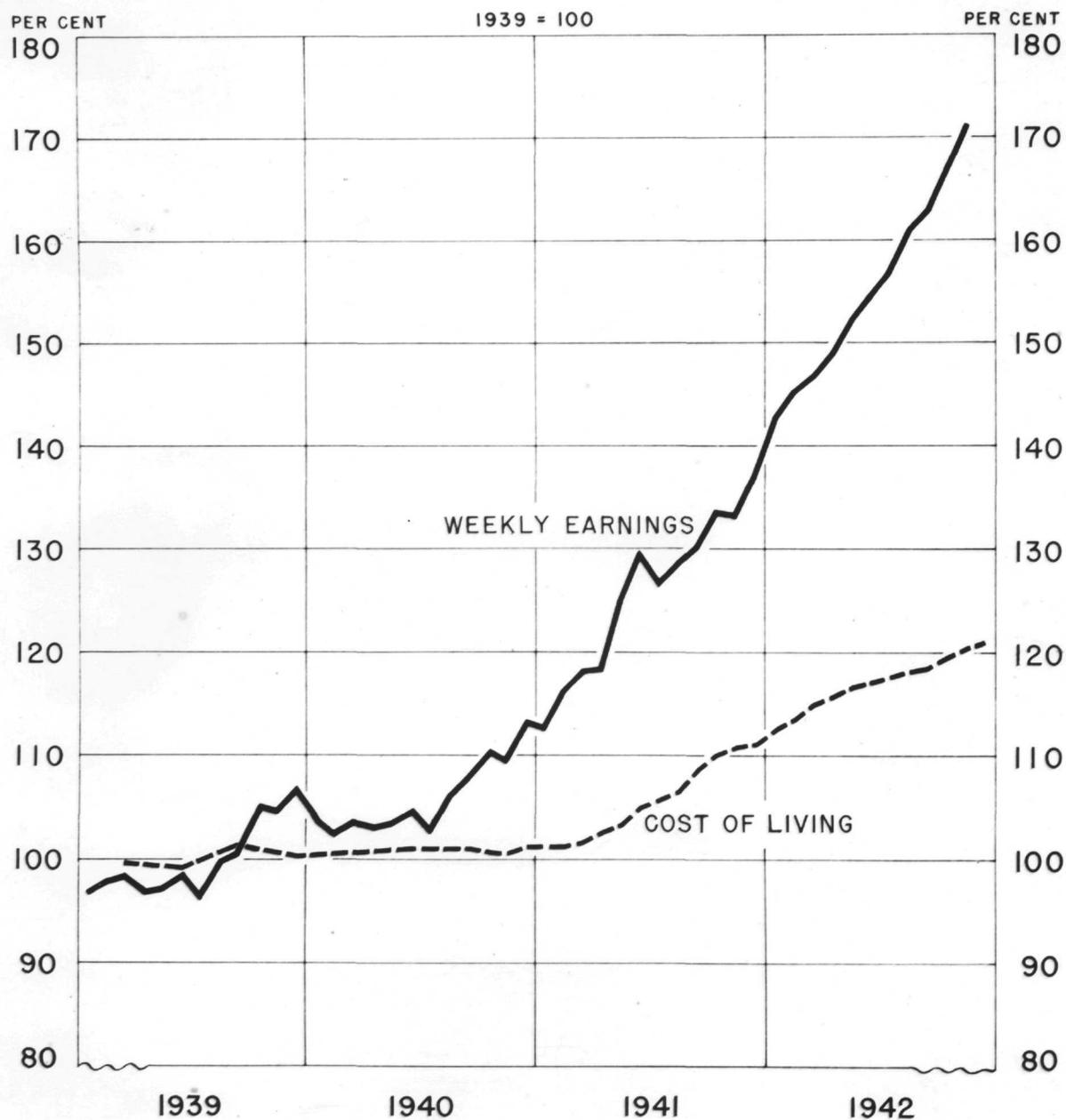
BUREAU OF LABOR STATISTICS INDEXES, WITHOUT SEASONAL ADJUSTMENT, 1939 = 100



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

2/18/43
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Federal Reserve Bank of St. Louis

WEEKLY EARNINGS AND COSTS OF FACTORY WORKERS

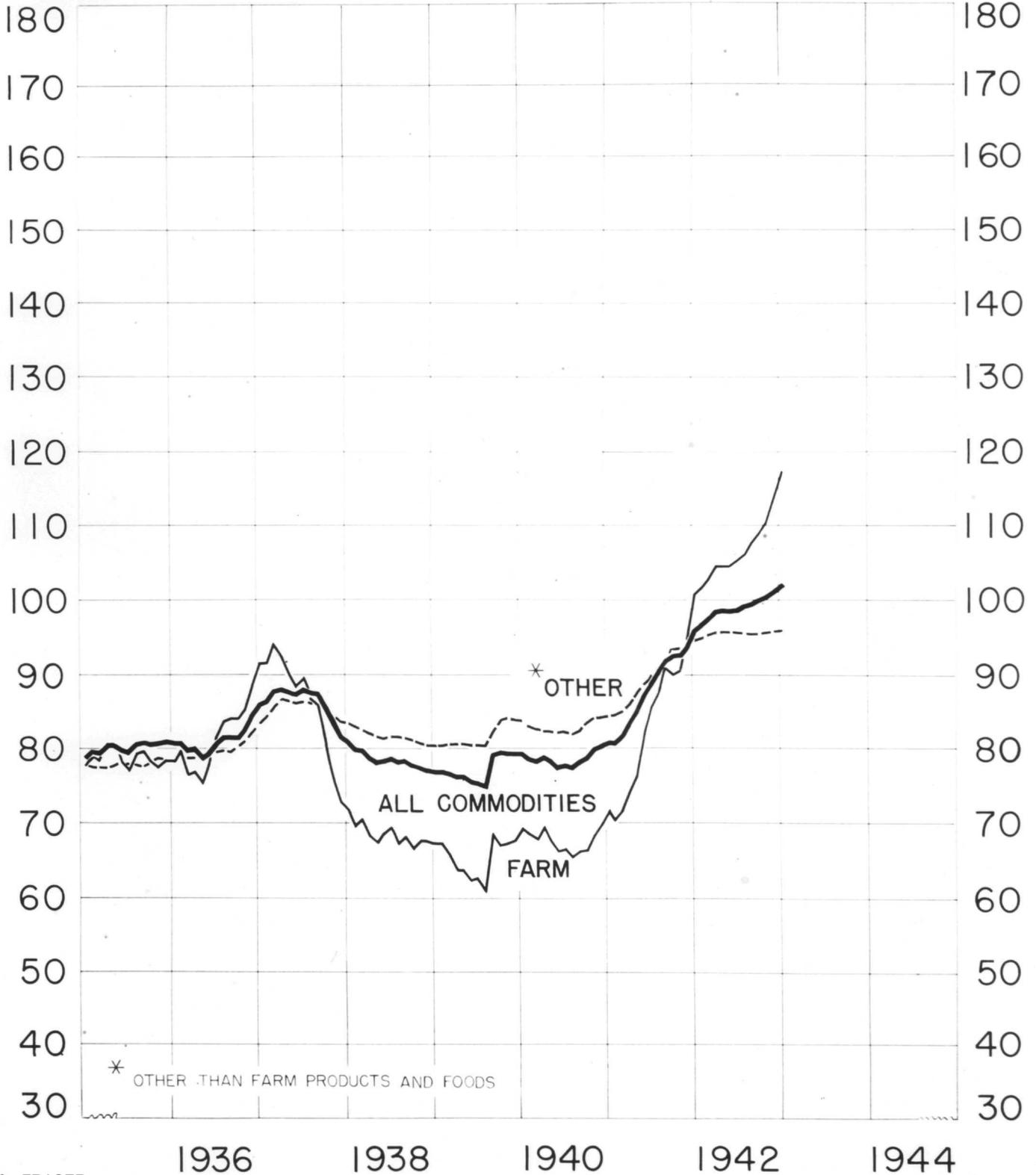


WHOLESALE PRICES

1926 = 100

MONTHLY

PER CENT



* OTHER THAN FARM PRODUCTS AND FOODS

February 8, 1943

CHANGES IN SELECTED PRICES, WAGES AND LIVING COSTS

*1/11/43
G. W. ...*

	June 1939	January 1941	May 1942	December 1942 ^{1/}	Percent rise to December 1942 ^{1/} from		
					June 1939	January 1941	May 1942
Wholesale prices (1926=100) ^{2/}	75.6	80.8	98.8	101.0	34	25	2
Farm	62.4	71.6	104.4	113.8	82	59	9
Other than farm and food	80.2	84.3	95.7	95.9	20	14	-
Farm prices (1909-14=100) ^{3/}							
Prices received	89.	104	152	178	100	71	17
Prices paid	127	128	152	156	23	22	3
Ratio of prices received to paid	70	81	100	114	63	41	14
Cost of living (1935-39=100) ^{2/}	98.6	100.8	116.0	120.4	22	19	4
Food	93.6	97.8	121.6	132.7	42	36	9
Clothing	100.3	100.7	126.2	125.9	26	25	-
Rent	104.3	105.0	109.9	108.0	4	3	- 2
Factory Wages ^{2/}							
Average hourly earnings	64.2¢	68.9¢	83.1¢	89.9¢	40	31	8
Average weekly earnings	\$ 24.17	\$ 27.74	\$ 37.46	\$ 39.78	65	43	6
Average hours worked	37.3	39.0	42.6	44.0	18	13	3

^{1/} November for average hours, hourly and weekly earnings.

^{2/} Bureau of Labor Statistics.

^{3/} Bureau of Agricultural Economics.