

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Mr. Ransom

Office Correspondence

Date February 11, 1944

To Chairman Eccles

Subject: Current Union Efforts to Break

From Kenneth B. Williams *KBW*

the Wage Stabilization Line.

AF of L and CIO leaders are out to break wide open the wage stabilization line. In view of the economic and political situation, the campaign is likely to succeed.

The union attack is spearheaded by the Steelworkers and Philip Murray, usually strong administration supporters.

A head-on attack is being made on the official cost of living index. It is supported by substantial technical evidence as well as by emotional appeal. The union experts may succeed in destroying the usefulness of the index as a guide to wage policy.

Attached is a memorandum explaining and interpreting these developments. It tries to indicate the attitudes which motivate the present union campaign.

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For over a year, AF of L and CIO leaders have exerted strong efforts to hold down living costs, increase taxes, and obtain full mobilization for war. Although contrary to the narrow interests of the strong unions able to protect their own members in a price-wage race, organized labor as a whole accepted stability of living costs as an alternative to higher wages. The significance of this acceptance is that unions used their influence to protect unorganized labor, white collar people, and persons with fixed incomes. Of course, organized labor also benefited in terms of real wages but unions suffered serious offsetting losses. Thus, although unions claimed to have influenced Government in adopting a stable price policy, Government received the credit for the policy. Moreover, real wages of union labor became less favorable relative to incomes of nonunion groups. In addition, unions were unable to use promises of fighting for higher wages either to attract new members or to act as a rallying point and unifying force to strengthen loyalty of old members.

Since consumers are not organized, labor feels that the only effective support for stabilization has been union pressure, while numerous other special interest groups have fought vigorously for soft policies on farm prices, grade labelling, profits, taxes, renegotiation, and all-out mobilization. The only important measure for all-out mobilization and price stability labor has resisted is national service legislation. Opposition to this, however, is nearly as strong among business groups as among workers and many unbiased students doubted its feasibility earlier because of the great administrative difficulties involved and the weakness of the administrative machinery available to do the job.

Motivated in part by the inept handling of the coal and railroad cases, but more fundamentally by growing unrest among the rank and file as a result of high, and in many cases, exorbitant profits, rising living costs, weak tax policies, and unprecedented farm incomes, AF of L and CIO leaders are reversing their position on wage stabilization. Convinced that labor has been made the goat by its acceptance for over a year of promises of a roll-back of living costs while limitations on other groups have been avoided or weakened, union leaders are now out to break the Little Steel formula.

Two other motivating factors influenced the change in union policy. One is that reconversion may not be too far off and with it will come unemployment and a weakened bargaining position. Already

shifts in production schedules have created unemployment in some unions. Unions hope to obtain wage increases, before it is too late, to offset the loss of overtime pay when reconversion starts and hours return to normal. The second major consideration is the approaching presidential election. Resistance to wage increases will be politically difficult and serious strikes will be politically embarrassing.

Union leaders are quite confident that their attack on the Little Steel formula will be successful. They are also convinced that they cannot hold the rank and file in line and prevent damaging work stoppages if the wage line is not broken. It is indicative of labor's attitude that the drive is being led by the United Steelworkers, a well-run, internally unified, reasonable organization, and by Philip Murray, CIO President, a longtime friend of the administration.

More important indications of labor's attitude are the tactics being used to crack the wage line. A frontal attack is being made on the official Bureau of Labor Statistics' cost of living index with the expectation of discrediting it as a guide to wage policy. This procedure means that a compromise, previously possible, whereby the Little Steel formula is retained but a moderately higher percentage figure is substituted, is no longer likely.

The union decision to fight the official index also rests upon widespread and honest conviction that the index does not measure the true rise which has occurred. Convictions of this sort would be quite reasonable even if the index were entirely accurate. The construction of such an index is a complicated matter of averaging and weighting and requires careful controls in order to be comparable over periods of time. It is quite possible for the index to be correct and still to fail to reflect the experience of any particular individual or group.

Special interest attacks on complex statistical series usually need not be taken too seriously. As a rule, such attacks are based on limited experience and are inadequately supported by comparable data and technical knowledge of statistics. One might assume that the union attack on the BLS index would fail for these reasons, especially since a special committee appointed by the American Statistical Association just recently investigated the BLS index and, in general, approved it. Nevertheless, it cannot be taken for granted that the index will come out unscathed. The unions have well-trained technical experts at work on the job. The experts are going at the job systematically by checking with other official series and recognized private sources of data, by conducting field studies, and by making thorough analyses of technical methods BLS uses in weighting and averaging. They may actually succeed in destroying the usefulness of the index for wage control purposes solely by demonstrating its technical deficiencies.

Whether or not the union experts succeed in this, they will convince their officers, members, and some of the public that the official index is wrong, if not consciously deceitful. This will create resentment in the labor movement against the Bureau of Labor Statistics and its officials, which in turn will make it even more difficult for the Department of Labor to obtain adequate appropriations to produce a better index.

The union's position on the cost of living index is contained in preliminary form in a report submitted to the Presidential Committee on the Cost of Living by the labor members (R. J. Thomas, CIO and George Meany, AF of L). The report compares percentage increases obtained by the union investigators with those shown by the official cost of living index as follows.

	Percentage Increases January 1941 to December 1943	
	<u>Union Findings</u>	<u>Official BLS Index</u>
Combined Cost of Living	43.5	23.4
Food	74.2	40.2
Clothing	72.2	33.7
Rent	15.0	3.0
Fuel 1/	8.6	8.6
Housefurnishings	62.0	27.8
Miscellaneous 2/	15.9	15.9

I am not sufficiently familiar with the technical procedures used in the Bureau of Labor Statistics index to pass judgment on the validity of the union criticisms. (This falls in Mr. Garfield's field.) However, some of the union contentions appear to be well-supported and plausible.

The unions claim, for example, that food subsidies are heavily concentrated on items included in the official index and that as a result, these products are not representative of products not measured directly in the index. Thus of the 38 foods subsidized by OPA, 33 of them are included in the cost of living index. In other words, the cost of living index has been stabilized but not the cost of living. BLS, of course, cannot undertake to price all commodities and it has to assume that the commodities it prices properly represent other articles. In peacetime this assumption is valid. However, in war substantial errors may arise because the differential effects of shortages and price controls on individual products may destroy past relationships. For example, BLS assumes that prices of meals eaten out, with a weight of 9 per cent in the food index, increased at the same rate as retail food prices as a whole. The unions present results of

1/ Unions believe BLS index is substantially correct.

2/ Unions have not completed investigation of this group and therefore accept BLS findings temporarily.

investigations to show that this assumption is no longer valid and that restaurant prices have increased much faster than prices of home consumed foods.

Other union criticisms are that BLS fails to take adequate account of: (a) disappearance of cheaper products from the markets; (b) quality deterioration; (c) elimination of week-end and other sales; (d) effects of extensive migration and (e) forced changes in patterns of living arising from the war.

Whether or not the unions succeed in destroying confidence in the cost of living index, it is difficult to see how the Little Steel formula can continue to be held, or if it is held how industrial unrest can be kept within bounds. There appear to be only three ways out:

1. If large-scale invasion of Europe starts soon and provides a sobering influence on all pressure groups, organized labor's whole attitude may change very quickly.

2. If the promised strong controls over other groups are established soon, including such things as rigorous limitations of profits and of management salaries, passage of a realistic tax program, real enforcement of price controls, use of subsidies to roll back living costs, etc.

3. If some kind of a program is adopted to guarantee in the transition and postwar period wage rates which with a return to a 40 hour week will provide about the same weekly earnings as are now obtained with overtime. Unions argue that since postwar farm prices are guaranteed and corporate profits are insured by liberal carry-back and carry-forward tax provisions, labor is entitled to similar measures of postwar security.

There is one other possibility, namely, that the Little Steel formula will be cracked in a few months by a few strong unions such as the Steelworkers but by the time that occurs unemployment will have developed and other workers may be unable to take advantage of the break-through to obtain wage increases for themselves. If this happens, the effect of the break-through on the total wage bill might not be very serious for over-all economic stabilization.

It is difficult to see how passage of national service legislation would change this picture appreciably. If national service is used extensively to break strikes or coerce workers already resentful about long-standing grievances, national service is likely to focus against it all of the accumulated resentment and unrest now dispersed in several directions. If this happens, national service would create more difficulties than it would solve. Labor is in no mood to be pushed around.

On the other hand, if national service is used sparingly and wisely in industrial disputes and mainly to allocate manpower, it might not arouse great opposition among the rank and file. The left wing unions are already in favor of national service.

There may be some advantages of national service to labor itself. One is that it may dissipate some of the anti-labor sentiment among the armed forces both now and after the war. A second advantage is that Congressional acceptance of responsibility for workers' activities at a time when manpower is short will make it more difficult for Congress to avoid responsibility for providing adequate income to workers for whom jobs cannot be found in the transition and postwar period. National service will also bring to the fore the prevalence of sharp differentials in wages for the same work. These differentials are largely ignored by public agencies in peacetime since they reflect competitive market forces and relative collective bargaining strengths. Such differentials will be more difficult to ignore politically if national services results in any sizeable forced transfer of workers from job to job at governmental direction.

cc: Mr. Goldenweiser
Mr. Thomas