

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 29, 1942

To Chairman Eccles

Subject: McNutt's Attached Statement

From Martin Krost

"Wages in Relation to Labor Supply"

This is an excellent statement. It goes directly to the heart of the wage policy problem by indicating that the wage problem is not an isolated one but is only a part of the larger problem of getting maximum production out of the available labor supply.

McNutt's discussion of agricultural wage policy is good. However, it should be supplemented by a discussion of the manpower supply and utilization problem in agriculture. Particularly, reference should be made to the necessity for releasing for service in essential agriculture, industry, or the armed service the 2 to 3 million workers in agriculture whose labor is being wasted on submarginal farms or in producing farm products not needed for a war economy.

MK

Attachment

WAGES IN RELATION TO LABOR SUPPLY

A STATEMENT
SUBMITTED TO
THE OFFICE OF ECONOMIC STABILIZATION

BY
PAUL V. MCNUTT
CHAIRMAN
WAR MANPOWER COMMISSION

OCTOBER 29, 1942

WAGES IN RELATION TO LABOR SUPPLY

The passage of the Act of October 2, 1942, amending the Emergency Price Control Act, and the issuance of Executive Order Number 9250, providing for the stabilizing of the National Economy, marked an important forward step in the solution of labor supply problems. The extension of regulation of wages to include all instances of increases or decreases in rates laid the foundation for a comprehensive and constructive approach to this significant aspect of the total manpower program.

Before turning to a discussion of the relationship between wages and labor supply, I should like to mention that both the Management-Labor Policy Committee of the War Manpower Commission and the Commission itself have considered this question, but neither has as yet taken any formal action on it.

I. WAGES AND LABOR SUPPLY

The relation between wage rates and labor supply problems has long been accorded official recognition. Decisions on wage adjustment have frequently been influenced by manpower considerations. Action to obtain wage stabilization agreements in the shipbuilding and construction industries was initiated by Federal agencies with the primary objective of reducing employee transfer between establishments within an industry.

Although the opinions of the War Labor Board have seldom stressed considerations of labor supply, manpower implications have obviously influenced the decisions. Many wage adjustments have been ordered to correct

inequalities between comparable jobs in a locality or industry. These adjustments have undoubtedly reduced the incentive for transfers. The opinion in the Ranger Aircraft Engines case pointed out that it was the practice of employers in the area to refrain from hiring persons employed by another plant engaged in war production; and went on to say:

"It cannot be questioned that it is very desirable to eliminate to the maximum extent possible, the migration of workers from one plant to another. There is certainly a need for stabilization of manpower, as well as of wages. However, it is not fair or reasonable to require a worker, either by employer practice or by government policy, to remain on his job for the duration of the war unless reasonable adjustments are made in his wages so that he is not discriminated against economically as a result of such a manpower stabilization program.

"Thus, in this case, precisely because it is desirable to have the employees remain in steady employment at the Ranger plant for the duration of the war, they are entitled to have their wage inequalities ironed out by a reasonable wage adjustment."

A still more definite recognition by the War Labor Board of the inherent close relationship between wages and labor supply is to be found in the recent decision in the non-ferrous metal cases. This decision not only awarded a wage increase that was needed to attract and retain workers, but also provided for a wage payment plan to reduce absenteeism and placed on the payment of back wages limits that might induce the return of some workers who had left the industry in recent months. The decision obviously indicates a conviction that wage determinations may affect several aspects of the total manpower problem.

More recently, an industry-wide decision covering tool and die workers in the Detroit area was based largely on manpower considerations. The opinion states: "Common sense dictated the need for avoiding a lowered morale and an ultimately larger labor turnover which would almost inevitably follow a failure to eliminate the inequitable rate relationship."

In view of the responsibility of the War Manpower Commission for mobilizing and allocating the nation's manpower it is obvious that it has an interest in the relative wage rates paid in different occupations, plants, industries or localities. These differences have a direct bearing on the relative attractiveness of alternate jobs. If they are properly set, manpower allocation is greatly simplified and one of the major incentives for labor turnover is removed.

I should like to emphasize that the War Manpower Commission also has a real stake in wage stabilization. The development of a wage structure suited to the needs of manpower regulation must be a gradual process. Only if wage stabilization is approximately achieved, can the proper adjustment of wage differentials be accomplished. Little can be gained by adjusting the wage rates in one plant to those paid elsewhere in the community or industry, if the latter rates are unstable. An effort to refine wages differentials without stabilization would be as futile as trying to get in step with a centipede.

It may be suggested that my remarks regarding the general importance of wages rates to labor supply problems are based on the

assumption of an unregulated labor market, and that the adjustment of relative wage rates would be unnecessary if we would just get hard-boiled enough to tell people what jobs they must take. This opinion was expressed by Mr. Lapham of the War Labor Board when he said, with reference to the recent non-ferrous metals decision:

"The real issue is not wages--it is manpower . . .

"There is only one real solution, and that is to follow such practices as have been adopted by Great Britain, Australia, and other nations now at war.

"The men in the front-line forces--Army, Navy, Air--are dispatched to our far-flung battle fronts as directed by our Commander-in-Chief.

"We believe those in the home army . . . are prepared and willing to submit to the orders of the same Commander-in-Chief, and to work where and as directed."

I disagree with the contention that there is a sharp distinction between wage problems and manpower problems. My interest in wages is not predicated on the existence of an unregulated labor supply. On the contrary, it is based on the assumption that compulsion will be used. Labor supply conditions have become too critical for the possible success of purely voluntary measures. Compulsion through the application of indirect sanctions is now being increasingly applied, and I anticipate Congressional action which will permit the more forthright procedure of apply direct sanctions in manpower regulation.

What I wish to emphasize here is that the wage structure is an important under any form of National Service legislation as it is under voluntary measures, because any form of compulsion applied to the solution of labor supply problems must rest upon a foundation of widespread

acceptance. As I stated recently before the Senate Military Affairs Committee;

"The compulsory aspect of National Service legislation can be grossly exaggerated. The power of compulsion is in essence a protection to the great majority who act voluntarily. They must be made to feel that when they act voluntarily the Government approves their action, and is prepared to require compliance by the few who refuse to cooperate."

Neither Great Britain nor Australia has disregarded wage relationships since introducing National Service. Indeed, the most careful adjustments of wage rates have been made in order to facilitate the redistribution of manpower in the interest of the war program. The introduction of compulsory measures does slightly modify the manpower objectives of wage adjustment, but it does not remove the necessity for such adjustment.

The objectives are modified in two respects. In the first place, it is not essential to obtain quite such a precise adjustment as would otherwise be necessary. Under compulsory measures an approximate solution may be adequate. Wage inequities will continue to be inequities, but their existence will not have quite such serious consequences as is now the case. This is indeed fortunate, since a high degree of precision in the adjustment of our complex wage structure is scarcely attainable.

In the second place, wage differences need not be so great as to induce transfer to, or retain workers in, essential employment, but at least they must be such as to cause no marked resentment to the desired allocation of individuals. The use of compulsion, while reducing the significance of relative wage rates for manpower allocation, increases their significance for employee morale and productivity.

Before turning to an explanation of the significance of the wage structure to each of the major problems of labor supply, allow me to emphasize that wage adjustment is only one of many supplementary steps that may be taken. The War Manpower Commission can take various types of direct action, and its work can be greatly assisted by the decisions of other agencies.

This is well illustrated by the variety of actions taken to obtain an adequate meaning of the non-ferrous metal industries. Employees in these industries have been placed under certain restraints to remain on their present jobs. Gold miners are being induced to transfer to this employment. New procedures are being instituted to obtain prompt action in the construction of essential housing facilities. Some adjustments have been made in the conditions for tire rationing to these workers. Selective Service quotas have been somewhat revised in the principal mining states. Civilian workers who have transferred to Army projects are being urged to return to the mines. And, as a last resort many former miners now in the Army are going temporarily furloughed.

From this it should be clear that my emphasis here on wage considerations does not imply that they are any more than one of the many aspects of a comprehensive attack on the problem of labor supply.

In my discussion here, it is at your request that I am focusing attention chiefly on the wage question and on my interest in the activities of the War Labor Board.

II. INFLUENCE OF WAGES ON SPECIFIC LABOR SUPPLY PROBLEMS

In discussing the significance of wage consideration to specific aspects of labor supply problems, it should be understood that I am limiting my remarks to the civilian labor supply and omitting consideration of our military manpower, since its allocation and utilization is unrelated to wage factors.

The chief functions of the War Manpower Commission are to obtain the maximum size, proper allocation, and optimum utilization of the labor supply. Each of these functions covers a variety of problems and requires the use of various approaches. While wage rates are not significant for each of these problems, I should like to indicate the various ones that do involve wage considerations.

a. Maximum Size of the Labor Force

To obtain the maximum increase in our total labor force, it is necessary to attract many women into the labor market, to encourage under certain conditions the employment of young people, and to retard retirement of older workers and promote the re-entry of those already retired. The entrance of these persons into the labor market will in most cases be motivated primarily by a desire to contribute to the war program. An equitable wage structure will, however, facilitate the process of industrial induction. The principle, already adopted in several cases by the War Labor Board, of equal pay for equal work regardless of sex will be helpful in this respect. Wage rates may considerably influence the willingness of young people to accept employment in industry

or agriculture where such employment is not contrary to the policies of the War Manpower Commission. Wage rates may also be a factor in retirement decisions.

b. Proper Allocation of Labor Supply

Proper allocation of civilian manpower requires that each person be engaged in that activity which constitutes his maximum possible contribution to the war program. This means that employees in essential jobs must remain there and that those in the less essential jobs transfer to more important ones. In other words, transfer must be effected in some cases and prevented in others. It is this aspect of the manpower program which comes most readily to mind whenever the relationship of the wage structure to labor supply is mentioned.

I have already indicated my opinion that relative wage rates are an extremely important aspect of this question, and that their importance in no way decreases as we shift our reliance from voluntary to compulsory measures of labor market regulation.

I am sure that it is not necessary to emphasize that the adjustment of our wage structure for manpower allocation purposes need not be exclusively in an upward direction. The basic objectives are: (1) an equitable relationship between wage rates regardless of their general level, and (2) the retention, insofar as possible, of the existing wage level, in order to obtain a more accurate revision of inequitable rates and avoid the disasters of inflation. With reference to the first objective, it would be immaterial, when two wage rates are inconsistent,

whether one is raised or the other lowered. With reference to the second objective, the choice between raising a low rate or reducing a high one would depend upon the relationship of both rates to the general wage level; and the rate that should be revised would be the one most out of line with the general wage structure. Some cases may arise where a single high rate is so out of line with the general wage level as to constitute a gross inequity and impede the effective prosecution of the war. Such a situation is most likely to arise where a rate for an emergency war project is set with the expectation that skilled workers will be employed, but where in fact unskilled workers are being predominantly hired for the job at the same rates paid to the skilled employees. In such a case a downward revision, if it is found to be feasible under Executive Order No. 9850, may be the only practicable way of obtaining such wage-rate relationships as are desirable from the point of view of manpower allocation. Obviously such situations will be rare.

Again, there may be occasions when, from the point of view of labor supply, it is just as important to prevent a wage increase in one instance as to obtain an increase in another instance. It is possible that a particular wage increase, in removing a minor maladjustment with some rates, would create a more serious maladjustment with relation to other rates. In other words, when a maladjustment is found, great care must be exercised in determining which rates

should be altered, since a specific change might create more problems than it would solve. It is also conceivable that a raise, if granted in a particular plant, would "aid in the effective prosecution of the war" with respect to some manpower considerations (as, for example, by improving employee morale within the plant), but hinder the war effort with respect to other manpower considerations (as, for example, by creating a desire on the part of some workers to transfer to this plant from more important jobs elsewhere).

It may be well to emphasize again at this point that wage considerations are not the only factor influencing job transfer and that some instances of large scale transfer may conceivably be entirely unrelated to the wage structure. Working conditions, reputation of an employer, the nature of a promotion policy, and the adequacy of housing and other community facilities are but a few of the many possible contributing factors.

Variation in the length of the work-week is today a major cause of job transfer. Weekly earnings, augmented by penalty rates on employment in excess of 40 hours, now frequently outweigh hourly rates as a motive for transfer. Since the lower hours are now found primarily in the lower-wage employments, the prospective general observance of a 48-hour week will appreciably reduce the present striking discrepancies in weekly earnings.

With these considerations in mind, I would like to suggest that

the basic objective in wage adjustment, viewed solely from the aspect of manpower allocation, should be to attain a wage structure that will induce, or at least facilitate, the desired volume of transfers to more essential positions and will impede transfers to less essential positions, insofar as such transfers are motivated by wage considerations. If this objective were accepted, it would follow that wage rates or weekly earnings should be increased for essential positions when a plant is losing large numbers of workers to other plants engaged in work of lesser importance, provided such transfer results largely from more favorable wage rates in the latter plants.

c. Utilization of Labor Supply

The aspects of manpower utilization that are subject to the influence of wage rates and wage practices are the wastes resulting from excessive turnover and absenteeism. Labor turnover in any particular industry, to the extent that it results from wage considerations, is not necessarily caused by inter-industry wage differentials. It may be caused by differentials between various plants in the industry or by a wage classification system within a plant that precludes the reasonably rapid promotion or classification of recently hired workers. Thus it is clear that several aspects of the wage system may have a bearing on turnover rates.

The possibility that a wage plan may serve as one means of attacking the problem of absenteeism has already been indicated by the decision of the War Labor Board in the non-ferrous metals case.

III. WAGES AND THE AGRICULTURAL LABOR SUPPLY

I know that the Economic Stabilization Board and many of the agencies represented on it share the concern with which the War Manpower Commission views the problem of manpower in agriculture. The adjustment and stabilization of agricultural wage rates is fundamental and essential to the solution of the very serious farm labor supply problem which confronts the Nation. Unless rapid and effective action is taken along this line, I seriously question that anything else the War Manpower Commission and other agencies of government can do will prevent serious curtailment of farm production next year.

Substantial increases in farm wage rates are needed to increase the number of workers available for employment on farms, and to retard the flow of workers from the land to better paying jobs in industry. The lack of uniformity in wages paid for comparable work on farms is causing heavy turnover of workers within agriculture. Stabilization of farm wage rates is needed to reduce the rate of turnover which is seriously impairing effective utilization of the available labor supply.

In the absence of wage standards of any kind in agriculture, the War Manpower Commission and the United States Employment Service have encountered the greatest difficulty in distinguishing between genuine farm labor shortages and instances where employers have brought pressure on the government to recruit large oversupplies of labor in order to maintain existing low wage levels. The voluminous reports of the United States Employment Service clearly indicate that low wages are by far the most important single obstacle to recruiting farm labor.

In countless instances during the past year, where wage adjustments have been made, alleged local farm labor shortages have disappeared.

As late as October of this year, the Department of Agriculture reported that average farm wage rates for the United States, without board, were \$59.25 per month and \$2.76 per day. These rates fall short of the equivalent of 50¢ per hour, even on a straight time basis. These average rates which I have quoted include, by the way, the relatively higher wages paid to milkers, poultrymen, shepherders, tractor drivers, and other skilled and specialized agricultural workers, as well as the wages of the relatively unskilled laborers.

These are substandard wages by any criterion. The earnings of many farm workers are even more substandard, because of the intermittent, uncertain, and seasonal nature of employment in certain types of agriculture. The special expenses incident to following the crops, and the poor living and working conditions in seasonal types of agriculture add to the disadvantages of farm work for migratory laborers. Dairy and general farm hands are more fortunate in having relatively steady employment, but average earnings even of these workers are less than \$90 per month. The employment service reports orders on hand for dairy workers which it has the greatest difficulty in filling, at wages below \$60 per month, even from New England, the middle Atlantic States, and the mid-west.

There is little wonder that we face serious farm labor supply problems when so many alternative employment opportunities at better pay are now available. I am not at all convinced that farmers could

not easily pay substantially higher wages at prevailing price levels. On the contrary, there is strong evidence that farm wage rates could be substantially higher without any necessity for compensatory price adjustments or wage subsidies. I would like to give you some estimates of net farm income and farm wage payments issued recently by the Bureau of Agricultural Economics:

<u>Year</u>	<u>Net Farm Income (Millions)</u>	<u>Wage Payments to Farm Laborers Including Value of Perquisites (Millions)</u>
1936-40 (average)	\$4,697	\$ 981
1941	\$6,748	\$1,191
1942	\$9,785	\$1,500

These estimates indicate that despite higher production costs, including wages, net farm income this year for the United States will be more than 3 billion dollars higher than last year, and more than double the average annual net farm income for the five-year period 1936-40. Net farm income this year is the highest ever reported. If farmers had paid twice as much for labor in 1942 as it is estimated they will have paid, net farm income, after deduction of all production expenses including interest and taxes, would still have been higher than in any preceding years except 1918 and 1919.

I am glad that the Economic Stabilization Director has recognized the wage problem in agriculture and has requested that steps be taken to meet it. Action of this kind is long overdue and cannot further be postponed with safety.

The War Manpower Commission would be more than willing to participate in any program which is contemplated along this line. Its representatives have participated in the work of the agricultural wage boards which have been established by the Secretary of Agriculture this year in certain parts of the country where the government has paid transportation expenses for farm workers. Through the United States Employment Service, it has personnel of long experience with the farm wage question as it affects recruiting and placement problems. Finally, the War Manpower Commission is acutely aware of the vital importance of fair wage standards to the success or failure of its work in agriculture.

In establishing machinery to deal with the agricultural wage question, the following considerations might well apply:

1. Consideration might well be given to the establishment of agricultural wage boards composed of representatives of management, labor, and the public, modeled somewhat along the successful English system.
2. Such boards should cover fairly large areas, perhaps one or more average size states, if farming conditions are relatively similar, in order to develop uniform rates of pay for comparable types of work. If different wages prevailed within such areas, confusing complexity of rates would develop which might lead to undesirable types of migration.

3. Findings of wage boards should be subject to review by a National Wage Board or other appropriate agency. In reviewing these findings, due consideration should be given to wage rates in other occupations, the maintenance of appropriate geographical differentials, and the maintenance of such uniformity in rates as appears desirable.

In conclusion, I want to say that the War Manpower Commission recognizes that action on farm wages will not by itself solve the farm labor problem. It is developing programs to recruit and train new workers, to furnish necessary transportation, to decentralize employment in special crop areas, to encourage the withdrawal of workers from stagnant rural areas, and a whole range of other measures, some of which are exemplified in the program for dairy, livestock and poultry farms announced this week.

But I must emphasize that the success of these other measures depends upon what is done with reference to farm wages. I feel that farmers can afford to pay adequate wages, especially in view of the prospect for a still further increase in farm income for 1943. There will be every sort of pressure and opposition to any attempt to bring this about. We must face this opposition. We must set our sights and then follow through to our objectives.