

NATIONAL WAR LABOR BOARD
Department of Labor Building
Washington, D. C.

Office of the Chairman

November 12, 1942

Honorable James F. Byrnes,
Director,
Office of Economic Stabilization,
Washington, D. C.

Dear Mr. Byrnes:

At the meeting of the Board of Economic Stabilization to be held tomorrow, November 13, at 11:00 a.m., I should like to inject into the discussion of measures designed to control excess purchasing power, some consideration of the effect of the cost of production upon the available purchasing power of the country.

This effect exists in all production, but seems to me peculiarly important in the production of war materials. All of those things which tend to reduce the cost of production have a deflationary effect. These things include increased productivity of workers, improved methods of production, increased efficiency of management, etc.

If decreased costs of production are reflected in prices the total amount of money paid for the goods produced is reduced and the excess purchasing power is reduced. If the decreased costs of production are not reflected in prices, they are reflected in profits, and in part find their way back into the national treasury by way of taxes on earnings, dividends and excess profits.

It seems to me worthwhile for the Board of Economic Stabilization to consider this idea. Perhaps incentives suitable to encourage reduction of production costs may be suggested.

In the field of profits this is perhaps a matter of the tax laws to be considered by the Treasury, and also a matter of contract prices to be considered by the procurement agencies.

In the field of wages it would seem that if carefully and wisely applied a wage policy which allots to the workers a reasonable fraction of any saving in production costs, where that saving can be attributed to increased productivity of workers, might do much to decrease the labor costs per unit of production and correspondingly lessen excess purchasing power.

Cordially yours,

(Sgd.) William H. Davis

William H. Davis, Chairman
National War Labor Board