

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 30, 1942

To Miss Egbert

Subject: _____

From Martin Krost

Here are two memoranda: (1) A short one that may eliminate the need for the Chairman to have a conference before the Economic Stabilization Board meeting this afternoon. (2) A longer one if he wants more detail.

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Office Correspondence

Date October 30, 1942

To Chairman Eccles

Subject: The Manpower Problem

From Martin Krost

Summary. There is no manpower problem; only the problem of how to use manpower most effectively. That is to say, there is no manpower problem; only the problem of manpower policy.

The facts. About 59 million people are now at work and in the armed forces. Unemployment has virtually disappeared; about 1.7 million people were counted as unemployed in September; because of various local, temporary causes -- people in transit between jobs, local material shortages, sudden shifts in demand, etc. -- this number will never be much smaller. The labor force -- the total of people at work and seeking work -- is already somewhat above normal, in terms of the proportion of the labor force to the total population. The only numerically important group of people now outside the labor force who could be brought into it are married women. This is the supply side of the picture.

On the demand side, about 4 million men must be added to the armed forces, about 4 million people must be added to the labor force in war industries by the end of 1943. Taking normal turnover into account, about 14 million persons, 24 per cent of the present labor force, must be put into new jobs; about 9 million of them, 15 per cent of the labor force, must be trained to fill jobs new to them. These over-all figures look serious; the situation in local scarcity areas is very much more serious.

Broad policy problems. The problem is so big that a number of different measures are needed to produce a reasonably satisfactory solution. Organized labor dislikes some of the measures needed; employers dislike others. The political problem is how to keep a reasonable balance between these two different points of view. Anyone who believes that, even in a crisis, it will be possible to force a one-sided solution is in for some nasty surprises.

(1) How large should the armed forces be? By the end of 1943 the Army will have 7.5 million, the Navy, Marine, Coast Guard, and Merchant Marine 2 million. The total, 9.5 million men, is about one-third of all men aged 18-45. Industrial and agricultural manpower needs, shipping and land transportation shortages, and Lend-Lease requirements make it clearly unwise for the armed forces to exceed this figure.

(2) How many hours a week should people work? In September, the average hours per week actually worked was 43. Allowing for sickness, lay-offs due to material shortages, and other causes of voluntary and involuntary absenteeism, average hours scheduled were about 45. 4.4 million people worked 60 hours or longer, 4.5 million 50-59 hours, 24 million 40-49 hours, 5.5 million 30-39 hours, and 3.1 million less than 30 hours. Not all of these people would work 48 hours a week if overtime for hours in excess of 40 were eliminated. Not all of them would work 48 hours a week even if the

Government made a scheduled 48-hour week compulsory. Some of these people worked short hours because they were sick; others because they were on vacation; others because of material shortages and inefficient management; others because they worked in continuous process industries where technical factors control the length of shifts; some of them -- but only some of them -- worked short hours because their employers could not or would not pay overtime rates for the longer hours. Because these considerations all come in, it is hard to estimate how many people would be released by lengthening the straight-time work week to 48 hours. One rough estimate would be about 2 million.

(3) How can hours be lengthened without discouraging the use of other, more desirable, methods of relieving the labor shortage? Lengthening hours is not the only answer to labor shortages. Other, better answers are training; action to eliminate over-staffing and labor hoarding by employers; drastic action to clean up the unwholesome situation in the field of raw material allocations; and measures to give the United States Employment Service personnel competent to deal with the vast problems now being thrust upon it.

Immediate policy problems. (1) Problems arising out of wage stabilization. Wage stabilization solved no problems. It merely gave a new form to the problem: How are people to be put into the jobs where they are most needed? Before the freeze, wage incentives could be used to move people from less essential, to more essential jobs. Now the existing differences in wages are frozen. Some differentials are moving workers in the right directions; others are moving them in the wrong directions. Well-informed people knew that the freeze would greatly increase demands for non-monetary concessions and benefits to workers. They also knew that the freeze would shift emphasis from wage incentives to non-monetary ways of moving workers from less, to more essential jobs. These ways cover the whole range from just letting people know where jobs are to forcing them to take jobs that the Government considers essential.

The general trend of decisions by the War Labor Board on wage increases is now in the right direction. The worse mistake that could be made would be to insist on complete rigidity in the existing wage structure. The War Labor Board is avoiding this mistake.

(2) What about a National Service Act? The President decided yesterday to postpone action on a National Service Act until some indefinite time next year. Voluntary and compulsory methods are in conflict here just as in the fiscal field. Almost nobody wants compulsory methods; hence they will be postponed until they are long overdue. Experience abroad shows conclusively that voluntary methods will not work. Apparently the Administration and the American people will have to discover this truth the hard way.

(3) Who should control manpower policy? The only hope of putting some economic sense into the manpower picture lies in giving the Manpower Commission, under McNutt, real, instead of its present nominal control over the operations of the Selective Service System. Although Hershey has managed to get along with Congress, both his public statements and his specific policy actions show his ignorance of and lack of interest in, the economic considerations that should underlie manpower policy.

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