U. S. DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON

February 18, 1943

MEMORANDUM

To: The Secretary

From: A. F. Hinrichs Hinrichs

Subject: Significance of the 48-Hour Standard Workweek for the Problem of Economic Stabilization

1. The Executive Order establishing a 48-hour schedule as the standard workweek in the United States was limited in its application, by authority of the War Manpower Commission, to only a small segment of industry. Not only was its application restricted to 32 designated labor market areas, but provision was made for exemption - generally on an establishment basis - wherever the War Manpower Commission deemed its application inexpedient or unnecessary.

2. The potential inflationary effect of the overtime premium upon wage payments is, therefore, rather negligible because of the restricted geographic application of the Executive Order and industry or establishment exemption within tight labor market areas; because the overtime provisions of the Fair Labor Standards Act do not cover broad areas of employment; and because a large part of industry (manufacturing, particularly) was already working beyond 40-hours and paying overtime.

3. Weekly hours actually worked in the durable manufacturing industries averaged 46.2 in December 1942. The scheduled workweek in these industries, therefore, generally averaged 48 hours or more - actual hours reported necessarily average less than scheduled hours because of new hires, separations, and absenteeism. Even in the nondurable goods industries, which averaged 42.1 hours of actual work in December, many establishments were operating on 44 and 48-hour schedules.

4. How small the potential increase in pay rolls in manufacturing would be is indicated by an estimate of the Bureau of Labor Statistics, which shows that if the Executive Order was enforced in all areas of the country, without any exemptions, factory pay rolls would rise by less than 3 percent, or less than $750 million on an annual basis. (See attached table).

5. Therefore, while it is true that an individual formerly working 40 hours would receive a pay increase of 30 percent if he worked 48 hours and received time and a half overtime, the figure of 30 percent is not significant either from the cost point of view of the producer or from the point of view of the problem of inflation.

6. There is not even a prima facie case for the argument that the payment of overtime will necessarily require an adjustment of price ceilings now in effect. At most, wage payments for a manufacturer would be increased by 8 1/3 percent - on the assumption that previously he was operating 40 hours and paying no overtime and, under the Executive Order, would now pay time-and-one-half on 8 additional hours. The effect of the overtime wage premium would be considerably smaller percentagewise because of the fact that labor costs are only a fraction of total costs of production. Detailed studies of individual industries and firms would be necessary to prove that commodity price ceilings would need to be increased in any particular case.

7. The mere fact that many plants preferred to remain on a 40-hour schedule is not conclusive proof that the overtime provision of the Fair Labor Standards Act was prohibitive from the point of view of production costs. Many other factors accounted for the decision of firms to remain on a 40-hour schedule. In an increasingly tight labor market, many firms wanted to retain a labor reserve to cover future losses to the armed services or to other industries. Many firms were not under pressure to extend hours because, even though they were losing workers to industries offering higher weekly earnings, their volume of output was declining. In many instances, workers were willing to remain in such establishments because, especially in the case of women, considerations of health and household responsibilities made overtime work undesirable. Further, in many establishments, the operating process was adjusted to a 40-hour schedule and it was convenient to continue on that basis as long as possible. (The continuous-process industries are special examples; more typical cases are to be found in the nondurable manufacturing group).

8. The amount of overtime premium to be paid because of the impact of the Executive Order is so negligible that it is a minor consideration in the general problem of inflation. It was the curtailment of consumer goods (in a situation of mounting wage payments) which gave rise to the inflationary gap, now estimated at between fifteen and twenty billion dollars. Further curtailment of consumer goods will intensify the inflationary danger more than the increased wage payments attributable to the Executive Order. Hence the argument that the Order is inflationary because individual workers will receive 30 percent additional wage payments for producing (approximately) 20 percent more output is not particularly relevant because it is highly unlikely that the volume of consumer goods will be maintained. The inflationary effect of the Order could be immobilized by payment of the overtime in the form of war bonds. But the general problem of inflation is little changed by the Order. Taxation, rationing, compulsory savings, cost subsidies and other devices are the measures of control by which the general problem of inflation is (and should be) approached.