

Form F. R. 511

TO _____

FROM _____

REMARKS:

February 9, 1943.

This memo and charts were left with
Mr. James F. Brynes by Chairman Eccles
(re his radio address tonight).

CHAIRMAN'S OFFICE

February 6, 1943

PENDING DEMANDS FOR WAGE INCREASES

*Left with Jimmy
Boyd 2/9/43*

Demands for wage increases in coal mining, meat packing, aircraft, women's clothing and on the railroads, will have to be dealt with within the next few weeks. Unless these and other demands for wage and price increases are denied, the Economic Stabilization Program will be seriously threatened. There must be no retreat from the "Little Steel" formula. Recent increases in the cost of living are not an adequate justification for general increases in wage rates and the initiation of a new wave of cost-price increases.

1. Granting increases will not solve the basic economic problem; it will only intensify it. Higher wages will not give labor the ability to obtain more goods and services. The war is taking goods off the shelves and higher wages cannot put them back. It is economic nonsense to attempt to increase the size of the pay envelope when the size of the market basket is being cut down. Larger pay envelopes will intensify the pressure upon the diminishing supply of goods. Larger pay envelopes will lengthen the list of commodities that have to be rationed and encourage the growth of black markets. Higher wages will breed higher costs; higher costs will breed higher prices. To continue a policy of appeasement toward any group in the community will not stop the scramble for advantage; it will merely make the scramble more frenzied. All this activity is futile, because, in the very nature of this situation, nobody can realize any real advantage.

Pressure for higher money remuneration ought to be firmly resisted, from whatever quarter it comes. Labor is no exception.

2. The accompanying chart shows the movement of weekly earnings in factories, compared with the cost of living. A glance at the chart is enough to show that workers taken as a whole have realized an important gain over their pre-war economic position. While part of this gain is attributable to the movement of workers into high-wage industries and to longer hours of work, increases in wage-rates are an important factor. We could afford these gains as long as it was possible to increase production of civilian goods. By now it has become evident that the demands of war must reduce civilian standards to bed-rock. Wage rates have become adjusted to levels which presupposed a continued abundant flow of consumer goods. Now that the flow has been curtailed, consumers' budgets must be curtailed as well. But the problem of immobilizing wage income on the scale that is now necessary is very difficult. We must call upon workers to reduce their demands upon the available supply of goods by paying taxes and by saving. The present situation is difficult enough; further wage increases will make it impossible.

3. Surely the answer to demands for higher pay is more work. Even in return for more work, we should not pay out funds that can be spent currently. Every ounce of additional effort ought to be devoted to war production. We cannot hope to increase civilian supply, but we can hope, by increasing the intensity with which we use our labor supply, to minimize the inevitable reduction. In return for more work, we can give deferred claims upon the future supply of goods that American industry will be able to produce when the war is over. But these deferred claims should be paid only in return for more work. Otherwise employers will be confronted with higher costs. They will be forced to recover those costs from the Government or from the consuming public in higher prices.

More work means a longer working week. Proposals for increasing the length of the working week have been met with the objection that hours of work in most war industries are already long and those essential civilian industries which have a short work-week are already working at the limits of capacity imposed by available materials, plant, and equipment. This objection overlooks the fact that a longer work-week in such essential civilian industries would release workers now employed there for use in other areas where labor shortages have become acute. The most important of these areas is agriculture. There is general agreement that a partial solution to the labor supply problem in agriculture lies in raising wage rates in those areas where they are inequitably low. But this is only a partial solution; it will not slow up or reverse the movement from the fields to the factories unless we lengthen hours and enable the factories to get along with a smaller labor supply. Diminishing the industrial demand for labor is our only hope of maintaining our agricultural labor supply.

4. In my opinion these arguments are decisive against the demands for wage increases which will come before you during the next few weeks. If other considerations make it necessary to grant any concessions at all, they should be made in the form of savings bonds or in some other form not available for immediate expenditure. But it would be better to take a firm stand, for the duration, against any increase in rates of payment by employers to workers. The Government should guarantee not merely organized labor but all consumers against further increases in the cost of living, particularly in the cost of food. The link between increased costs to consumers and increased costs to employers should be broken.

One way of breaking the link would be to give the housewife, whenever she buys food, savings stamps in an amount sufficient to compensate her family for the rise in food prices that has occurred since wages were

frozen in September. The value of stamps given with each dollar's worth of purchases would be increased, if it became impossible to prevent further increases in food prices. The rise in prices that has occurred since September would require the issuance of a 5¢ stamp for every dollar's worth of food purchases. Unlike the present savings stamps, these stamps should not be redeemable until after the war. The cost to the Government of such a proposal, while considerable, would be a relatively small price to pay for easing the social and political tension that is being created by the competitive demands of agriculture and organized labor upon the consumer. I am aware of the administrative difficulties which this proposal involves but I believe that they could be worked out.

RR:al

February 8, 1943

CHANGES IN SELECTED PRICES, WAGES AND LIVING COSTS

	June 1939	January 1941	May 1942	December 1942 ^{1/}	Percent rise to December 1942 ^{1/} from		
					June 1939	January 1941	May 1942
Wholesale prices (1926=100) ^{2/}	75.6	80.8	98.8	101.0	34	25	2
Farm	62.4	71.6	104.4	113.8	82	59	9
Other than farm and food	80.2	84.3	95.7	95.9	20	14	-
Farm prices (1909-14=100) ^{3/}							
Prices received	89.	104	152	178	100	71	17
Prices paid	127	128	152	156	23	22	3
Ratio of prices received to paid	70	81	100	114	63	41	14
Cost of living (1935-39=100) ^{2/}	98.6	100.8	116.0	120.4	22	19	4
Food	93.6	97.8	121.6	132.7	42 ✓	36	9
Clothing	100.3	100.7	126.2	125.9	26	25	-
Rent	104.3	105.0	109.9	108.0	4	3	- 2
Factory Wages ^{2/}							
Average hourly earnings	64.2¢	68.9¢	83.1¢	89.9¢	40 ✓	31	8
Average weekly earnings	\$ 24.17	\$ 27.74	\$ 37.46	\$ 39.78	65 ✓	43	6
Average hours worked	37.3	39.0	42.6	44.0	18	13	3

^{1/} November for average hours, hourly and weekly earnings.

^{2/} Bureau of Labor Statistics.

^{3/} Bureau of Agricultural Economics.

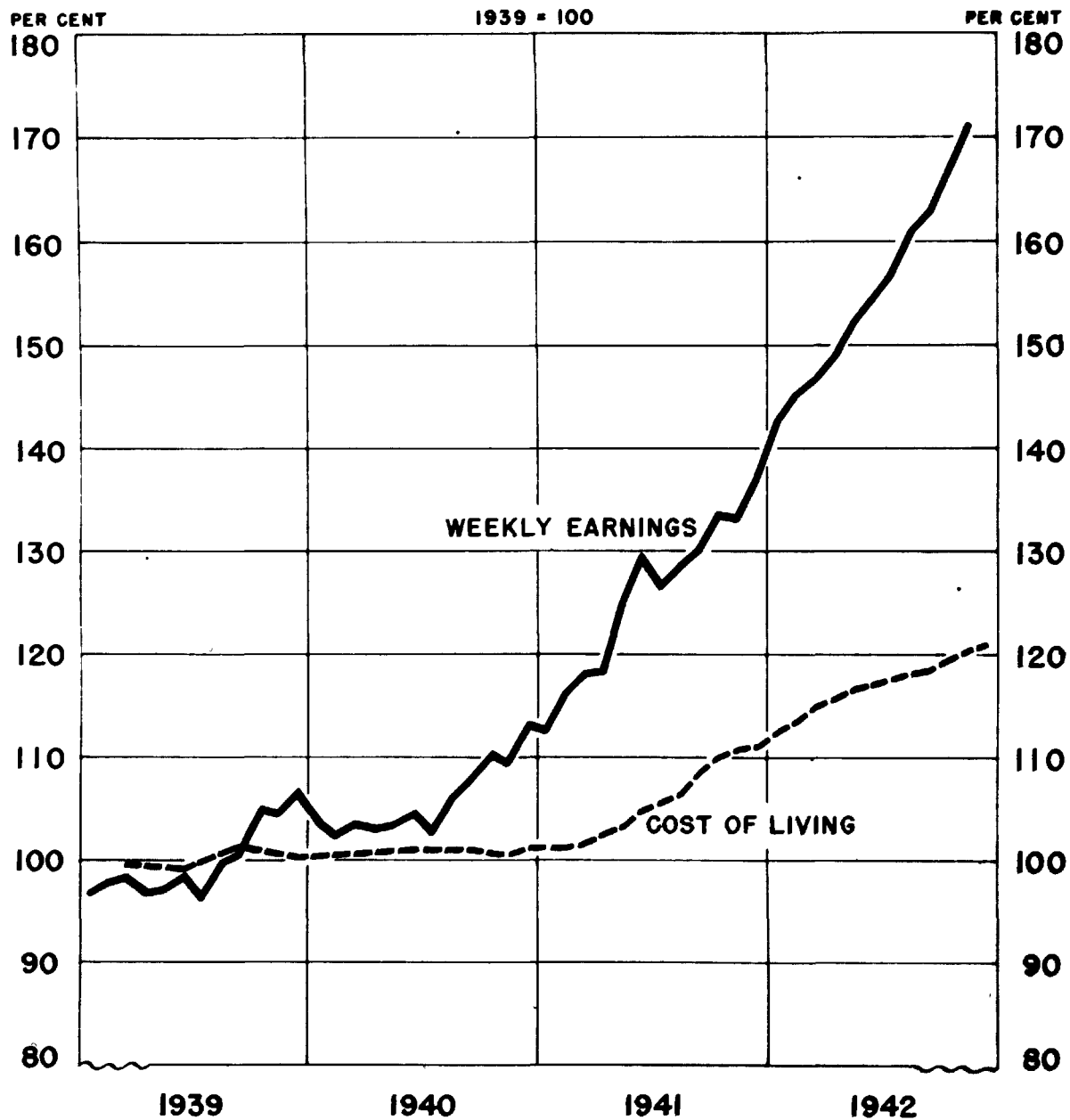
FACTORY EMPLOYMENT AND PAYROLLS

BUREAU OF LABOR STATISTICS INDEXES, WITHOUT SEASONAL ADJUSTMENT, 1939 = 100



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WEEKLY EARNINGS AND COSTS OF FACTORY WORKERS

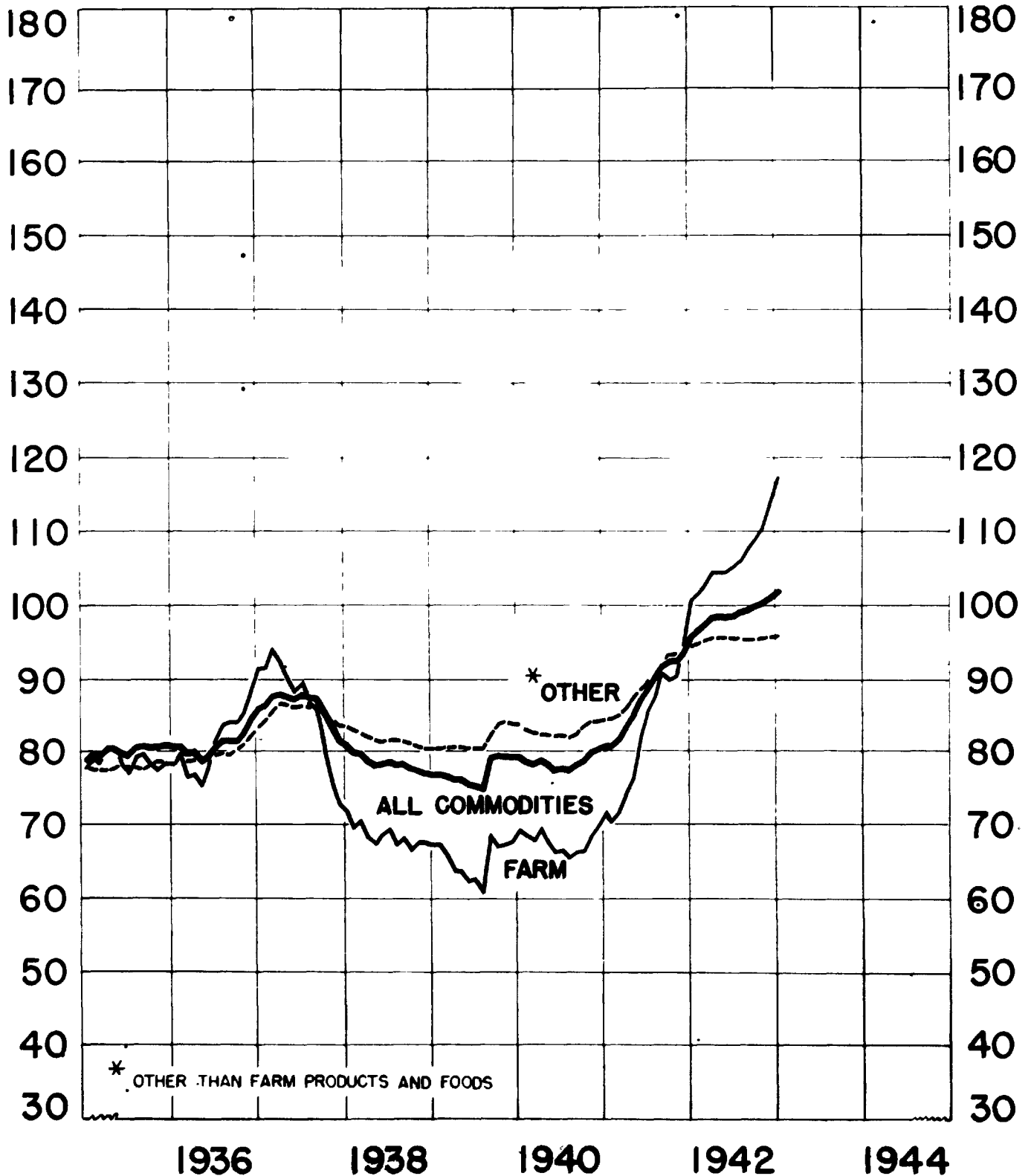


WHOLESALE PRICES

1926 = 100

MONTHLY

PER CENT



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