NATIONAL WAR LABOR BOARD

WAGE REPORT

TO THE PRESIDENT ON THE WARTIME RELATIONSHIP OF WAGES TO THE COST OF LIVING

FEBRUARY 22, 1945

LETTER OF TRANSMITTAL

February 20, 1945.

Hon. Fred M. Vinson,
Economic Stabilization Director,
Federal Reserve Building,
20th and C Streets, Washington, D. C.

Dear Judge Vinson: The enclosed report to the President on the relationship of wages to the cost of living, and changes which have occurred under the economic stabilization policy, is transmitted to you in accordance with the Board's resolution of October 11, 1944, that it would "Submit to the President through the Economic Stabilization Director a report setting forth pertinent data regarding the relationship of wages to the cost of living, and an appraisal of the nature and extent of alleged inequities created by the changes which have occurred."

On January 16, 1945, by unanimous action, the Board modified the resolution to provide that the Public Members of the Board would submit a report of their own with separate statements by the Labor and Industry Members respectively. The report now submitted to you is the report of the Public Members only and contains their own findings and conclusions, Such separate statements as the Labor and Industry Members of the Board may care respectively to prepare will be submitted to the Board 10 days from today for transmission to the President through you. It is possible that the Labor or Industry Members or both may prepare short preliminary comments prior to the publication of the report of the Public Members on Friday morning, February 23, 1945, in order that these comments may appear in the press together with the Public Members' report. If such comments are submitted the originals will be delivered to you immediately upon receipt by the Board.

Very truly yours,

William H. Davis, *Chairman.*

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Appendixes

Comments by Industry and Labor Members

February 12, 1945.

REPORT TO THE PRESIDENT ON THE RELATIONSHIP OF WAGES TO THE COST OF LIVING, AND THE CHANGES WHICH HAVE OCCURRED UNDER THE ECONOMIC STABILIZATION POLICY

On October 11, 1944, the National War Labor Board resolved that it would "submit to the President through the Economic Stabilization Director a report setting forth pertinent data regarding the relationship of wages to the cost of living, and an appraisal of the nature and extent of alleged inequities created by the changes which have occurred." On January 16, 1945, the Board modified its resolution to provide that the public members of the Board would submit a report of their own, with separate statements by the labor and industry members respectively.

The resolution of October 11, 1944, followed an investigation made by the Board because of a request by the American Federation of Labor that the Board seek authority to modify the Little Steel formula and because of a similar request in a series of cases in which various unions of the Congress of Industrial Organizations demanded general wage increases that could not be granted without a modification of that formula.[1]

THE WAGE STABILIZATION PROGRAM

In the Stabilization Act of October 2, 1942, the President was authorized "to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living; and * * * such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942." We are, therefore, particularly interested in the changes which have occurred in wages and the cost of living since September 15, 1942. This report will also consider, however, the changes in wages and in the cost of living since January 1941, the base date of the Little Steel formula.

Within 3 weeks after the War Labor Board had been established by the President, Congress provided that:

> It shall be the policy of those departments and agencies of the government dealing with wages, within the limits of their authority and jurisdiction, to work toward a stabilization of prices and cost of production. (Emergency Price Control Act of January 30, 1942, Section 1 (a).

This Congressional injunction was underscored and made more specific in the President's seven-point stabilization message to Congress of April 27, 1942. On October 2, 1942, Congress passed the Stabilization Act.

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[1] Appendix A attached to this report is a comprehensive analysis by Dr. Graham of the problem in the context of the immediate past and immediate future. Appendix B, prepared by Dean Garrison, is a historical review of the questions involved and how they have arisen. Pt. I, pp. 1–6, reviews in detail and chronologically the events that led up to the Board's resolution of October 11, 1944, and pp. 6–8 analyze the nature and extent of the demands presented to the Board.

The development, under these Congressional and Presidential directives, of basic wage stabilization principles and specific wage stabilization rules may be summarized as follows:

The Basic Principles of the Wage Stabilization Policy [2]

1. *The first principle of the national policy of economic stabilization is that avoidance of inflation is of paramount and controlling importance. That principle has been and still is the standard of judgment, the end in view, and the driving force of the whole economic stabilization program, including wage stabilization.*

2. *The second principle recognized from the outset of the wage stabilization policy has been that automatic adjustment of wage rates to changes in living costs would lead to an inflationary spiral.*

That fact was emphasized in the President's telegram of May 2, 1942, to the Shipbuilding Wage Stabilization Conference at Chicago in which he said:

> The situation that now confronts you is that the full percentage wage increase for which contracts call and to which by the letter of the law you are entitled, is irreconcilable with the national policy to control the cost of living.
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> Under these circumstances, I suggest to the stabilization conference that you put your heads together and try to work out a plan by which this conflict may be resolved so that the wage standards of the workers in the shipbuilding industry and in other industries, and the living standards of all persons of modest income may be preserved against an inflationary rise in the cost of living.

The principle had already been recognized by the National War Labor Board in the International Harvester Company case on April 15, 1942,[3] and it was applied by the Board to deny the particular wage adjustment asked for by the union in the Little Steel case itself. In that case the Steel workers had asked for an increase above the wage rates established in their contract of April 1941 by an amount equal to the increase in the cost of living since that date. In denying this request the Vice Chairman of the Board said:

> Under the President's program, the National War Labor Board has no right to increase the existing rates of steelworkers to compensate for the increase in the cost of living which has occurred in the wage-price race since the time of their last wage increase.

The automatic adjustments of wages to living costs was thus rejected as irreconcilable with the program to stabilize wages and prices.

The Need To Maintain Peacetime Wage Standards

Throughout the development and application of specific wage stabilization rules, guided by these two principles, the practical importance for maximum war production of maintaining if possible peacetime wage standards—the real wages of the workers—has been fully recognized. The need to so control both prices and wages as to avoid substantial or unequal impairment of these standards has been emphasized from the beginning.

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[2] Appendix B, Pt. II, pp. 8–38, is a review in more detail, by Dean Garrison, of the historical development of the principles and rules of wage stabilization.

[3] The opinion said: "The real wage levels which have previously been arrived at through the channels of collective bargaining and which do not impede maximum production of war materials shall be reasonably protected. This does not mean that labor can expect to receive throughout the war upward changes in its wage structure which will enable it to keep pace with upward changes in the cost of living." The opinion also said that wage adjustments for increased living costs should be made "to the extent it can be done without inflationary effects" (p. 120).

In his telegram of May 2, 1942, to the Shipbuilding Wage Stabilization Conference at Chicago, the President said:

There is no surer way to undermine the standards achieved by labor than to fail in our common effort to control the cost of living. Wage earners must do their part, by agreement, to stabilize wages or else the very standards for which we have striven so long will be eaten away by increased costs of living.

The Chairman of the National War Labor Board in the "Little Steel" case of July 16, 1942, said:

Because of the need for maximum war production it is necessary that fair and equitable labor standards should not be broken down. All the history of industrial production shows that because of their contribution of efficient production, if for no other reason, achieved standards should be maintained. That was the declared policy of the Nation during the last war and it was reiterated by the Advisory Commission to the Council of National Defense at the beginning of the Lend-Lease program preceding this war. Not to protect these standards would justly give rise to a sense of insecurity and frustration among the workers who remain at home; and it is only fair to the workers who are drawn into the fighting services that their standards should be protected while they are away.

Indeed, it may be said that the main reason why we seek to prevent the cost of living from spiraling upward is that an inflationary price rise destroys everyone's standards, not equally, but unequally and irrationally and with peculiar hardship upon the lower income groups.

It was anticipated, however, that in the war effort some impairment of everyone's peacetime standards, including the standards of wage earners, could hardly be avoided. But this anticipated result was constantly coupled with the idea that if the program failed to check the rise in the cost of living, there might come a time when the Little Steel formula would need to be reexamined, the question always being one of the degree of disparity between wage levels and price levels.

It was recognized that if wages were held down and prices continued to rise the resulting impairment of real wage standards, with its detrimental effect on war production, would call for reconsideration of policy.

The President in his message to Congress of April 27, 1942, said:

There are obvious reasons for taking every step necessary to prevent this rise. I emphasize the words "every step" because no single step would be adequate by itself. Action in one direction alone would be offset by inaction in other directions. Only an all-embracing program will suffice.

And after setting forth the seven principal points of the stabilization program he said:

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the great objective of keeping the cost of living down.

* * * I repeat that all of these processes, now in existence, will work equitably for the overwhelming proportion of all our workers if we can keep the cost of living down and stabilize their remuneration.

The War Labor Board also expressed its conviction that the success of wage stabilization would depend upon the carrying out of the other six steps, and that all seven steps constituted a unified program. The Chairman of the Board, in his Little Steel opinion, said:

The Board acts on the assumption that prices and living costs will now be stabilized under the President's seven-point program.

The union has declared its acceptance of the President's seven-point stabilization program in full, and has said that it does not contend that all items in the program must be accomplished before wages can be stabilized. In return the steelworkers have the President's assurance, given to the whole country in his address to the Nation of April 28, that "I shall use all of the executive power that I have to carry out the policy laid down."

The Vice Chairman in his opinion said:

By accepting its responsibilities, labor will have the opportunity for leadership in the fight against economic instability. For with labor meeting its obligations, it has a right to insist that vigorous steps be taken to effectuate every point of the seven-point program. This is a time when labor statesmanship can serve the country well * * *.

The President has set forth, in his seven-point program, a plan of action to prevent domestic economic instability. It can be carried out now if every citizen stands up to his responsibility. Those seven points chart the road to economic stability in wartime. We will fail to achieve that goal, however, unless all civilian interests accept fully the restraints and the sacrifices which constitute their share of the program.

The principles set forth above, applied with full recognition of the value of maintaining peacetime standards as far as practicable, have shaped the specific rules of the national wage stabilization policy.

The present investigation arises from the allegation by the labor unions that under the stabilization rules, since the Little Steel formula was adopted, wages have been "frozen" while prices have so risen as to bring about a substantial disparity between price levels and wage levels and an inequitable impairment of peacetime wage standards.

The Specific Rules of the Wage Stabilization Policy

The basic rule of wage stabilization first laid down by the President in his message to Congress of April 27, 1942, was that "wages in general can and should be kept at existing scales," giving "due consideration to inequalities and the elimination of substandards of living." The President said:

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral. And we can face the fact that there must be a drastic reduction in our standard of living.

3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.

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* * * I believe that stabilizing the cost of living will mean that wages in general can and should be kept at existing scales.

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Organized labor has voluntarily given up its right to strike during the war. Therefore, all stabilization or adjustment of wages will be settled by the War Labor Board machinery which has been generally accepted by industry and labor for the settlement of all disputes.

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* * * The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of substandards of living.

The Little Steel Formula

It was under this basic rule set forth by the President in the message to Congress of April 27, 1942 that the Little Steel case was decided by the War Labor Board on July 16, 1942. In his opinion in that case Vice Chairman Taylor clearly expressed the double obligation of the Board under the President's stabilization message, to avoid a general wage increase and to "give due consideration to inequalities." He said:

> * * * The program calls for the avoidance of another cycle of general wage increases as one item in a series of seven items conceived for the prevention of an upward spiral in the cost of living. The present decision meets this necessity by pointing the way in which wage inequalities may be eradicated without providing for general wage increases which would feed an inflationary movement.
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> Under the President's National Economic Policy, the Board has the responsibility for deciding cases which come before it in such a manner as will avoid another round of general wage increases in American industry. The President said on April 27, 1942, that "stabilizing the cost of living will mean that wages in general can and should be kept at existing scales."
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> It is also recognized by the President that in considering wage inequities, the National War Labor Board should give "due consideration to inequalities and the elimination of substandards of living." * * * Such adjustments can and should be made by the National War Labor Board, in cases before it, when equitable considerations are served. Equally clear, however, is the responsibility of the Board to avoid the starting of another round of general wage increases all over the country.

The evidence available at the time of the Little Steel decision showed that by May 1942, the month following the President's stabilization message, the cost of living index of the Bureau of Labor Statistics had risen approximately 15 percent above the level of January 1, 1941, the end of a long period of relative stability in the relationship of wages to prices. As to wages, the available statistics were based on hourly earnings and showed that the great majority of wage earners had received increases exceeding the increase in the cost of living, but some groups of workers had not.

In his Little Steel opinion Dr. Taylor dealt with the inequity of the groups whose wages had lagged behind the cost of living and with the Board's conviction that this inequity could be adjusted without significant effect on the broad problem of inflation and without starting another lap in the race between wages and prices. He said:

> By May 1942 a cycle of adjusting our domestic life to a wartime economy had, in a sense, been completed. Cost of living had increased by 15 percent. In a general way, a round of wage increases had been secured by workers which actually acted as an offset to the increased cost of living. The big question before the Nation was whether or not there would be another round, or an unlimited succession of rounds, of wage increases in a vain effort to keep up with a steadily increasing cost of living.
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> As noted earlier in this opinion, numerous inequities in the wages paid to particular groups of workers had developed during the mentioned cycle of wage increases. An outright freezing of all wages would perpetuate these inequities. It was only after this matter had been thoroughly threshed out in public that it was decided not to freeze all wages, but to proceed on a basis which would permit the adjustment of such inequities.
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> * * * The race between cost of living and wages which was terminated on April 27, 1942, clearly resulted in the loss of established standards for those groups of workers whose average wage-rate adjustments from January 1, 1941, to May 1, 1942, totaled less than the 15 percent cost of living increase which occurred in this period.
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> It is believed that established peacetime labor standards should be reasonably maintained as a part of the process of ending the race between wages and

prices. Such labor standards can be preserved without having any significant effect upon the broad inflation problem.

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What the National War Labor Board must not do, and what it avoids doing in this case, is to start another lap on the race between prices and wages.

The so-called Little Steel formula was explicitly stated by Dr. Taylor in the following words:

(1) For the period from January 1, 1941, to May 1942, which followed a long period of relative stability, the cost of living increased by about 15 percent. If any group of workers averaged less than a 15-percent increase in hourly wage rates during, or immediately preceding or following, this period, their established peacetime standards have been broken. If any group of workers averaged a 15-percent wage increase or more, their established peacetime standards have been preserved.

(2) Any claims for wage adjustments for the groups whose peacetime standards have been preserved can only be considered in terms of the inequalities or of the substandard conditions specifically referred to in the President's message of April 27, 1942.

(3) These groups whose peacetime standards have been broken are entitled to have these standards reestablished as a stabilization factor.

The Chairman in his opinion said:

We are convinced that the yardsticks of wage stabilization thus applied are fair and equitable and at the same time sufficient to prevent the cost of living from spiraling upward because of wage adjustments. We think they lead to a "terminal" for the tragic race between wages and prices.

The Little Steel decision thus established the first exception to the general rule that "wages in general can and should be kept at existing scales."

It sought, both as a matter of equity and as a matter of economic stabilization, to complete the then largely completed cycle of wage increases to match increases in the cost of living. It provided for any group of workers who had averaged less than a 15 percent increase in hourly wage rates since January 1941 an equitable stabilizing adjustment to reestablish peacetime wage standards.

In administering the Little Steel formula the War Labor Board computed the amount due a particular group of employees as follows: Average straight time hourly earnings of the group in January 1941 were ascertained. An amount equal to 15 percent of the average straight time hourly earnings was set up as a gross approvable adjustment. From this amount was subtracted all general wage increases received by the group since January 1, 1941. The remainder was the amount due under the Little Steel formula, and it was awarded to the group as a general wage increase, usually in cents per hour but occasionally as a percentage increase.

The Board continued to apply its guiding stabilization principles, and the rule of the Little Steel case, in wage disputes through the summer and early fall of 1942. Notable cases are the *Remington Rand* case decided July 27, 1942, in which the opinion was written by Dean Morse, and the *Aluminum Company* case decided August 18, 1942, in which the opinion was written by Dr. Graham.[4]

Under the rules of the President's message to Congress of April 27, 1942, the War Labor Board was authorized to make other exceptions to the rule that wages should be kept at existing scales—exceptions quite apart from the adjustment under the Little Steel formula of the

[4] See Appendix B, pp. B–16, 17.

wages of groups who had lagged behind in the race between wages and prices. The injunction that the Board should "continue to give due consideration to inequities" included other inequities than those covered by the Little Steel formula. And the injunction to "continue to give due consideration to * * * the elimination of substandards of living" imposed on the Board a duty to approve or order wage increases which were recognized to be a class by themselves. These other exceptions to the general rules were more definitely defined after the passage of the Stabilization Act of October 2, 1942, and will be discussed in that connection.

The Stabilization Act and the Executive Orders Issued Pursuant Thereto

On Labor Day 1942 the President, in a message to Congress proposing amendments to the Emergency Price Control Act of January 1942, took further steps to check the rise in both wages and prices. "Our entire effort to hold the cost of living at its present level is," he said, "now being sapped and undermined by further increases in farm prices and in wages, * * *" The cost of living, and particularly the cost of food, had continued to rise, and there were still no controls over voluntary wage increases, which appear to have been substantial in this period, due largely to the rapidly increasing demand for labor.

In that message the President stressed the interdependence of wage control and price control and recognized that if wages were to be kept level, so, in justice to the workers, must prices.[5] Among other things he said:

> Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today—their ability to buy food and clothing and medical care—will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

On October 2, 1942, the Congress passed the Stabilization Act amending the Emergency Price Control Act of January 1942. The legislative history of the Act indicates that Congress approved and applied the basic principles which had been laid down by the President, and also by the War Labor Board.[6] In that Act the President was authorized and directed to issue a general order stabilizing wages and prices "so far as practicable * * * on the basis of the levels which existed on September 15, 1942," with the proviso that the President might make adjustments of wages and prices "to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities." The Act prohibited, for the first time, voluntary wage increases. It provided that, "No employer shall pay, and no employee shall receive wages or salaries in contravention of the regulations promulgated by the President under this Act" (Section 5).

On October 3, 1942, the President issued Executive Order 9250 establishing the Office of Economic Stabilization and providing among other things that no increases in wage rates and no decreases in wage

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[5] See Appendix B, pp. B–17–18.
[6] See Appendix B, pp. 19–20.

rates should thereafter be made unless the National War Labor Board approved such increases or decreases.

This order, like the Stabilization Act itself, did not contemplate the absolute freezing of wages or prices. Congress had left to the President, and the President delegated to the Board, discretion to make adjustments "to aid in the prosecution of the war or to correct gross inequities." Executive Order 9250 expressly provided for exceptions from the general rule against wage increases. The rule was that the Board should not approve any increases in the wage rates prevailing on September 15, 1942, "unless such increase is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities; or to aid in the effective prosecution of the war."

On November 6, 1942, the Board by unanimous resolution declared its purpose to continue, under Executive Order 9250, the application of the Little Steel formula as a cost of living adjustment and at the same time declared that "the wage rate inequalities and the gross inequities which may require adjustment under the stabilization program are those which represent manifest injustices that arise from unusual and unreasonable differences in wage rates. Wage differentials which are established and stabilized are normal to American industry and will not be disturbed by the Board."

Between October 1942 and March 1943 the cost of living and hourly earnings continued slowly to rise, giving a growing concern to the Administration. On April 8, 1943, the President issued Executive Order 9328, the so-called hold-the-line order. The Little Steel formula "as hereto defined by the National War Labor Board" was incorporated in this Executive Order, and the Board was forbidden to make any further wage adjustments except to correct substandards of living. The effect of this was to remove the Board's capacity (1) to change the Little Steel formula and (2) to grant wage increases to correct interplant inequities. Believing that it was not practicable to freeze some interplant wage differentials which had grown up under the abnormal wartime conditions and exceeded wage differentials normal to American industry or compatible with wartime production, the Board initiated discussions with the Director of Economic Stabilization which led to the issuance by the Director of a Policy Directive on May 12, 1943. In that Policy Directive the Board's power to correct interplant inequities was restored, but within definite stabilizing limits, under the so-called bracket system.

Since May 1943 there has been no further change in the statutes or executive rules of wage stabilization, but on several occasions the President and other Government officials and the Congress have had occasion to express their views and take action regarding the national stabilization program. On July 2, 1943, the President in his veto of the Commodity Credit Corporation Bill, which threatened substantially to increase the price of farm products, returned to the theme of his veto message of the Bankhead Bill of April 2, 1943, and to his public statement and accompanying issuance of the hold-the-line order of April 8, 1943. In each of these documents the President emphasized that any general price increases or wage increases would imperil the stabilization program; that the existing relationship between wages and prices was reasonably satisfactory and that the Congressional directive to stabilize wages and prices at the levels of September 15, 1942, so far as practicable should be maintained; that the Little Steel formula should be resolutely adhered to; and that it would become impossible to hold the line if the costs of living were further increased. In his veto message of July 2, 1943, the President also directed attention to the particularly difficult situation of the wage earners and lower salaried employees whose wages were insufficient to maintain a decent standard of living. But as to the maintenance of accustomed standards of living for our people as a whole he said:

> I do not think that a reduction of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living costs and push back the price to consumers of important key commodities in the family market basket.

In the spring of 1944 renewal of the Stabilization Act of October 2, 1942, came up for consideration in Congress. In the Congressional hearings a number of Government officials expressed their views regarding renewal. The Price Administrator (Mr. Bowles) expressed the view that legislating a little inflation would be a dangerous experiment and that fairness did not require it. The Chairman of the Federal Reserve Board (Mr. Eccles) stressed the importance of extending the legislation, without crippling amendments, in connection with the problem of financing the war and refunding the public debt. He felt that it was the duty of all those charged with responsibility for holding the line of prices and wages to see to it that nothing was done to impair the public confidence in the future buying power of the dollars invested in Government securities, life insurance, or other forms of savings. The Director of Economic Stabilization (Judge Vinson) opposed any upward change in the Little Steel formula. He emphasized that as of that time, June 1944, price control was a proven success and that for its continuance no substantial change in the statute was required. As to the effect of the War Labor Board's Little Steel formula and the balance of wages and prices, he said:

> Although the cost-of-living adjustments are only permitted to the extent of 15 percent over the rates prevailing in a particular industry in January 1941, wages as a whole have risen far more than 15 percent. The best measuring rod by which to gage trends in straight-time hourly earnings of industrial labor is a weighted index which measures industrial wages according to employment in January 1941, thereby statistically discounting such factors as the transfer of workers to high paying war industries. Measured by that index, straight-time hourly earnings have increased about 32 percent above the level of January 1941, as against an increase of about 25 percent in the cost-of-living index over the same period of time.
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> But the important fact to remember is that, whatever index or measurement is used, prices have remained in a reasonably fair relationship with wages since October 1942 when, for the first time, we instituted control over all wages and all prices.

He was asked whether "under the conditions that now exist," there could be "any justification for any modification or the breaking or the revision upward of the Little Steel formula." He replied:

> As far as I am concerned, I have no intention or purpose to break the Little Steel formula * * * I do not think that the Little Steel formula should be discarded.

And, referring to the hold-the-line order of April 8, 1943, as supplemented by Justice Byrnes' Directive of May 12, 1943, he said:

> If you think the wage test in the Byrnes directive is too severe you can write limitations into the law. If you think the theory too generous you can write language into law that will take care of it. If I am to administer it I will do my best.

The views of organized labor as to the renewal of the Stabilization Act were that the Act should be renewed without change; that "a restoration of the relationships between prices and wages which existed on September 15, 1942, is absolutely essential to make the law work equitably and build the morale of American workers to the highest degree of efficiency"; and that these relationships between prices and wages had been impaired since September 15, 1942. In this connection the representatives of organized labor took the position that the BLS Index of prices greatly understates the rise in living costs. The Chairman of the War Labor Board (Mr. Davis) pointed out to the Senate Committee that the War Labor Board was investigating the question whether the Little Steel formula was creating gross inequities and would eventually report to the President on that subject, as it is now doing.

The report of the Senate Committee on Banking and Currency submitted on May 30, 1944, on the proposed renewal of the Stabilization Act, expressed the belief that the legislation upon which the stabilization program is based was generally satisfactory; that the program had served and was serving the country well, and that by holding in check powerful inflationary forces a remarkable degree of stabilization had been attained without undue injury to any group. All proposed amendments to the Stabilization Act were rejected, except the one relating to cotton textile prices. In opposing that amendment the minority report expressed the view that it would be tragic if Congress were to disregard the economic stability won over the preceding 2 years "by dint of arduous work and the courage to say 'no' again and again when the easy way would have been to say 'yes.' " The report of the House Committee submitted on June 3, 1944, expressed general satisfaction with the law. In the report of the Conference Committee for the two Houses Senator Wagner said:

> * * * I am glad to state there was agreement among the members of the committee, not only that the price control and stabilization acts have worked successfully and should be extended but—apart from the amendment relating to cotton textile prices which I shall discuss later—that they should be extended without substantial change.

On June 30, 1944, the President approved the Stabilization Extension Act with an accompanying statement in which he said that the Act represented the considered judgment of the Congress that the stabilization policies and programs are sound and should be continued for another year, and that "all pleas which would require any general change in the wage, price and subsidy policies now in effect" had been rejected by the Congress. As to this the President said:

> * * * I think it is a source of gratification that in spite of this clamor the Congress has stood firm against any departure from the basic principles which have made it possible for us to hold the line.

Whether the references of the Congressional Committees to the satisfactory relationship of prices and wages and to the effect that the stabilization policies were serving the country well, were intended to include the Little Steel formula specifically is not wholly clear. There was expressed opposition to any change in policy which would result in a general change in wage or price levels, as distinguished from adjustments to correct inequities. The Director of Economic Stabilization had expressed such a view, and in answer to a specific question, had declared his opposition to any modification of the Little Steel formula. On the other hand the Committee knew that the Little Steel formula was under attack by organized labor, that the War Labor Board was inquiring into its operation and intended to report to the President, and that there was nothing in the statute, which Congress was about to renew, to prevent the modification of the formula by executive action if, as a result of the pending inquiry, any modification might be deemed to be necessary. The Committees proposed no amendments to the statute which would hamper or prevent executive action in this respect. Whether under these circumstances a modification of the Little Steel formula by executive action (if sufficient grounds for modification were shown) would or would not be in accordance with Congressional intention and understanding at the time the Stabilization Act was renewed is a question which is properly one for the President to determine.

With this condensed review of the development of the wage stabilization policy under the President's message of April 27, 1942, and specifically under the Stabilization Act and the Executive Orders issued pursuant thereto we proceed to a statement of the specific rules of wage stabilization. These rules were developed as exceptions to the general rule of the President's directive of April 27, 1942, that "wages in general can and should be kept at existing scales," and to the equivalent Congressional requirement that wages should be stabilized "so far as practicable * * * on the basis of the levels which existed September 15, 1942."

The Established Exceptions Under Which Wage Increases May Be Approved [7]

Under Executive Order 9250, the subsequent Executive Order 9328 of April 8, 1943, and the Supplemental Directive issued by the Director of Economic Stabilization on May 12, 1943, the following exceptions to the general rule that wages should be kept at existing scales have been established.

1. Authority to grant the amounts due under the Little Steel formula "as heretofore defined by the War Labor Board" has been expressly confirmed. The possible allowances under this exception have substantially been completed.

2. To "correct gross inequities" arising from unusual and unreasonable differences in wage rates between comparable plants, wage rates may be increased up to the minimum "sound and tested" going rates

[7] Appendix C is a more detailed statement, prepared by Vice Chairman Taylor, of the Little Steel formula and the other exceptions to the basic rule that wages in general must be kept at existing scales. We omit from this discussion of the particular rules which govern the Board in approving or disapproving wage adjustments, certain wage increases which may be made without approval of the Board, including increases to bring rates paid to women up to the rates paid men for work of the same quality and quantity in the same plant, customary bonuses or commissions, bonuses to employees entering the armed services, and subject to certain exceptions, increases made by employers of eight or less employees.

for comparable occupations in the local labor market. The brackets of sound and tested going rates within each labor market area are determined by the appropriate Regional War Labor Board. All the rates within these brackets are regarded as stabilized rates. Wage adjustments above the minimum of the brackets may not be made except in rare and unusual cases in which the critical needs of war production require the setting of a wage at some point above the minimum.

3. Within an existing wage structure in a plant, and subject to the stabilizing limitation that such adjustments shall not increase the level of production costs appreciably or furnish the basis either to increase prices or to resist otherwise justifiable reductions in prices, reasonable wage adjustments may be made in cases of promotions, reclassifications, merit increases, incentive wages and the like, including such adjustments of wage standards and working conditions as shift premiums, vacation pay and certain types of incentive bonuses. Except for reclassification adjustments made to correct inequities within the wage structure on the basis of job evaluation the wage changes allowed under this exception affect average hourly earnings rather than scheduled wage rates.

4. Within the provision that wage increases may be approved "to eliminate substandards of living" the Board by general order has provided that wage increases voluntarily made by employers up to 50 cents an hour do not require prior approval. If employees demand wage increases to eliminate substandards of living and the employer is unwilling to make them, the case becomes a wage dispute and the Board in settling the dispute may take into consideration prevailing rates in the area or industry to guard against the ordering of wage rates under which the employer would not be able to continue in competitive operation.

For each of these exceptions, as may be seen from the foregoing summary, there is a stabilizing limitation. Wage adjustments under some of the exceptions affect scheduled wage rates and under other exceptions the adjustments affect average hourly earnings without changing scheduled wage rates.

On the whole, the general rule that wages should be kept at existing scales, with these established exceptions, has effectively held down increases in the general level of wage rates but with enough flexibility to avoid unnecessary inequities. The permitted adjustments have been reflected in a controlled increase in the level of scheduled wage rates and in a proportionately greater increase of straight-time hourly earnings. These increased hourly earnings appear in the wage earner's hourly pay not only because of changes in the scheduled rates but also because of the manner in which those schedules have been administered.

WAGE MOVEMENTS UNDER THE WAGE STABILIZATION PROGRAM

Appendix D accompanying this report is a detailed discussion, written by Vice-Chairman Taylor, of wage movements under the wage stabilization policy from the stabilization date, October 1942, through October 1944; and also of the over-all changes in wages since January 1941, the base date of the Little Steel formula. It may be summarized as follows:

(1) The best measuring rod by which to gauge what has happened in the wartime economy to hourly wage standards is average straight-time hourly earnings statistically adjusted to discount the movement of workers into the higher paid war industries. These adjusted straight-time hourly earnings may be said to measure the changes in the average pay for an hour's work received by employees who have not shifted from the industry in which they were customarily employed.

This measuring rod excludes the changes in average compensation for an hour's work due to the movement of workers into the higher paid war industries, but it includes the effect of certain other wartime factors, the most important of which are shifts of employees within an industry from lower paid to higher paid localities, accelerated merit increases and promotions, increased shift premium payments, and abnormal incentive earnings. Careful consideration leads us to the conclusion that those effects of wartime operations could not reasonably be excluded from any realistic measurement of wage standards in wartime.

For all manufacturing employees average straight-time hourly earnings so adjusted increased 12.5 percent from October 1942 to October 1944. The over-all increase from January 1941 to October 1944 was 36.7 percent.

(2) Beyond this increase in adjusted straight-time hourly earnings there has been a substantial improvement of the economic status of the average wage earner since January 1941 because of (*a*) the concentration of wage earners in the higher paid war industries, (*b*) the increase of overtime work at premium pay, and (*c*) more continuous employment.

Thus, average straight-time hourly earnings, without discounting the concentration of workers in the war industries, increased 13.9 percent from October 1942 to October 1944, and by 43.9 percent from January 1941 to October 1944. Average gross hourly earnings, including overtime premiums, increased 15.4 percent from October 1942 to October 1944, and 50.9 percent from January 1941 to October 1944. Average gross weekly earnings increased 20.8 percent from October 1942 to October 1944, and 76.3 percent from January 1941 to October 1944.

(3) Changes in adjusted straight-time hourly earnings, discussed in (1) above, may be further statistically adjusted to discount such factors as shifts of employees within an industry from lower paid to higher paid localities; between-grade promotions, and shift differential payments. The resulting figures show changes in average straight-time hourly earnings by occupations—referred to by the Bureau of Labor Statistics as changes in "urban wage rates." They may be said to measure the changes in average hourly earnings of those employees who remained on their old jobs in the same plant where they have customarily been employed.

The average change in these hourly earnings by occupations (urban wage rates) from the stabilization date, October 1942 to October 1944 was 11.3 percent. From January 1941 to October 1944 it was 30 percent.

The factors above mentioned which are excluded in the "urban wage rate" data should not, we believe, be left out of account in appraising wage standards in the wartime economy. It is our judgment

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that adjusted average straight time hourly earnings discussed in (1) above is the most appropriate measure of the return for an hour's work in wartime. It may be noted, however, that the use of "urban wage rates" as the measure would not change any of the basic conclusions of this report.

(4) Scheduled occupational wage rates constitute the basic foundation from which hourly earnings are derived, and under normal conditions changes in average straight-time hourly earnings may be assumed to follow in a general way changes in wage rate schedules. That relationship has been altered under the imposed controls of the wage stabilization program. General increases in scheduled wage rates since October 1942 have been substantially less than the increases in adjusted straight-time hourly earnings over that period.

For the period from the stabilization date, October 1942 to October 1944, the estimated increase in scheduled wage rates has been only 3.2 percent for manufacturing industries and 4.1 percent for all industries measured in terms of straight-time hourly earnings of September 1942. These increases have gone principally to employees who had not received the Little Steel allowance; whose wage rates were far out of line with those prevailing in the area; whose wage rates were out of line with other wage rates paid in the same plant, or whose wage rates had to be increased to correct substandards of living. For the period from January 1941 to the stabilization date, October 1942, during which period there was no control over voluntary wage adjustments, it is estimated that scheduled wage rates were increased 15 percent. For the whole period from January 1941 to October 1944 the estimated increase was 19.7 percent of straight-time hourly earnings of January 1941.[8]

These are minimum figures, since they do not include certain increases in scheduled wage rates the most important of which are: Increases to correct substandards of living not requiring Board approval; increases to provide equal pay for equal work by women employees; increases to groups of less than 10 workers prior to October 2, 1942; shift premiums and other "fringe" adjustments of scheduled wage rates.

Changes in basic wage rate schedules, moreover, do not reflect the significant change which has taken place in the composition of the wage structure of industry, and in the hourly earnings of the workers, due to the manner of administration of wage rate schedules under wartime operating conditions. We have concluded, therefore, that changes in basic wage rate schedules do not constitute the most appropriate measure of wage standards in wartime.

For convenient comparison we insert here a tabulation of the above figures, to which have been added the percentage changes from January 1941, the base date of the Little Steel formula, up to October 1942, the date of the Stabilization Act.

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[8] These figures are computed as a percentage of straight-time hourly earnings prevailing in January 1941, rather than in terms of changes in the schedules themselves, since there is no statistical method for summarizing and averaging the varied wage rate schedules of industry as of any given time.

CHANGES IN WAGES OF MANUFACTURING EMPLOYEES, BY PERCENT OF CHANGE

	January 1941 to October 1944	January 1941 to October 1942	October 1942 to October 1944 [1]
	Percent	*Percent*	*Percent*
Average gross weekly earnings	76.3	46.0	20.8
Average gross hourly earnings	50.9	30.7	15.4
Average straight-time hourly earnings	43.9	26.4	13.9
Average straight-time hourly earnings (adjusted for inter-industry shifts)	36.7	21.5	12.5
Average straight-time hourly earnings by occupations (the BLS. "urban wage rates")	30.0	17.0	11.3
Wage rate schedules	19.7	15.0	[2,3] 4.1 [4] 3.2

[1] These date are computed with September 1942 as the base in order to show the changes which have occurred since the stabilization date. Data in the 2 other columns are on a January 1941 base in order to show the changes which have occurred since the base date of the Little Steel formula.

[2] The figure of 4.1 percent is for both manufacturing and nonmanufacturing industries. Greater percentage increases in nonmanufacturing industries as compared with manufacturing industries seems to have occurred from October 1942 to October 1944.

[3] All industries.

[4] Manufacturing industries.

CHANGES IN LIVING COSTS UNDER THE PRICE STABILIZATION PROGRAM

For the purpose of seeing what has happened to prices under the economic stabilization policy, we adopt the conclusions of the majority of the President's Committee on the Cost of Living, transmitted to the President on November 14, 1944. For the reasons stated in that majority report, we disregard the higher estimates of the minority of that Committee. To the current figures of the BLS Cost of Living Index we add the estimated 3 to 4 percentage points for the hidden increase in a seller's market, and one-half percentage point to include estimated changes in the cost of living of urban workers in small as well as large cities.

As thus measured, the average cost of living of industrial wage earners and lower salaried employees increased from the stabilization date, October 1942, to October 1944 by 7.5 percent. From January 1941, to October 1944 the over-all increase was 29.5 percent. From January 1941, up to the stabilization date, October 1942, the increase was 20.5 percent.

While these figures are appropriate for measuring the increase in prices that affect the average industrial workers, they do not adequately reflect the burden upon the lowest paid workers. In a period of rising prices such as we have been going through since January 1, 1941, the increase in the cost of living of the lowest paid workers is not measured by the average figures of the BLS Index, or even by those figures when the 3½ to 4½ allowance has been added for wartime market conditions and to cover small cities. If, for instance, the BLS figures show a cost of living increase of 25 percent and the allowance of 3½ to 4½ is added to that, making a total of 28½ to 29½ increase, it is certain that the cost of living of the low-paid workers has increased even more than that amount. There are at least two basic reasons for this. The first reason is that food and clothing costs represent a greater part of the low-paid worker's budget than they do of the high-paid worker's budget, and food and clothing are the items in the cost of living index that have gone up the most; and the second reason is that the lower paid workers tend to buy the lower priced items and it is the very low priced items that have had the greatest percentage increase in cost or have disappeared from the market altogether. In the application particularly of a substandard wage policy these greater burdens on the low paid wage earners need to be taken into account.

WAGE CHANGES COMPARED WITH CHANGES IN LIVING COSTS

The following table shows the percentage increase of average straight-time hourly earnings (adjusted for the interindustry shifts) compared with the increases in the cost of living. For the reasons noted earlier, we have concluded that average straight-time hourly earnings so adjusted are the most appropriate measure of wage standards in wartime. The first column compares the changes in the period since the passage of the Stabilization Act, October 1942 to October 1944. The second column shows the changes that had occurred before the Stabilization Act, January 1941 to October 1942. The third column shows the over-all changes from January 1941 to October 1944.

	Percentage increase		
	October 1942–October 1944	January 1941–October 1942	January 1941–October 1944
Cost of living, President's Committee	[1] 7.5	[1] 20.5	29.5
Average straight-time hourly earnings manufacturing [2] (adjusted for inter-industry shifts)	12.5	21.5	36.7

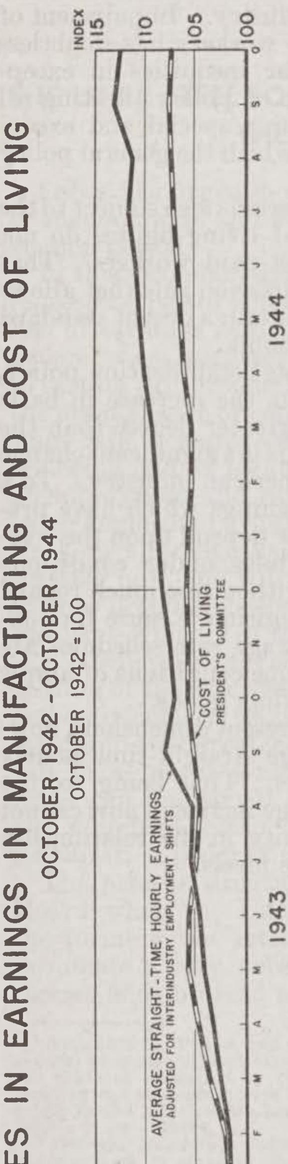
[1] In these figures the estimated 4-percent addition to wartime living costs not measured by the BLS is distributed equally over the months from January 1941 to December 1943, when the Mitchell Committee estimate adopted by the President's Committee was made. This distribution is an arbitrary one. The limiting assumptions would be: (1) That none of the 4-percent increase occurred before October 1942, or (2) that all of it occurred before that date. The first assumption would change the percentage figure from 9.5 to 9.7 and the figure 20.5 to 18.1. The second assumption would change the percentage increase figure from 7.5 to 6.1 and the figure 20.5 to 22.1.

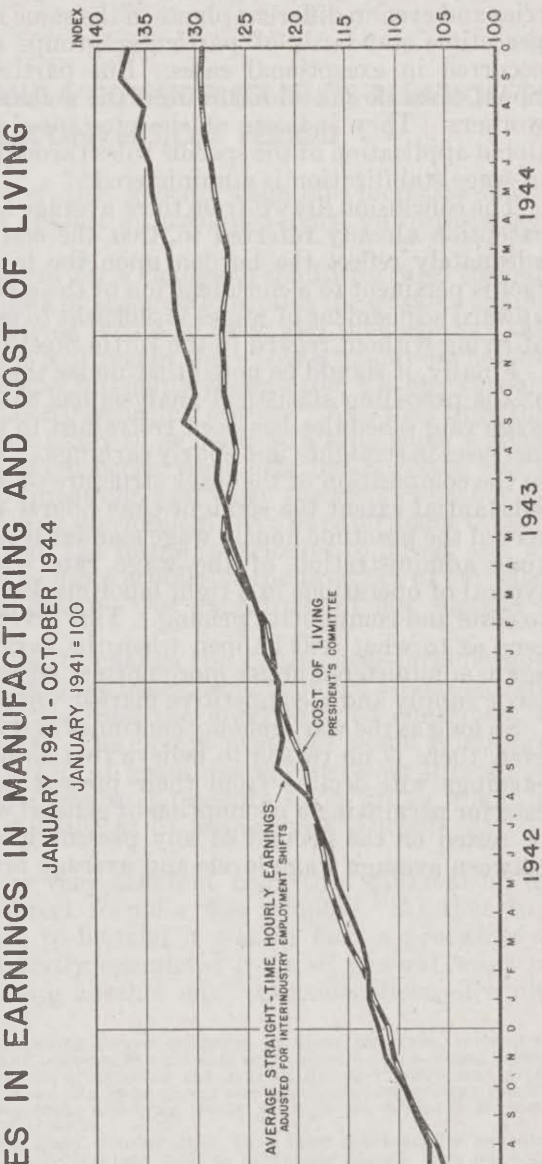
[2] Similar figures are not available for changes in nonmanufacturing hourly earnings, but such evidence as there is indicates that the increases would probably equal or exceed those in manufacturing.

REAL WAGES IN THE WARTIME ECONOMY

The foregoing comparison of wage changes with changes in living costs since the passage of the Stabilization Act in October 1942, and also since the base date of the Little Steel formula, January 1941, shows that the national policy of stabilizing prices and wages in the wartime economy has not impaired peacetime wage standards. Both prices and wages have been stabilized; neither prices nor wages have been frozen. Prices have risen but so has the wage-earner's compensation for an hour's work. Real hourly wages are slightly higher today than they were in January 1941.

The accompanying graphs show the rate of change of prices and wages (1) from October 1942 to October 1944 and (2) from January 1941 to October 1944.


CHANGES IN EARNINGS IN MANUFACTURING AND COST OF LIVING
OCTOBER 1942 - OCTOBER 1944
OCTOBER 1942 = 100
INDEX
AVERAGE STRAIGHT-TIME HOURLY EARNINGS
ADJUSTED FOR INTERINDUSTRY EMPLOYMENT SHIFTS
COST OF LIVING
PRESIDENT'S COMMITTEE
1942
1943
1944


CHANGES IN EARNINGS IN MANUFACTURING AND COST OF LIVING
JANUARY 1941 - OCTOBER 1944
JANUARY 1941 = 100
INDEX
AVERAGE STRAIGHT-TIME HOURLY EARNINGS
ADJUSTED FOR INTERINDUSTRY EMPLOYMENT SHIFTS
COST OF LIVING
PRESIDENT'S COMMITTEE
1941
1942
1943
1944

The average figures upon which this conclusion is based embrace changes in hourly earnings which are very different in different industries and even in different plants in the same industry. Impairment of peacetime standards of particular groups of workers has doubtless occurred in exceptional cases. But particular inequities in exceptional cases do not indicate need for a change of policy affecting all workers. They indicate at the most need for a special and exceptional application of the specific rules through which the general policy of wage stabilization is administered.

The conclusion drawn from these average figures is also subject to the exception already referred to, that the cost of living figures do not adequately reflect the burden upon the lowest-paid workers. That fact is pertinent to a consideration of the stabilization rule that allows upward adjustment of wages insufficient to maintain a decent standard of living without regard to the Little Steel formula.

Finally, it should be noted that under the wage stabilization policy, as the preceding statistical analysis has shown, the increase in basic wage rate schedules has been restrained to a greater degree than the increases in straight-time hourly earnings. This is a significant change in the composition of the wage structure of American industry. To a substantial extent the straight-time hourly earnings which have preserved the peacetime hourly wage standards now depend upon the wartime administration of the wage rate schedules under conditions typical of operations in a tight labor market without too much regard to costs and competitive pricing. This gives legitimate cause for concern as to what will happen when the basic wage rate schedules are again administered under more normal peacetime conditions of ample labor supply and a competitive market for civilian goods.

So long as the war economy continues in its present dimensions, however, there is no reason to believe that average straight-time hourly earnings will decline from their present level. That being so, the case for permitting a resumption of general wage increases now cannot be rested on the ground of any present inequity in the relationship between average wage levels and average price levels.

THE LITTLE STEEL FORMULA CONSIDERED IN ITS RELATION TO THE RECONVERSION PERIOD

Labor has urged, however, that general wage rate increases should be made now as an offset against a threatened deflation in the reconversion period.

In this secondary argument for a change in the Little Steel formula representatives of labor speak of the need to protect the workers against loss of earnings as a matter of justice to them and they also say that general wage increases now will benefit the whole economy by helping to sustain full production and full employment after VE-day through the maintenance of consumer purchasing power.[9] And they urge that wage rate increases are not likely to be made at a time when workers are being laid off because of cut-backs, when overtime is giving way to unemployment and work-spreading, and when the ranks of labor are being augmented by returning servicemen. We have no doubt that the workers' apprehension about the future contributes to unrest and job shifting now, and will do so more acutely as the prospect of cut-backs in war production comes closer. Our experience of last summer is sufficient evidence of this.

We believe, however, that to change the Little Steel formula now, because of the risk of future wage losses, would subject all our citizens, and particularly wage earners and the lower-salaried employees, to other and still greater risks. The change proposed would fairly rapidly bring about a new round of general wage increases throughout American industry.[10] The resulting pressure upon prices would, in our judgment, be so formidable as to jeopardize the whole wartime stabilization program.[11]

The present situation is very different from that confronting the Board when the Little Steel formula was adopted. At that time the formula was intended to be, and it was in fact, a procedure to terminate a then substantially completed cycle of general wage increases and to avoid starting another one. Considerations of equity

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[9] Appendix E, Prices and Purchasing Power, prepared by Dean Garrison, reviews the general attitudes of both labor and industry toward this wage question, and it also reviews the evidence presented by the parties, including the over-all figures of corporate profits cited by the representatives of labor. In view of our conclusion that no present inequity exists in the relationship between wage and price levels, we have not discussed corporate profits in this report.

[10] General wage rate increases since October 1942 have been substantially less than the increases in straight-time hourly earnings and, as previously stated, have amounted to approximately 20 percent during the whole period from January 1941 to October 1944. If, then, the Little Steel formula allowance of 15 percent were to be increased to say 30 percent, it may be estimated that general wage inceases averaging, for industry as a whole, about 10 percent would be permissible by agreement and would be ordered in disputes. That result is necessarily implied in the motion of the American Federation of Labor that the 15 percent allowance of the Little Steel formula should be increased "to a new realistic figure based upon the actual cost of living," and in the series of cases presented by the various unions of the Congress of Industrial Organizations, in which the specific demands for general wage increases range from 10 cents to 17½ cents per hour. There can be little doubt that the increases which could be effected by the proposed change would spread throughout the economy as fast as employers could make them and the Board could order them.

[11] We have reached this conclusion, which is based upon our whole experience to date, after taking into account, among other factors, the level of corporate profits.

as well as the demands of stabilization and wartime production led to the allowance of an appropriate wage adjustment to those groups of workers whose wages had lagged behind increases given to the large majority of workers to compensate for the increase in the cost of living. Now the proposal is to lift the general level of wages as a safeguard against the loss of earnings and employment and the loss of purchasing power that might come with reconversion. But we have no assurance that such a round of general wage increases could be made effective without bringing on a corresponding increase in the general level of prices and so defeating its own purpose. The wage earner's real wage, and real purchasing power, is not measured in dollars, but in dollars divided by prices of the things the wage earner has to buy. An improved standard of living for all our people can come only with a rising volume of civilian goods and services. It hardly needs to be repeated that if general wage increases were followed by general price increases the working people of the country would be the eventual losers in the renewed race between prices and wages.

Restraints on wage increases have been imposed by the necessities of wartime stabilization in the interests of all our people. They should be ended as soon as resumption of the flow of consumer goods and services from converted factories and facilities, or the immediate prospect of such resumption, removes the danger of inflationary price increases. They may be ended as a part of a broad economic plan developed by the Government. The War Labor Board meanwhile must be alert to changing levels of war production and civilian production and to their effect upon the continued necessity of wage restraints. The time has not yet come, in our judgment, when general wage increases can be freely resumed without danger of an inflation which would be disastrous to the war effort and to the economic security of all segments of our population.

As to the maintenance of purchasing power in the period of reconversion, the wage-rate increases proposed for that purpose are really put forward as a first step toward the higher level of national economy and of real wages that we are looking forward to in the post-war period. As we go forward to a time of full conversion to peacetime economy after the war, the goal is a level of production, distribution, and consumption high enough to absorb into peacetime production all the enormous capacity for production we have demonstrated in war. This means a level of civilian demand and purchasing power high enough to substantially replace all the present wartime demands of the Government. Any such level of civilian consumption means a very great increase in our standards of living. As we move out of the wastage of total war back to peacetime and the promise of the future, we will no longer be thinking or speaking about "maintaining pre-war wage standards." The cost of living adjustment of the Little Steel formula will have to give way to wage and price adjustments which definitely raise the general level of real wages. Planning for prosperity, however, is by no means solely, or even primarily, a matter of increasing wages but must necessarily call for a comprehensive program on all economic fronts. If action is taken now on wages alone and if price increases were to follow we would have to face the same problems in the reconversion period but at a higher level and with more inequities between various labor groups and among the other segments of society.

For the reasons stated in this section, the public members of the War Labor Board do not recommend a present change in the Little Steel formula as necessary to eliminate any over-all inequity in the wartime stabilization program. Nor can we now recommend such a change, taken as a single step on one sector of the economic front, toward solution of the problems of reconversion.

PHASES OF THE WAGE STABILIZATION POLICY OTHER THAN THE LITTLE STEEL FORMULA, CONSIDERED IN RELATION TO THE RECONVERSION PERIOD

The urgency attached to the requests for a change in the Little Steel formula, and the resulting concentration of energy, not only by labor and industry, but by the Board, on the consideration of that subject, have obscured the importance of the other phases of the wage-stabilization policy which also need to be examined in the light of what may be ahead of us. There are, apart from the Little Steel formula, certain important adjustments which are permissible under the wage-stabilization policy. The most significant of these are adjustments made (1) to correct intraplant wage rate inequities, (2) to correct interplant inequities within the limitations of the "bracket" system, and (3) to correct substandards of living. In each of these fields the administration of the stabilization rules has a direct relationship to the reconversion period, and raises questions of policy and procedure which need much more attention, on the part of industry and labor as well as of the Government, than they have yet received.

Furthermore, the Stabilization Act calls for stabilizing wage rates against a deflationary downward movement as well as against an inflationary upward movement. Presumbly this statutory principle, and the Board's responsibility for carrying it out, will remain in effect during the reconversion period and until the production of civilian goods has so far progressed as to render stabilization controls unnecessary. The Board is therefore required to look ahead and to consider appropriate rules and procedures for stabilizing wages against deflation in the reconversion period.

1. Intraplant Inequities and the Revision and Strengthening of Wage Rate Structures

The wage rate structures of many companies have been developed in a haphazard manner.[12] Differing rates are frequently paid to workers who may in fact be doing the same job with the same degree of efficiency. In addition, established wage rates for different jobs are often not set in proper relationship to required differences in skill and ability. The Board has found that inequitable wage-rate relationships invariably impair the morale of workers and lead to grievances and disputes. And the Board has further found that, more often than not, the attempt to correct these relationships piecemeal, through the filing of individual grievances and their disposition on a case-by-case basis, simply creates more claims of inequities and more disputes. The

[12] Appendix C by Dr. Taylor discusses this matter in more detail.

soundest approach to this difficulty is to establish by collective bargaining to the fullest extent possible a well-balanced wage rate schedule, which, when finally worked out and accepted by the parties, will remain unchanged during the life of the contract.

Normally this process, which involves the making of accurate job descriptions, the evaluation of jobs in the light of these descriptions, and the adjustment of out-of-line rates in accordance with the proper valuations, can be effected with but small net additions to the pay roll. The Board is satisfied, however, from its experience with these cases, that production costs are seldom if ever increased by the pay-roll additions, and are often actually decreased, because of the improved morale and efficiency of the workers.

This process of working out well-balanced and rational wage rate structures has been growing in importance, and is an effective means whereby the present level of average straight-time hourly earnings may be given a stronger underpinning. We have seen that while present labor standards measured by straight-time hourly earnings are real enough at the moment, they contain an element of insecurity for the future because a certain portion of the hourly earnings depends upon administration of the wage rate schedule by management and is therefore reversible. The most significant of the reversible factors which are thus contributing to the present level of straight-time hourly earnings are accelerated upgrading, an abnormal rate of ingrade advancement and merit increases, and increased earnings under incentive systems due to longer wartime runs.

Clear and accurate job descriptions, which are the first essential for an adequate wage-rate structure, may serve as a protection against improper and indiscriminate down-grading during the reconversion period; and the assignment of equitably related rates, keyed to proper job descriptions, in a schedule agreed to in its entirety, may stand in the way of rate-cutting as well as of downward adjustments on the basis of inconsequential or immaterial job changes. In companies where ingrade advancement and merit increases have been the practice, well-defined rate ranges and definite criteria for progression within them, embodied in an agreed schedule, may give some assurance that the established practices will continue during reconversion.

The continued maintenance of the wartime level of incentive earnings presents a special problem for exploration by management and labor, as does the whole question of the extent and forms and possible further development by collective bargaining of incentive systems, based on the considerably expanded experience with such systems during the war. These questions may come increasingly to the fore as competitive cost considerations begin to reassume their former importance.

In any event it is clear that by the establishment of sound wage rate schedules the other earnings factors mentioned above could be substantially protected against the risk of shrinkage in the reconversion period. The War Labor Board is devoting an increasing portion of its time to the development of such schedules on a case-by-case basis.

We point out, however, with all the emphasis at our command that this is a task pre-eminently suited for collective bargaining; that the wage stabilization rules in their present form permit reasonable agreements of this sort; and that there is in this whole field of the rationalization of wage rate schedules an unexampled opportunity for industry and labor to act together in their mutual interests.

2. The "Bracket" System and Local Labor Market Rates

Under the present stabilization rules, interplant inequities may be adjusted within certain limits by reference to the sound and tested rates in the local labor market area (the "bracket" system). Similarly the rate structures for new plants are determined by reference to prevailing local labor market rates. These rules are appropriate when the inflationary threat comes from competitive bidding for a limited supply of labor by employers who have a substantially unlimited market for their products. But the rules may cease to be appropriate when labor is transferred to the peacetime production of goods whose prices will be again subject to competitive conditions, usually in a national market. Under such circumstances wage rate relationships between competitors within an industry may be even more important than wage rates paid in other industries in the local labor market.

Two main questions require consideration and action. The first relates to industries in which, prior to the war, the general level of rates was in the main determined nationally, but in which, during the war, the rates for new units have been set locally, often at a level lower than that of the other units. Labor is concerned as to the future effects of this policy on the shifting of production because of differing wage-rate levels, and on the whole program for establishing rates on an industry basis.

The second question relates to plants whose wage structures, however they may have been originally established, will have to be changed because of changed job requirements resulting from reconversion. A number of such cases are already pending before the Board. In passing on the proposed new structures under the provisions of the Stabilization Act and Executive orders issued pursuant thereto the Board will have to determine what standards to apply—when, for example, local labor market rates should be used as a guide, and when industry rates should be used—and what should be done when there are no clearly defined rates for the new jobs either in the locality or the industry. Since the price of the new products will depend in part on the wages to be paid, effective procedures must be developed for making wage determinations as well as for making price determinations which will enable reconversion plans to be made with as little delay and uncertainty as possible.

We cannot expect to develop sound specific rules for stabilizing wage rates against the downward pressures of deflation if we do not have access to a substantial body of raw material growing out of everyday experience as we move nearer to the strain and distortions of conversion. It seems to be essential therefore that management and labor, particularly in the great war industries, should proceed now, locally and on an industry basis, to discuss the problems that will confront them as war production diminishes and the plants are converted to peacetime production.

These problems are important and pressing. The Board will look to industry and labor to aid in their solution, and will welcome specific proposals and agreements which may point the way toward any needed changes in the applicable rules and procedures.

3. Substandards

It must be recognized that the situation of the lower-income wage and salary workers, upon whom the increase in the cost of living has fallen with disproportionate severity, has remained unsatisfactory under the wartime economy. This situation deserves the most careful consideration as we pass from war to peace. As the President said to Congress on January 6 of this year in his message on the state of the Union: "Americans do not regard jobs that pay substandard wages as productive jobs."

The War Labor Board's capacity to deal with the situation is very limited. The Board can act in only two ways: by approving or disapproving voluntary wage adjustments, and by deciding wage disputes under the War Labor Disputes Act. The Board cannot issue general orders requiring employers not before the Board to increase their wages. In dispute cases involving substandard wages the Board, while not restrained by any specific wage stabilization rules, has had to consider competitive conditions and the extent to which substandards can be corrected without creating a loss of employment. All carefully developed budgetary studies show the need for minimum hourly rates much higher than those which could be ordered without shutting down establishments and throwing people out of work. This inherent limitation, which Congress took into account in the Fair Labor Standards Act in 1938, must be given even more attention in deciding individual dispute cases than in enacting legislation, since in dispute cases the order will normally affect only one employer or a small group of employers in an entire industry, and the competitive difficulties will accordingly be accentuated.

The Board's capacity to correct substandards is still further narrowed by the fact that there are multitudes of people at the very low-income level who are not under the Board's jurisdiction at all:

> The school teachers, the clergymen, the State, county, and city officials, the policemen, the firemen * * * the dependent mother of the soldier boy with her scant $37 a month, the widow living off the proceeds of her husband's insurance policy, and the old-age pensioner * * *. These unorganized millions must not become the forgotten men and women of our war economy. (From the President's message accompanying his veto of the Commodity Credit Corporation Bill of July 2, 1943.)

Legislative Possibilities

For the most part the economic status of the "unorganized millions" referred to in the President's message above can be improved only by legislative action, chiefly on the part of local governments. There are other millions of low-paid industrial wage earners whose cases, while falling under the War Labor Board's jurisdiction, never reach the Board and whose prospects for economic advancement are not favorable. Their status could most rapidly and effectively be improved by increasing the minimum wage requirements of the Fair Labor Standards Act. Quite apart from the considerations of equity which are here involved, we suggest that legislative action of the sort here mentioned could produce a very large effect on the aggregate of incomes if it should be concluded at any time that national economic policy calls for increasing the level of consumer incomes.

The Fair Labor Standards Act deals only with minimum wages at the substandard level. The War Labor Board has found that increases in the minimum require further wage adjustments for closely interrelated job classifications above the minimum. It is not uncommon to find portions of industries in which all the workers are crowded together within a narrow range of rates just above the minimum. In these cases there may be few if any workers at the statutory minimum, and yet the substandard problem is a very real one. It must be remembered that when Congress in the Fair Labor Standards Act prescribed a minimum rate of 25 cents an hour for the first year, to be raised at the beginning of the second year to not less than 30 cents and after 7 years from the date of the act to not less than 40 cents, Congress did not find that these minimum rates were sufficient to afford a decent standard of living. On the contrary, the minimum rates were regarded as only a beginning and as the most that could be required without causing unemployment.

In the light of our experience, and of the changes in the economy since 1938, we raise the question whether it would not be appropriate to consider a statutory requirement that, in each industry, minimum rates for a limited number of key occupations above the minimum starting rate should be set, with a view to more effectively correcting substandards of living and, so far as possible, eliminating competitive advantages derived from the payment of inadequate differentials above the minimum starting rate. Peg-points of this sort above the starting rate would not have to be identical for all areas or for all branches of a given industry, and they could be established through industry committees and collective bargaining in the same way as has been provided for in the act with respect to starting rates.

These peg-points would constitute a framework within which all intermediate rates would have to be set in accordance with proper job descriptions and evaluations, in balance with each other and with the peg-points. We have already pointed out how this process of reevaluation will impart more stability to wage structures and act as a deterrent against reductions in straight-time hourly earnings in the reconversion period. A statutory requirement that peg-points be established would therefore support the congressional purpose, declared in the Stabilization Act of October 2, 1942, to avoid the deflation of wages.

We think that industry and labor might well consider whether this purpose, whose achievement is so necessary to the continued stability of the economy, might not be still further advanced by a statutory enactment under which the industry committee procedure laid down in the present act would be extended to cover the establishments of minimum starting rates and of minimum peg-points above them not only in the industries with the lowest wages, but in all industries. The establishment of these minima throughout industry generally, and the consequent revision of ill-defined and unbalanced wage structures, would provide a very substantial degree of protection against deflation of straight-time hourly earnings in the reconversion period. These ends can, of course, best be accomplished by collective bargaining, and legislation of the sort here envisaged should be regarded chiefly as an aid to that process.

We draw attention to these legislative possibilities only because our own experience in the field of wage stabilization and disputes has indicated the causes of certain weaknesses in the national wage structure whose correction is desirable in the interests both of stabilization and of peaceful labor relations.

Pending the resumption of free collective bargaining on wages, industry and labor together, through collective bargaining within the framework of the stabilization policy, and through consideration of the directions in which that policy should now be pointed, can contribute immeasurably to the solution of the problems confronting us. We have tried to sketch the nature of these problems. We propose as a tripartite agency to confer with industry and labor groups on specific aspects of these problems, and to explore the advisability of a more general industry-labor conference to deal with basic principles and mutual obligations which, when formulated, might be incorporated in a national agreement.

It is our opinion that such an agreement on principles and obligations would immeasurably facilitate the solution of the problems that lie ahead, and may be indispensable to any sound solution of them.

William H. Davis.
George W. Taylor.
Lloyd K. Garrison.
Frank P. Graham.

APPENDIX A

AN ANALYSIS OF THE PROBLEM

BY FRANK P. GRAHAM

In this introductory analysis of the American Federation of Labor petition and the Congress of Industrial Organizations' cases, calling for a revision of the Little Steel formula, it is necessary to define the problem in the context of the immediate past and the immediate future. The National War Labor Board, for its part in the national economic stabilization program, has had the responsibility of administering wage policies within the framework of the acts of Congress, the executive orders of the President, and the directives of the Director of Economic Stabilization. At the outset of its work in 1942, and in advance of any act of Congress or executive order for explicit wage controls, the Board had the responsibility of developing a wage policy, case by case, as part of its duty under the national agreement of labor and management and the consequent executive Order No. 9017, to settle labor disputes by peaceful means. Under this Order and the general provisions of the Emergency Price Control Act of January 30, 1942, the Board made limited wage increases in a comparatively small number of dispute cases on such grounds as manifest injustice, increases in the cost of living, substandards of living, and the imperative necessities of maximum production for the war. Under the threat of what appeared to be the beginnings of a disastrous inflationary spiral, the President, in a public message on April 27, 1942, called for a seven-point stabilization program including prices, salaries, wages, taxes, savings, bond buying, and debt payments. One part of this program called for the stabilization of wages at existing scales. No act of Congress implemented the message until October 2, 1942.

Meantime, without an authoritative blueprint, the Board was confronted with the crucial Little Steel cases involving demands for a wage increase of one dollar a day to compensate the steel workers for the rise in the cost of living and for a lack of overtime earnings. Without precedent from the last war, and without congressional or executive mandate at that time in this war, the Board came face to face with the national necessity of laying the cornerstone of the framework of a national wage policy. The members of the Board, upon whom the responsibility fell in the midst of a congested calendar, wrestled with four basic questions:

I. Should there be an over-all general wage freeze as implied in the message of April 27, 1942, that wages should be kept at existing scales?

In answer to this question the Board decided against a wage freeze as unjust, unwise and impracticable. The Board held that to freeze wages was to freeze injustice and to impair democratic morale in the prosecution of the war. Subsequently, the Congress and the President, as the controlling and final authorities, decided against the freezing of wages and for the stabilization of wages and prices.

II. Should wages be tied directly to the cost of living so that periodically and automatically wages would be increased with the rise in the cost of living?

The Board held that wage increases which attempted to keep pace with the cost of living would be deceptive because the net result would be to take away from the workers with the left hand, by increases in prices, the wage increase awarded by the right hand. The resulting inflation would injure all workers and consumers except speculators and profiteers and would also be demoralizing to the people's all-out effort for the war.

III. Should there be a fixed standard for measuring wage increases to compensate for the increased cost of living?

In the formulation of its part of the national economic policy, the War Labor Board made it clear that wages and prices are vitally interrelated in an equitable stabilization program, but that wages, as noticed above, cannot constantly increase with prices without an inflationary spiral which decreases the real wages of all workers. To protect the workers and consumers, who constitute the American people, against the cruel disasters of inflation, the Board eliminated the consideration of any absolute and automatic connection between wages and prices. The nation needed not a moving inflationary yardstick, but a stabilizing fixed standard for measuring wage increases to which the wise and just could repair in the midst of the war. The Board held that the standard must really stand in the interest of the real purchasing power of the consumer's dollar. To fail to formulate or to refuse to accept a stable standard is to reject stabilization itself. Stabilization cannot be a house built upon sands which shift with the winds of pressure; but must be a stable structure which rests upon the solid rock of facts and fairness.

The Little Steel formula was based on two simple foundations. The first foundation was the fact that the cost of living had gone up to 15 percent between January 1941, the approximate date when the stable relation of the 2-year-old parallel lines of prices and wages was broken, and May 1942, the approximate date of the President's message calling for economic stabilization. The second foundation was the fact that nearly two-thirds of the American workers in manufacturing industries had already received a 15 percent increase in wage rates. Therefore, the other one-third, in completion of the wage cycle already under way, and as a matter of justice, should receive general wage adjustments up to 15 percent. The controls of wage stabilization, however, were limited to dispute cases. The Board had no control over wage increases made voluntarily by management or by agreement between labor and management.

IV. Should the wage stabilization policy have as a component part intelligent and equitable flexibility to correct inequities other than those due to changes in the cost of living?

The Board, on its own responsibility, and then the Congress and the President, in public laws and executive orders, provided for flexibility in wage stabilization. In order to stop the increasingly large and unstabilizing number of wage increases voluntarily made by management outside the authority, and inconsistent with the policies of the War Labor Board, and to give the President wider control over prices, the Congress passed the Stabilization Act of October 2, 1942. This act required the President to stabilize all wages and prices at the level of September 15, 1942, as far as practicable, but provided, as a matter of equitable flexibility, that wages could be increased above the level when found necessary "to correct gross inequities or to aid in the successful prosecution of the war."

In carrying out this law the President issued Executive Order 9250 on October 3, 1942, which created the Office of the Director of Economic Stabilization, and placed all wages in American business and industry, except railroads and agriculture, under the control of the War Labor Board. This Executive Order included the flexible provisions that wages could be increased above the September 15, 1942, level to correct maladjustments (based on the Little Steel formula), gross inequities, inequalities, substandards of living, or to aid in the successful prosecution of the war. Wage increases involving price increases were thenceforth subject to the approval of the Director of Economic Stabilization. It is worthy of note, incidentally, that in only 12 instances have increases made by the War Labor Board been disapproved by the Director.

The War Labor Board, staffed to handle a small case load of dispute cases was, quickly enlarged to handle greatly increased loads, so that by December 29, 1944, they had reached a total of 364,841 cases, including 15,577 disputes. Of this grand total of 364,841 cases, a total of 349,325 have been disposed of. The remainder constitutes a current total backlog of 15,516 of which 3,011 are dispute cases. The responsibility of the Board was broadened almost overnight to include the formulation of procedures, the selection of competent staffs, and the tripartite administration of staffs and policies on the most dynamic sector of the homefront upon which have depended the economic stabilization of the nation and American production for the war on all fronts.

As a counter move to stop the pressure for an inflationary movement in the price of foods and other agricultural commodities, the President issued Executive Order No. 9328, on April 8, 1943, the "hold-the-line" order, which eliminated inequalities as a ground for a general wage increase, and limited the grounds for wage increases by the War Labor Board to (1) the correction of substanards of living and (2) cost-of-living adjustments under the Little Steel formula as then defined. The Board thereby ceased to have authority to modify the formula.

Executive Order 9328 contained further directions relating to price stabilization and reduction, to manpower controls, and to utility rates. To further these steps the Order vested in the Director of Economic Stabilization over-all jurisdiction over wages, salaries, prices, and manpower. On May 12, 1943, the Economic Stabilization Director issued a directive providing, as a matter of mere equitable adjustment, for wage increases by the War Labor Board up to the minimum of the brackets of sound and tested going rates in the labor market area. Allowances under the Little Steel formula having been practically exhausted, most general wage increases thenceforth were made under the bracket formula.

The allowable general increases made under the Little Steel formula and under the bracket system, individual and special increments in

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wages, made within existing wage structures, the longer workweek with overtime, and the higher wages resulting from the transfer of workers to higher wage industries and higher wage areas, are jointly responsible for the fact that the average weekly earnings of workers in all manufacturing industries increased 76.3 percent from January 1941 to October 1944 and the gross hourly earnings 50.9 percent. Regular employment during the war has obviously also contributed much to these increases in "take-home" pay.

Some emphasis has been placed on the fact that it is the money in the pay envelope that pays the bills. This is an oversimplification which fails to take account of higher skills, more responsibility, longer hours, harder work, human depreciation, and other factors. Stripped of overtime premium pay, and stripped of the increased earnings due to shifts of workers to higher wage industries, the resulting average straight-time hourly earnings up to October 1944 have increased 36.7 percent. Further stripped of night shift premiums and increased earnings due to promotions to higher paid occupations, the average straight-time hourly occupational earnings have increased, up to October 1944, and estimated 30 percent. Yet scheduled wage rates have increased not in excess of 20 percent.

The War Labor Board, in computing the amount due under the Little Steel formula, has used the January 1, 1941, average straight-time hourly earnings as a base. This base figure is multiplied by 15 percent, and from this gross allowable adjustment are subtracted any across-the-board general wage rate increases which the appropriate groups of employees have received since January 1, 1941. The net result is the amount due under the Little Steel formula.

The extent to which wage rate schedules are increased is a basically important factor in wage standards, because rates and the opportunity for earnings under those schedules are the backbone of the workers' earning power. If there be no overtime, or no shift differential, the worker has the wage rate schedules. If there be few merit increases, little upgrading, and few promotions, the worker still has the guarantee and protection of his scheduled wage rates. Wage rates are comparatively stable; earnings include "varables generally within the control of management." In the midst of a period of wage controls, rates, as the most basic and stable component for measurement, have provided the standard indispensable to stabilization. Increases not based on rates but incident to overtime, night shifts, special merit, upgrading and promotions, have helped to meet the rise in the cost of living without an automatic or periodic change in the formula for stabilization. The question inevitably arises, has the cost of living risen so disproportionately that a change in the formula, through revision of the rates themselves, is now due as a matter of justice and necessity for human well being and democratic morale?

This raises the crucial question as to the extent of the rise in the cost of living. According to the index of living costs of the Bureau of Labor Statistics, the prices of its standard commodities have risen an average of 25.5 percent to September 1944. Spokesmen for labor held that those figures were unrealistic, did not adequately take account of the disproportionate increases in the cost of food and clothing which bulk so large in the wage-earners budget, were unadapted to actual war conditions, and were far below the prices paid in the market. According to the Thomas-Meany report, the rise has been 43.5 percent to December 1943. According to the Murray-Thomas report, the rise has been 44.4 percent adjusted to March 1944. In view of the divergencies, William H. Davis, the Chairman of the President's Committee on the Cost of Living appointed a committee of detached and impartial experts, headed by Dr. Wesley C. Mitchell, to evaluate the Bureau of Labor Statistics Index. According to the Mitchell Committee, the index should be adjusted upward perhaps 3 and not more than 4 index points. While the Little Steel allowance for general wage increases is 15 percent, the increase in the cost of living, as computed by the Mitchell Committee, has been approximately 30 percent.

Five questions consequently arise:

1. In the consideration of the over-all stabilization program does a wage inequity presently inhere in the relation of wages, prices, profits and the provisions made for the security of agricultural prices and industrial profits?

2. Should the consideration of over-all equities include the consideration of the relation of average straight-time hourly earnings, as well as basic wage rate schedules, to the cost of living?

3. Do the changes in the relation of basic wage rate schedules, average straight-time hourly earnings, and prices, which have occurred since the Stabilization Act of Congress of October 2, 1942, now require increases in basic wage rate schedules as the basis of a revised Little Steel formula to compensate for the rise in the cost of living and any over-all inequity?

4. Would increases in basic wage rate schedules be absorbed without substantial price increases or would they result in increases in prices which would defeat their own purpose and upset the delicate balance of stabilization necessary for maximum effort and morale of all the people in total war?

5. To what extent should the present consideration of a revision of wage policy be related to steps toward partial and total reconversion?

The over-all answers to these last three questions, basically tied together, depend, in part, on information and authority beyond the knowledge and responsibility of the War Labor Board. The possible effects of a new series of general wage rate increases upon price and upon over-all stabilization is not within the knowledge of the War Labor Board. The interrelations of wages and prices to over-all national stabilization and reconversion require consideration by all the responsible public agencies for the over-all appraisal of the Director of Economic Stabilization and the President under the policies and authority of the Congress of the United States.

Meantime, the War Labor Board has the responsibility to consider, on the record of facts within its knowledge and jurisdiction, and report concerning any injustices and special hardships which may have resulted or may presently result from the Little Steel formula.

Responsible representatives of agriculture, labor, business, consumer interests, and the Government should, for the long run, plan now against the possibility of both inflation and deflation.

The potentially great American team should plan ahead with increased productivity, lower costs, lower prices, and higher wages to produce the adequate purchasing power necessary to provide for all the opportunity for productive work and a decent living as the American standard of a free people. By patriotic teamwork the American people have achieved a gigantic war production without parallel in history and upon which now turn decisively the mighty forward movements into Germany and across the far Pacific and to the central shores of the Philippines and to the very gates of Japan. With equitably adjusted stabilization policies and fair consideration of the returning soldiers and all the producing and consuming millions, America, by full production can win both the war and the peace. Next to winning the global war and the international organization of peace, the people of America demand cooperation in a national plan for the adequate purchasing power of the people to sustain and be sustained by full agricultural and industrial production. On such a sound economic base a free America can rise to the responsibility of her power and the opportunity of her greatness in winning the war for human liberty, in providing jobs for all, and in the organization and enforcement of peace in the world.

APPENDIX B

PART I.—HISTORY OF THE PROCEEDINGS WHICH GIVE RISE TO THIS REPORT

BY LLOYD K. GARRISON

By March 1943, most of the general wage increase permissible under the Little Steel formula (to compensate for increased living costs) had already been made. On March 16, 1943, the Labor members of the War Labor Board affiliated with the American Federation of Labor petitioned the Board to modify the Little Steel formula. Specifically, the petition asked the Board to:

1. Increase the allowance for maladjustments or cost-of-living from 15 percent to a new realistic figure based upon the actual cost of living to the worker.
2. Permit employers to apply the maladjustment principle thus modified without obtaining approval from the National War Labor Board.

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By a vote of 8 to 4, labor members dissenting, the Board voted down this petition.

The cost of living had been rising slowly, but steadily since the passage of the Act of October 2, 1942, and on April 8, 1943, the President issued his "hold the line" order (Executive Order 9328). This order, among other things, deprived the War Labor Board of authority to modify the Little Steel formula "as heretofore defined."

Beginning in the fall of 1943, and from time to time thereafter, a number of important disputes were certified to the Board in which general wage increases beyond those permissible under the Little Steel formula were demanded.

On October 16, 1943, the case of *General Motors Corporation* and United Electrical, Radio and Machine Workers of America, CIO, was certified to the Board. In this case the demand was for a wage increase of 17 cents per hour, together with a monthly cost-of-living bonus for each percentage rise in the cost of living after January 1, 1944. On October 28, 1943, another *General Motors* case involving the United Automobile, Aircraft and Agricultural Implement Workers of America, CIO, was certified. In this case the demand was for "a cost of living adjustment equal to the amount required to bring about the relationship between wages and the cost of living that existed at the time the WLB fixed the GM wages under the Little Steel formula last year." An escalator clause was likewise demanded. At various dates beginning on December 17, 1943, cases involving the major packing houses were certified (Swift, Armour, Cudahy, Wilson, and John Morrell). The United Packinghouse Workers of America, CIO, was involved in cases with all five companies; the Amalgamated Meat Cutters and Butcher Workers, AFL, with two of the five; and the International Brotherhood of Swift Employees (Independent) with Swift

& Co. only. The major demand in these cases was for a general wage increase of 10 cents per hour.

Each of these demands exceeded what could be granted under the Little Steel formula. The unions did not, however, at the time of the certification of these disputes, expressly ask the Board to seek authority for a modification of the formula.

Next came the *Steel* cases. On January 27, 1944, the Secretary of Labor certified to the Board disputes between the United Steelworkers of America and certain operating subsidiaries of United States Steel Corporation; Jones and Laughlin Steel Corporation; and the Youngstown Sheet and Tube Company.[1] In these cases the Union, proceeding under reopening clauses in the contracts, had served identical demands on the companies, including a demand for a general wage increase of 17 cents an hour.[2]

On February 7, 1944, the Board held a public hearing at which representatives of the United Steelworkers of America, and representatives of various companies which were alleged by the Union to be engaged in the so-called basic steel industry, discussed with the Board the nature of the issues in dispute and the procedure to be followed in handling those issues. At that hearing the Union explicitly conceded that the 17-cent demand could not be granted under the Little Steel formula, and that as to that issue the Union was asking the Board to recommend to the President that he confer upon the Board the necessary authority to grant the demand.

On February 9, 1944, the Labor members of the National War Labor Board affiliated with the American Federation of Labor submitted to the Board, on behalf of the Federation, a petition similar to the one which had been presented and rejected in March 1943. The Board, with labor dissenting, on March 15, 1944, tabled this resolution, without prejudice to its reconsideration at a later date.

Meanwhile, tripartite panels had been appointed in each of the groups of cases referred to above. In the steel cases preliminary public hearings, and much study and work on the part of the panel, were necessary in order to determine which of the more than 500 companies then involved[3] should be grouped together for purposes of hearing the merits of the issues, and how the cases of the remainder should be disposed of. When these determinations had been substantially completed, the Board was confronted with the necessity of reaching a final conclusion as to whether or not it would be appropriate for the Board to take evidence upon the demands of the American Federation of

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[1] On the same date the Director of the United States Conciliation Service informed the Board of the existence of some 500 similar disputes between the United Steelworkers of America and other companies (basic steel, steel fabricating, and miscellaneous).

[2] The same demands had been served in the cases already certified to the Board. Because of the identity of the demands, and the Union's insistence that they be granted in full, the Director of the Conciliation Service reported that further conciliation efforts would be useless. Accordingly, he asked the Board to consider assuming jurisdiction over all these uncertified cases. The Board voted unanimously to do so. (The War Labor Disputes Act provides in section 7 (a) (1) that "if in the opinion of the Board a dispute has become so serious that it may lead to substantial interference with the war effort" the Board may act "on its own motion," without a certification by the Conciliation Service.) Thereafter from time to time, as a result of further contract reopenings by the union, the Board by majority vote (industry dissenting) took jurisdiction of disputes involving the same issues between the United Steelworkers of America and a number of other companies. The total over which the Board retained jurisdiction including the cases originally certified, was 774. Full opportunity was given the companies to be heard on the question of jurisdiction, as a result of which it was found in a number of cases that the contracts had not been reopened or that for other reasons the cases were not properly before the Board.

[3] As stated in note 2 above, the total ultimately reached 774.

Labor and the United Steelworkers of America that the Board recommend to the President a modification of the Little Steel formula.

On March 22, 1944, the Board decided that it ought to receive and consider such evidence. The Board believed that, as the agency charged with the administration of the wage stabilization program, it was under obligation to listen to complaints that the program was operating in such a way as to create gross inequities; and that, if those complaints were found to have merit, the Board would be under a further obligation to bring the matter to the President's attention.[4] The question as to how the Board should proceed to hear these complaints, and as to the significance to be attached to the Board's decision to hear them, was settled as follows:

1. The panel in the Steel cases was instructed to receive evidence in the 17-cent demand.

2. A panel would be appointed to receive evidence on the American Federation of Labor petition, referred to above.

3. After considering the evidence the Board would determine whether or not to investigate further the question of seeking a modification of the wage stabilization policy, and, if such further investigation was deemed warranted, to give full opportunity "to all interested parties and groups to appear and submit data at public hearings before the Board."

4. It was recognized that the Board itself had no power to change the Little Steel formula. In order to avoid any misunderstanding as to its intentions, the Board expressly pointed out that:

> The Board can only recommend a change if, in its judgment, the formula is operating to create gross inequities, and if the Board is satisfied that changes could be made in the formula which would be consistent with the stabilization needs of the country and with the provisions of the Act of October 2, 1942. The fact that the Board is prepared to consider evidence submitted to the panels on demands which would involve a modification of the Little Steel formula, should not be taken as an indication of any present decision on the part of the Board as to whether it will or will not eventually seek a change in the Little Steel formula.

The industry members of the Board dissented from the first three procedural steps, on the ground that:

> The issue is vital not only to labor but to every segment of our national life. The industry members feel, therefore, that the matter is one for Congress to consider. Congress has the power and the command of resources which make possible the efficient gathering of essential data from sources not open to the War Labor Board in what would be for it a gratuitous effort.
>
> Congress is even now exercising its functions in the hearings[5] being conducted before the Senate Banking Committee. Labor's case for change in the law should be presented there.

The action of the majority of the Board did not, of course, imply that Congress was not the proper forum for a consideration of any required changes in the statutory law. The demands before the Board had been advanced in part by petition and in part through dis-

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[4] On an earlier occasion, when Executive Order 9328 was promulgated on April 8, 1943, the Board by unanimous action had made representations to the Economic Stabilization Director regarding the necessity of certain additions to the order. These representations resulted in the issuance of the May 12, 1943, directive inaugurating the so-called "bracket system" for determining interplant inequalities.

[5] These were hearings on the question of renewing the Emergency Price Control Act of 1942, as amended by the Stabilization Act of October 2, 1942. As described more fully hereinafter, on June 30, 1944, Congress renewed the act for another year without change in the wage stabilization provisions.

putes over which the Board had been given exclusive jurisdiction by Congress in the War Labor Disputes Act, and these demands had to do with alleged defects not in any Act of Congress but in executive regulations whose administration had been placed in the Board's hands. Under these circumstances, the majority of the Board considered that a clear obligation rested on the Board to explore the alleged inequities created by these regulations.

On the same day that the Board announced these procedural steps (March 22, 1944) a dispute was certified to the Board involving a demand for a 15-cent per hour general increase between the Aluminum Co. of America and the International Union of Aluminum Workers of America. Shortly prior thereto a group of glass cases had been certified to the Board (involving the Pittsburgh Plate Glass Co., the Libbey-Owens-Ford Co., the Independent Fourcault Window and Sheet Manufacturers, Four Companies, and the Federation of Flat Glass, Ceramic and Silica Sand Workers, CIO). In these glass cases, as in the Steel and General Motors (UE) cases, the demand was for a 17 cent an hour increase. A similar demand for a 17 cent an hour increase was advanced by the United Electrical Radio and Machine Workers of America, CIO, in the General Electric and Westinghouse cases, each of which was certified on May 23, 1944. All of these demands went beyond what could be allowed under the Little Steel formula, and were treated by the Board, as, in practical effect, a request for a modification of the formula.

In the hearings before the panel appointed to hear the American Federation of Labor's petition, 32 representatives of the Federation appeared and presented their views. The panel report summarizing all of their contentions was submitted to the Board on September 13, 1944. On the same date the "basic steel" panel report, dealing with 86 companies which had been grouped together for the purpose of hearing the 14 economic demands of the United Steelworkers of America, was submitted to the Board.[6] This panel had been continuously available to the parties from the time of its appointment to the completion of the hearings on July 12. The transcript of testimony covered 4,100 pages, and approximately 150 separate briefs and exhibits were filed by the parties. The report of the panel, which was fact-finding only, ran to 284 pages. In addition, lengthy supplemental reports were filed by the labor and industry members of the panel. All of this enormous and time-consuming labor was unavoidable in view of the number of companies involved and the extent and importance of the issues presented by the Union.

On receipt of these two major panel reports the Board immediately scheduled a series of public hearings extending from September 26, to October 5, 1944, inclusive, at which the Board heard representatives of the American Federation of Labor; the United Steelworkers of America, CIO, and the basic steel companies; the employers and unions involved in the General Motors, General Electric, Westinghouse, packing-house, aluminum, and glass company cases previously referred to; the United Office and Professional Workers of America. CIO, and the National Federation of Telephone Workers (Independent); and the National Association of Manufacturers and United States Chamber of Commerce.

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[6] There were 24 demands in all. The 10 so-called noneconomic demands were sent back to the parties, at the request of the Union, for further collective bargaining.

On September 22, 1944, a public hearing was conducted before the Board in the matter of the Annual Shipbuilding Industry Wage Review provided for in the Amendments to the Shipbuilding Zone Standards Agreements. Industry representatives (as members of the Shipbuilding Stabilization Committee) and representatives of the Metal Trades Department of the American Federation of Labor, the Industrial Union of Marine and Shipbuilding Workers of America, CIO, and the East Coast Alliance of Shipyard Independent Unions appeared and were heard. In addition to other demands, the CIO representatives asked for a general wage increase of 17½ cents per hour, while the American Federation of Labor and the East Coast Alliance asked for an unspecific general wage increase to compensate for the increased cost of living. The Board subsequently voted to retain jurisdiction of the issues of a general wage increase and to refer to its Shipbuilding Commission all other requests presented by the Unions.

Upon completing the various hearings referred to above, the Board began the deliberations which led to the submission of this report. At the outset of these deliberations the labor members of the Board affiliated with the American Federation of Labor reoffered their petition in substantially the same form as before.[7] The majority of the Board, all labor members dissenting, rejected the motion for approval of the petition, and resolved that:

> The Board will submit to the President through the Economic Stabilization Director a report setting forth pertinent data regarding the relationship of wages to the cost of living, and an appraisal of the nature and extent of alleged inequities created by the changes which have occurred. The Board is not sufficiently informed as to the possible effects of a modification of the Little Steel formula on the price structure, and on the national economy generally to warrant assurance that any modification could be made "consistent with the stabilization needs of the country and with the provisions of the act of October 2, 1942." [8] The Board will therefore not include in its factual report to the President any recommendations for action one way or the other with regard to the Little Steel formula.

THE NATURE AND EXTENT OF THE DEMANDS BEFORE THE BOARD

The demands for a change in the national wage stabilization policy have not been precisely defined in all respects, and they differ somewhat from each other. The American Federation of Labor's petition asks the Board to request the President to "realistically adjust the Little Steel formula with the increased cost of living," without stating what a realistic adjustment would be.[9] The demands in the cases are not, on their face at least, quite the same as that of the Federation, nor are they identical in all of the cases.

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[7] The text was as follows: "That the National War Labor Board request the President to issue an Executive order which will realistically adjust the Little Steel formula with the increased cost of living and permit employers and employees to effectuate the newly established policy by voluntary agreement without submission to the National War Labor Board."

[8] The quoted clause had reference to the Board's resolution of March 22, 1944. As described above, that resolution laid down the procedure for hearing the *Steel* cases and the American Federation of Labor petition, and stated that the Board could only recommend a change in the Little Steel formula if satisfied that the change "would be consistent with the stabilization needs of the country and with the provisions of the act of October 2, 1942."

[9] From the petition of October 9, 1944. The petitions of March 16, 1943, and February 9, 1944, were substantially the same in content.

In the *General Motors* case the United Automobile Workers, CIO, are asking, in substance, for an increase which would re-establish the relationship between wages and the cost of living, as of the date when the last increase was granted by the Board. In the other pending *General Motors* case the United Electrical, Radio and Machine Workers of America, CIO, are asking for a change in the wage policy which would permit the Board to order an increase of 17 cents an hour. In the *Steel*,[10] *Glass*,[11] *General Electric*, and *Westinghouse* cases increases of 17 cents have been demanded; in *Aluminum* 15 cents; in the *Packinghouse* cases 10 cents.[12]

The general aim in all these cases, however, as stated by Mr. Murray with particular reference to the *Steel* case, is "to change the national wage stabilization system set out in the so-called Little Steel formula"; [13] and, while the form of the change is not specified, the principal argument advanced for making a change is the rise in the cost of livng, so that in this respect the demands in the cases may be regarded as substantially the same as the American Federation of Labor's.

The base date from which the cost of living increase is measured under the Little Steel formula is January 1, 1941. In a joint statement presented to Congress in connection with the renewal of the Stabilization Act, the American Federation of Labor, the Congress of Industrial Organizations and the Railway Labor Executives Association asked for the restoration of the wage-price relationship which existed on September 15, 1942.[14] In the *General Motors* case the base proposed by the Automobile Workers for the disposition of their particular demand was September 26, 1942 (the date when the last increase was granted by the Board). On the other hand, the cost of living material contained in the Thomas-Meany and Murray-Thomas reports, which has been cited constantly in support of the American Federation of Labor petition and of the demands in the *Steel* and other cases, uses the January 1941 base. And it can certainly be said that the most frequently expressed aim of the various labor representatives and the one most strongly urged upon the Board, is to substitute for the January 1941–May 1942 cost-of-living yardstick in the Little Steel formula a new yardstick incorporating the increase in living costs from Jannary 1941 to the date of the change in the formula, whatever that date might be.

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[10] The request the Union made of the Board in the *Steel* case is as follows: "We therefore request the National War Labor Board to recommend to the President of the United States that he exercise the authority vested in him under the October 1942 law to direct the National War Labor Board to order the steel companies involved in this proceeding to grant the Union's request of a general wage adjustment of 17 cents per hour" (Union Exhibit A, p. 53). Similar language is used in the *General Electric* and *Westinghouse* cases (Union brief, p. 9) and (though keyed to a different amount) in the *Packinghouse* cases involving the United Packinghouse Workers of America, CIO (Union brief, p. 90).

[11] In the *Glass* cases involving the Federation of Flat Glass, Ceramic, and Silica Sand Workers, CIO, the demand is for 17 cents. The demand in the case involving the American Flint Glass Workers' Union, AFL, is for 15 cents to hourly-rated employees and 15 percent to pieceworkers.

[12] In 2 of the 5 *Packinghouse* cases in which the Amalgamated Meat Cutters and Butcher Workmen, AFL, is involved, the latter union seeks to justify its demand for 10 cents per hour within the existing wage stabilization policy (Union brief, pp. 5–36). An increase of 17 cents per hour in the *Steel* cases would constitute a total rise of approximately 40 percent in wage rates over the January 1941 straight time hourly earnings while a 10 cent per hour increase in the *Packinghouse* cases would be an approximate increase of 30 percent over the January 1941 straight time hourly earnings.

[13] Mr. Philip Murray stated in a public hearing before the Board, "I am frank in admitting that our organization is attempting to change the national wage stabilization system set out in the so-called Little Steel Formula." (Steel Transcript, February 7, 1944, p. 44.)

[14] The text is set forth in pt. II (c) hereinafter.

The change, so expressed, would represent not only a change in the 15 percent figure to a new percentage figure; it would also represent a change in the purpose of the formula. The purpose of the formula was to permit a minority group of workers, who had lagged behind in the race between prices and wages from January 1941 to the start of stabilization in May 1942, to have their peace time standard of real wages in January 1941 restored before applying to them the stabilization rules under which the cycle of wage-price increases was to be terminated. The purpose of the desired change in the formula is to permit wage increases to be made generally throughout the economy in the hope of restoring what labor believes to be an impairment in the peace-time standard of real wages since the stabilization rules were applied.

PART II.—HISTORY OF THE STABILIZATION PROGRAM

Establishment of the National War Labor Board to Deal With Disputes (Jan. 12, 1942)

The Board was established by the President following a conference of representatives of industry and labor which met at the call of the President on December 17, 1941. As a result of that conference it was agreed that "for the duration of the war there shall be no strikes or lockouts, and that all labor disputes shall be settled by peaceful means, and that a National War Labor Board be established for the peaceful adjustment of such disputes."[15] Pursuant to this agreement the National War Labor Board was established on January 12, 1942, with equal representation of industry, labor and the public. From that time to the passage of the Stabilization Act of October 2, 1942, the Board (like its predecessor, the National Defense Mediation Board) dealt only with disputes, including wage disputes, certified to it by the Secretary of Labor. It had no authority over voluntary wage adjustments.

The Emergency Price Control Act (January 30, 1942)

In the settlement of wage disputes the Board inevitably had to face the problem of stabilization. Less than three weeks after the Board's establishment Congress passed the Emergency Price Control Act of January 30, 1942, which provided in section 1 (*a*) that:

> It shall be the policy of those departments and agencies of the government dealing with wages, within the limits of their authority and jurisdiction, to work toward a stabilization of prices and cost of production.

The International Harvester Co. Case (April 15, 1942)

The *International Harvester Company* case[16] was the first significant case in which, pursuant to the mandate of Congress, the Board undertook to apply stabilization principles. That case had been pending before the National Defense Mediation Board at the time of the

[15] From the preamble of Executive Order 9017 dated January 12, 1942, which established the Board.
[16] 1 WLB 112.

War Labor Board's creation, and the latter took it over from the former agency. On April 15, 1942, the Board awarded a general increase of 4½ cents, as recommended by a tripartite panel.[17] The Board found that "upward changes in the cost of living since the last wage adjustment in the industry" justified the increase. The opinion laid down these principles:

1. To prevent inflationary spirals, it must be recognized that wages cannot be automatically adjusted to increases in living costs [18]

This principle has become a foundation-stone of the wage stabilization program. On May 2, 1942 the President wired the Shipbuilding Wage Stabilization Conference at Chicago urging the voluntary deletion of "escalator" clauses from the then existing collective agreements in the shipbuilding industry. These clauses provided for the making of automatic wage adjustments to keep pace with increases in the cost of living index published by the Bureau of Labor Statistics. In his telegram the President said:

> There is no surer way to undermine the standards achieved by labor than to fail in our common effort to control the cost of living. Wage earners must do their part, by agreement, to stabilize wages or else the very standards for which we have striven so long will be eaten away by increased costs of living.
>
> * * * * * * *
>
> The situation that now confronts you is that the full percentage wage increase for which contracts call and to which by the letter of the law you are entitled, is irreconcilable with the national policy to control the cost of living * * *
>
> * * * * * * *
>
> Under these circumstances, I suggest to the stabilization conference that you put your heads together and try to work out a plan by which this conflict may be resolved so that the wage standards of the workers in the shipbuilding industry and in other industries, and the living standards of all persons of modest income may be preserved against an inflationary rise in the cost of living.

The unions and employers patriotically responded to the President's request, and the escalator clauses were removed. Thereafter it became a settled stabilization rule, accepted by all parties concerned, that such clauses would not be recognized or enforced during the war.[19]

This did not, of course, mean that wage levels would never be reconsidered however much the cost of living might soar. But it did mean that a supreme effort would be made to keep both wages and prices stable and that in that effort any direct connection between the two, even though established by contract, would have to be foregone.

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[17] The demand had been for 12½ cents.

[18] The opinion said: "The real wage levels which have previously been arrived at through the channels of collective bargaining and which do not impede maximum production of war materials shall be reasonably protected. This does not mean that labor can expect to receive throughout the war upward changes in its wage structure which will enable it to keep pace with upward changes in the cost of living." The opinion also said that wage adjustments for increased living costs should be made "to the extent it can be done without inflationary effects" (p. 120).

[19] After the passage of the Stabilization Act of October 2, 1942, the Board on November 26, 1942, disapproved an escalator clause in the *Pyrites* case, infra, and on December 15, 1942, adopted General Order 22 prohibiting the enforcement of such clauses "regardless of when the agreement was made" (except where the adjustment would not increase rates beyond 15 percent of the January 1941 straight-time average hourly earnings). Executive Order 9250, title III, section 3, dated October 3, 1942 had authorized such action by providing that no wage agreement "which is inconsistent with the policy herein enunciated" should be enforced except with the Board's approval.

2. *Every attempt should be made to protect the real wages of labor to the point that they do not drop below a standard of living compatible with health and decency*

This principle, which recognizes the need of wage adjustments to prevent "substandards of living," has also been an essential feature of the wage stabilization program, from its inception down to date.

3. *To the extent it can be done without inflationary effects * * * fair and reasonable upward wage adjustments should be made as an offset against increases in the cost of living*

After the President's message of April 27, 1942, had called for the stabilization of both prices and wages, the Board in the *Little Steel* case applied the foregoing principle of the *Harvester* case to those who had not received increases equal to the rise in the cost of living from January 1941 to May 1942.

The President's Message of April 27, 1942

On April 27, 1942, the President set forth in a message to Congress a seven-point program to stabilize the cost of living. In this message he said:

> The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral. And we can face the fact that there must be a drastic reduction in our standard of living.
>
> * * * * * * *
>
> There are obvious reasons for taking every step necessary to prevent this rise I emphasize the words "every step" because no single step would be adequate by itself. Action in one direction alone would be offset by inaction in other directions. Only an all-embracing program will suffice.
>
> * * * * * * *
>
> 1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
> 2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers, and manufacturers pay for the things they buy; and ceilings on rents, for dwellings in all areas affected by war industries.
> 3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
> 4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.
> 5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings instead of using these earnings to buy articles which are not essential.
> 6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.
> 7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War bonds.
>
> * * * * * * *
>
> I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the great objective of keeping the cost of living down.
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> * * * * * * *

In respect to the third item, seeking to stabilize remuneration for work, legislation is not required under present circumstances. I believe that stabilizing the cost of living will mean that wages in general can and should be kept at existing scales.

* * * * * * *

All strikes are at a minimum. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration date of those contracts. The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of substandards of living. I repeat that all of these processes, now in existence, will work equitaby for the overwhelming proportion of all our workers if we can keep the cost of living down and stabilize their remuneration.

As shown by this message the President did not yet contemplate the necessity of imposing controls over voluntary wage adjustments, or the fixing of specific standards to govern in dispute cases. His message simply expressed the conviction that wages in general could and should be kept at existing scales if the six other measures which he listed were taken; and he evidently looked to the War Labor Board to play a leading role in stabilizing the existing scales by the examples which the Board would set in disposing of wage disputes.

The Little Steel Case, July 16, 1942

The *Little Steel* case [20] was pending before a panel of the War Labor Board at the time the President issued his message of April 27, 1942. It was necessarily considered by the Board in the light of the President's seven-point program, in which he called among other things for a stabilization of wages, with "due consideration to inequalities and the elimination of substandards of living."

In the Chairman of the War Labor Board's opinion, handed down with the decision on July 16, 1942, the chairman described the nature of the case as follows: [21]

Since the announcement of the seven-point program, the Board has decided a number of cases in which it has allowed wage increases to adjust inequalities within the particular wage structure under consideration. In some of those cases it has refused wage increases that would have led to a higher level of wages throughout an industry or area. And it has in certain cases given particular attention to the lower wage brackets which might fairly be regarded as inadequate to produce decent standards of living.

The present case is the first one in which the Board has been confronted by a demand for a general wage increase affecting a widely extended and substantially equalized wage structure throughout an industry, and in which the lowest wages are above that level which the Board has thought of as too low to afford a decent living standard.

In dealing with this demand the Board began by affirming the principle (already announced in the *Harvester* case and applied by the President in dealing with the shipbuilding escalator clause) that any direct connection between wages and living costs must be severed in the interests of stabilization. The Board rejected the Union's demand for a wage increase of $1 a day to compensate for the increased cost of living since the last general wage increase received by the steelworkers in April 1941. "Such a wage increase," said the Vice Chairman in his opinion, "would be entirely incompatible with the President's stabilization policy." [22] The Vice Chairman pointed out that the

[20] *In re Bethlehem Steel Corporation, Republic Steel Corporation, Youngstown Sheet and Tube Co., Inland Steel Co., and United Steelworkers of America* (CIO), 1 WLR 325.
[21] 1 WLR 325, 329.
[22] 1 WLR 325, 337.

April 1941 real wage could not be taken as a peacetime standard to be preserved against any rise in living costs "since the country was then in the midst of girding itself for war and the race between wages and the cost of living had already begun." [23] This race between wages and prices had started shortly after January 1, 1941, following a period of several years of relative stability in both wages and prices. As the Vice Chairman pointed out, earnings as of January 1941 "had, therefore, a rather constant purchasing power. Workers knew pretty well what their money would buy." [24] But after January 1941 the race began. By May 1942, the month following the President's stabilization message, the cost of living index had risen approximately 15 percent above the stable level of January 1941.

During 1941 and the spring of 1942, general wage increases had been secured by workers in most American industries. By May 1942 "a cycle of adjusting our domestic living to a war time economy had in a sense been completed.[25] The President in his message of April 27, 1942 called for action to halt the rise of both wages and prices." At the same time, however, the President indicated that it was not his intention to freeze wages without room for the adjustment of inequities. As the Chairman said in his opinion:

> We agree with the contention of the union that the policy declared by the President involved a deliberate choice to reject any arbitrary freezing of wages and to leave wage adjustments, where agreement could not be reached by collective bargaining, to final determination by the War Labor Board. The union has declared its acceptance of the President's seven-point stabilization program in full, and has said that it does not contend that all items in the program must be accomplished before wages can be stabilized. In return the steelworkers have the President's assurance, given to the whole country in his address to the nation of April 28, that "I shall use all of the executive power that I have to carry out the policy laid down." [26]

Thus the Board, while determined to do its part in preventing a resumption of the cycle of wage and price increases which had run its course from January 1941 to May 1942, recognized also an obligation to correct inequities by appropriate wage adjustments.

One of the very real inequities requiring correction was the situation of the minority of workers who in the race between wages and prices from January 1941 to May 1942 had not received general wage increases equal to the 15 percent rise in the cost of living during that period. The steelworkers were found to be in this minority group. The Board accordingly granted them a general wage increase, which, with the increases they had received since January 1941, would equal 15 percent of their straight-time earnings on January 1, 1941. The steelworkers had lagged behind other American workers in the receipt of adjustments necessary to make up the impairment of their real wages which was suffered between January 1941 and May 1942. The increase awarded by the Board was to make up for that lag. Increases of this sort, the Board said, were to "wind up" the cycle of wage-price rises. Making up the impairment of real wages between January 1941 and May 1942 which had been suffered by the steelworkers and other groups could be effected without starting a new race between wages and prices; and equity required that adjustments of this sort be made.

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[23] 1 WLR 325, 337.
[24] 1 WLR 325, 335.
[25] 1 WLR 325, 336.
[26] 1 WLR 325, 329.

The decision thus took the January 1941 real wage as the peacetime standard, to be maintained by correcting any impairments in the standard occurring between that date and the start of the stabilization program in May 1942, at which time the direct connection between wages and prices was to be severed and all efforts were to be made to check any further rise in either. As to the maintenance of these standards the Chairman said:[27]

Because of the need for maximum war production it is necessary that fair and equitable labor standards should not be broken down. All the history of industrial production shows that because of their contribution to efficient production, if for no other reason, achieved standards should be maintained. That was the declared policy of the Nation during the last war and it was reiterated by the Advisory Commission to the Council of National Defense at the beginning of the lend-lease program preceding this war. Not to protect those standards would justly give rise to a sense of insecurity and frustration among the workers who remain at home; and it is only fair to the workers who are drawn into the fighting services that their standards should be protected while they are away.

Indeed it may be said that the main reason why we seek to prevent the cost of living from spiraling upward is that an inflationary price rise destroys everyone's standards, not equally but unequally and irrationally and with peculiar hardship upon the lower income groups. A wage increase granted to standard wage earners would not truly maintain their standards if it were to be followed by further increases in the cost of living; and such a renewal of the race between wages and prices would impose cruel hardships on substandard wage earners. To protect the workers' own standards it is, therefore, essential that in this case the wage adjustment should not be one that will lead to another cycle in the upward movement of prices.

The exact form of the Board's decision was stated as follows:[28]

In full recognition of its grave responsibility to the Nation, and for reasons later detailed in this opinion, the National War Labor Board has determined that the following guiding principles should be applied in evaluating claims for wage increases:

(1) For the period from January 1, 1941, to May 1942, which followed a long period of relative stability, the cost of living increased by about 15 percent. If any group of workers averaged less than a 15 percent increase in hourly wage rates during, or immediately preceding or following, this period, their established peacetime standards have been broken. If any group of workers averaged a 15 percent wage increase or more their established peacetime standards have been preserved.

(2) Any claims for wage adjustments for the groups whose peacetime standards have been preserved can only be considered in terms of the inequalities or of the substandard conditions specifically referred to in the President's message of April 27, 1942.

In the recent proceedings before the Board representatives of the American Federation of Labor and of the C. I. O. unions in the pending cases have strongly urged that the Little Steel formula was adopted by the Board on two express assumptions: (1) that the other six steps in the President's seven-point program would be fully carried out; (2) that the cost of living would not continue to rise. It was further urged that the six steps were not fully carried out; that the cost of living has continued to rise; and that the Board in the Little Steel case had stated its intention, under such circumstances, of reexamining the formula.

[27] 1 WLR 325, 335.
[28] From Vice Chairman Taylor's opinion, 1 WLR 324.

There is no doubt that the Board like the President, regarded the success of wage stabilization as dependent upon the carrying out of the other six steps, and that they looked upon all seven as constituting a unified program. The President's views have already been indicated in the extracts from his message heretofore set forth. The Chairman of the Board, in his Little Steel opinion, said: [29]

The Board acts on the assumption that prices and living costs will now be stabilized under the President's seven-point program.

The vice chairman in his opinion said: [30]

By accepting its responsibilities, labor will have the opportunity for leadership in the fight against economic instability. For with labor meeting its obligations, it has a right to insist that vigorous steps be taken to effectuate every point of the seven-point program. This is a time when labor statesmanship can serve the country well * * *.

The President has set forth, in his seven-point program, a plan of action to prevent domestic economic instability. It can be carried out now if every citizen stands up to his responsibility. Those seven points chart the road to economic stability in wartime. We will fail to achieve that goal, however, unless all civilian interests accept fully the restraints and the sacrifices which constitute their share of the program.

There is no doubt also that the Board expected that everything possible would be done to stabilize the cost of living; the foregoing passages, and others which will be cited, bear witness to that.

Did the Board hold out assurances in the Little Steel case that the formula would be revised if the cost of living continued to rise? As already noted above, the Board reaffirmed, in explaining the basis of the decision, the principle that the direct connection between wages and living costs should be severed in the interests of stabilization. Other passages in the opinions emphasize that point. Thus the chairman stated that the yardsticks of inequalities, substandards, and the Little Steel formula, would "lead to a 'terminal' for the tragic race between wages and prices." [31] The vice chairman said: [32]

What the National War Labor Board must not do, and what it avoids doing in this case is to start another lap in the race between prices and wages. Another cycle of general wage increases started at this time would seriously threaten the chance to stabilize the cost of living * * * The entire national economic policy is unmistakably based upon the general maintenance of wage rates at existing scales as a necessity for the stabilization of our domestic economy in the interest of winning the war.

It is clear from the Little Steel case that the Board, while hoping and expecting that living costs would be stabilized in accordance with the President's program, rejected the idea that the Little Steel formula would be automatically revised to keep pace with increases in living costs. On the other hand, quite clearly also, the Board expected that if the program failed to check the rise in the cost of living, there might come a time when the Little Steel formula would need to be reexamined, the question being one of the degree of disparity between wage levels and price levels.

Both of these views were reaffirmed in the following passages from Dean Morse's opinion in the *Remington Rand* case,[33] issued on July 27,

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[29] WLR 325, 329.
[30] WLR 325, 339.
[31] 1 WLR 325, 331.
[32] 1 WLR 325, 337.
[33] 2 WLR 137, 140.

1942, and from Dr. Graham's opinion in the *Aluminum Company* case,[34] issued on August 18, 1942. Dean Morse said:

Contrary to some reports, it (the Little Steel formula) does not guarantee to labor that existing standards of living will be maintained throughout the war. Even before the Little Steel decision, the Board had pointed out in several cases that labor cannot hope to receive wage increases which will enable it to keep pace with upward changes in cost of living.

* * * * * * *

The wage formula of the War Labor Board is no cure-all for inflation, but it is a definite and certain check on inflation as far as the wage factor is concerned. It must be looked upon as a concomitant of a broad-base tax policy and of a wide-scale and effective system of rationing and price fixing of those consumer goods, the prices of which are so controlling in the cost of living of the average citizen. Such adjustments in the formula as need to be made in light of future events and trends in the war economy of the country will be made by the Board.

* * * * * * *

Dr. Graham said:

In facing the alternative of having no standard for stabilization at all, or having the absolute standard of freezing wages, the Board sought to avoid the unintelligent drift, confusion, and potential disaster of the former and the unreason, injustice, and potential disaster of the latter * * *.

* * * In the Little Steel decision, Dr. Taylor, the vice chairman, in grappling with our most difficult wage case, worked out the general formula for stability and equity in the stabilization and adjustment of wages. This formula is based on faith in the approximate achievement of the President's seven-point program for the stabilization of the cost of living. If all agencies, all groups, and the will to win on the part of the united people sustain and carry forward the whole program, this formula for both stability and equity will do its part for total victory.

The President's Labor Day Message, 1942

During the summer and fall of 1942 both prices and wages continued slowly to rise. The chief rise in the cost of living was in food.

There were still no controls over voluntary wage increases, which appear to have been substantial in this period, due largely to manpower considerations.

On Labor Day, 1942, the President, in a message to Congress proposing amendments to the Emergency Price Control Act of January 1942, took steps to check the rise in both wages and prices. In this message, and in an accompanying radio address to the Nation, he stressed the urgent need of action.

Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increase in farm prices and in wages, and by an ever-increasing pressure on prices resulting from the rising purchasing power of our people.

He also stressed the interdependence of wages and prices:

I have asked the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose would be to hold farm prices at a parity or at levels of a recent date, whichever is higher. The purpose should also be to keep wages at a point stabilized with today's cost of living. Both must be

[34] 2 WLR 311, 319.

regulated at the same time, and neither can or should be regulated without the other.

At the same time that farm prices are stabilized, I will stabilize wages.

The President recognized that, if wages were to be kept level, so in justice to the workers, must prices:

If we are to keep wages effectually stabilized, it becomes imperative, in fairness to the workers, to keep equally stable the cost of food and clothing and shelter and other articles used by workers.

* * * * * * *

The cost of all food used by wage earners—controlled and uncontrolled—has been going up at the rate of 1¼ percent per month since the price ceilings were set in May 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 percent over the level which existed when the ceilings were set.

This would be equal to imposing a 15-percent sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

At the same time he indicated, following the principle he had laid down in the case of the shipbuilding escalator agreement, and as the War Labor Board had done in the Harvester, Little Steel, Remington-Rand and other cases discussed above, that there should be no direct or automatic connection between wage levels and price levels, and that not every increase in the latter would warrant a revision in the former.[35] Thus he said to Congress, and in the same words to the Nation:

Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today—their ability to buy food and clothing and medical care—will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

However, if price increases were to reach a certain point wage increases would have to be permitted as a matter of justice:

If wages should be stabilized and farm prices be permitted to rise at any rate like the present rate, workers will have to bear the major part of the increase. This we cannot ask.

The Act of October 2, 1942 (Amending the Emergency Price Control Act of January 1942)

In this Act Congress declared that wages and prices should be stabilized so far as practicable as of September 15, 1942. This is still the law of the land; the September 15, 1942, date and all other basic provisions were retained by Congress in the renewal of the act last June.

The legislative history of the act indicates that Congress applied the same basic principles which had been laid down by the President, and also by the War Labor Board, namely:

(1) Wages and prices should be stabilized together. For this purpose Congress authorized the President "to issue a general order stabilizing prices, wages and salaries, affecting the cost of living; and * * * such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942."[36]

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[35] In the *Pyrites Company* case, 5 WLR 24, decided November 26, 1942, the Board, refusing to recognize an escalator clause, said (p. 26) that such a clause "assumes that wage adjustments should be made to compensate for cost of living increases which have occurred since the signing of a labor agreement or even before such a date, as in the present case. Such an approach was discarded by the Board in the Little Steel cases for reasons which were set forth in detail in the opinions in those cases."

[36] Executive Order 9250, later described, was the general order which was issued under this clause.

(2) There should be no absolute "wage freeze." With this in view, Congress authorized the President, after issuing his stabilization order, to "provide for making adjustments with respect to prices, wages and salaries, to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities."

(3) There should be no direct or automatic connection between wage levels and price levels.[37]

(4) But, if price levels should rise disproportionately, it might become necessary to raise wages. Congress deliberately refused to place any absolute ceiling on wages. In the House of Representatives section 4 of the act, as originally introduced, precluded any action under the act "with respect to wages or salaries which have now reached a 15 percent cost of living level above January 1, 1941." This provision was deleted before passage of the bill by the House, but the record does not contain any discussion of this action. The Senate, on its part, rejected an amendment by Senator Ball (which was supported by Senator Taft) [38] to write the Little Steel formula into law.

Senator Ball stated that Congress had "fixed the standards and the formula under which the prices of farm and other commodities are controlled, and the level at which ceilings apply;" that Congress should do the same thing for wages and salaries; and that unless Congress took such action there would be danger that if the cost of living increased, the Little Steel formula would be changed so as to permit corresponding increases in wages. The result would be an inflationary spiral. He argued that average weekly earnings were still far ahead of the increase in the cost of living and that under these circumstances there ought to be no room for change in the Little Steel formula.[39]

Senator Ball's amendment was defeated by a vote of 69 to 12.[40]

Executive Order 9250, Dated October 3, 1942

Proceeding under the authority vested in him by the act of October 2, 1942, the President, on the day after the passage of that act, issued Executive Order 9250, in which he provided, among other things, that no wage change should be made unless approved by the National War Labor Board. Thus as a result of the new national policy ushered in by the act of October 2, 1942, voluntary wage adjustments were, for the first time in our history, brought under governmental control; and the War Labor Board, which previously had had to do only with the settlement of wage and other disputes, and which had developed wage policies for that purpose only, was now assigned the heavy and unprecedented responsibility of passing upon all wage changes whether agreed to or not.

Upon the issuance of Executive Order 9250, the Board entered upon extensive discussions as to the manner in which this responsibility should be discharged. The Order had left with the Board a considerable measure of discretion by providing that:

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[37] Senator Taft's bill (S. 2755) which definitely tied wages to the cost of living, was not even reported out of committee or brought to a vote on the floor.
[38] 89 Cong. Rec. 7503.
[39] 89 Cong. Rec. 7503, 7890.
[40] 89 Cong. Rec. 7892.

* * * The National War Labor Board shall not approve any increase in the wage rates prevailing on September 15, 1942, unless such increase is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities; or to aid in the effective prosecution of the war.

On November 6, 1943, the Board issued a statement of policy defining the circumstances under which wage adjustments might be permitted in accordance with the several headings just quoted in the Order.

The Board's Statement of Policy of November 6, 1942, and the Developments Thereunder up to Executive Order 9328 of April 8, 1943

The November 6th policy statement dealt first with the "maladjustments" referred to in Executive Order 9250. These were defined by the statement as cost-of-living maladjustments, and as to them the Little Steel formula alone was to be applied. The statement said:

To correct these maladjustments, the Board will consider requests for general increases in straight-time rates up to 15 percent above the level prevailing on January 1, 1941. This policy sets a terminal point for general wage increases. It is not applicable to individual workers or to employees in particular job classifications. It will be applied only to groups composed of all the employees in a bargaining unit, in a plant, a company, or an industry, depending upon the circumstances of each case.

The statement proceeded to define the circumstances under which adjustments could be made to correct "inequalities and gross inequities"; to "eliminate substandards of living"; and to "aid in the effective prosecution of the war." Under these three headings, specified by Executive Order 9250, the Board in substance adopted the same standards for wage determinations which it had previously worked out in the handling of wage disputes prior to Executive Order 9250 and the act of October 2. The definitions set forth in the statement are not important here. The only point that needs to be stressed is that, since wage increases under these three headings had nothing to do with cost-of-living adjustments, they were necessarily made independently of the Little Steel formula and without regard to the limitations contained in that formula.

In applying its policy to both voluntary and dispute cases the Board was bound, by Executive Order 9250 and by the act of October 2, 1942, to bear constantly in mind the Congressional mandate that wages were to be maintained at September 15, 1942, levels "so far as practicable." The Board's feeling of obligation toward that mandate was expressed in the majority opinion in the *Four Meatpacking Companies* case, decided February 8, 1943, in which it was said: [41]

It has become increasingly evident that the stabilization of our domestic economy, as conceived by Congress and by the President, can only be achieved by a determination to maintain present levels. This applies to both wages and prices. * * * The National War Labor Board faces its responsibilities with the assurance of the Director of Economic Stabilization that such a stabilization of wages will be accompanied by a stabilization of prices.

In the Economic Stabilization Act the basis for the stabilization of our domestic economy is set forth. A simultaneous stopping of any general upward rise of wages, salaries, and prices was to be effected. Neither wages nor salaries were to be frozen at September 15, 1942, levels. Certain adjustments above those levels were contemplated. The nub of the program, however, is that such adjustments would be relatively small in total effect and would be controlled so that, in general, September 15 levels would be preserved.

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[41] 6 WLR 395, 400–402.

The date (on cost of living and earnings) does show, however, that wages in general can justly be stabilized at September 15, 1942, levels, although it should be frankly recognized that such stabilization demands a correlative stabilization of prices.

In this opinion the Board's concern over rising prices was made very evident, and in the first and third paragraphs quoted above there was an implicit warning that unless price increases were checked wage levels might have to be readjusted. This was an expression of the view, which runs all through the Board's history, as heretofore described, that, while there can be no direct or automatic connection between wages and prices, prices cannot be permitted to get too far out of line with wages without calling for a readjustment. The question from the beginning has been one of the degree of disparity between price levels and wage levels which would have to exist before a reconsideration of wage policy would be warranted.

Between October 1942 and March 1943 the cost of living and hourly earnings continued slowly to rise. The increase in living costs, and particularly in food, which continued to rise disproportionately to other items in the index, was of growing concern to labor; and the rise in both food prices and wages, indicative of a creeping inflation, was of growing concern to the administration. The possibilities of obtaining general wage adjustments to compensate for higher living costs under the Little Steel formula had by now been fairly well exhausted. This led labor to the conviction that the Little Steel formula must be amended. On the other hand, substantial general wage increases had been authorized or directed by the Board in a number of important cases to correct "inequalities" in wages between plants in a particular industry or area. This led to some anxiety on the part of the administration, which was seeking steps to bring about a more thoroughly effective stabilization of wages and prices. On March 16, 1943, the petition of the American Federation of Labor, asking the Board to amend the Little Steel formula, was presented to the Board and rejected. On April 8, 1943, the President issued Executive Order 9328, in which he directed the Board to authorize no further increase in wages except in accordance with the Little Steel formula "as heretofore defined by the National War Labor Board," or to correct substandards of living. These two events will now be described.

The American Federation of Labor Petition of March 16, 1943, and the Board's Action Thereon

The petition asked the Board to "increase the allowance for maladjustments or cost of living from 15 percent to a new realistic figure based upon the actual cost of living for the workers." The petition also asked that if this change were made, employers and unions should be permitted to apply the policy by agreement without submitting their agreements to the Board.

The Board, by a vote of 8 to 4, labor members dissenting, voted down this petition. At a press conference called by the chairman, the transcript of which was made public by the Board, the chairman explained his vote as follows:

* * * The cost of living allowance arose from the fact that in the Little Steel case we tried to break the connection between wages and the cost of living with the expectation and hope that the governmental policy of price stabilization, general economic stabilization, would be successful.

Now, my vote on the motion was against the proposal because I think that that policy has been successful enough so as to afford no warrant for a change of the cost of living allowance at this time. I think it must be obvious to anyone that if that policy breaks down, or if there is any radical change in it which results in substantial increases in the cost of living, then that will have to be taken into account by the War Labor Board in its application of the wage policy.

Dean Morse similarly expressed the view that the time might come when the Little Steel formula should be revised, but that the disproportion between wage levels and prices, whatever its exact measure might be, was not then such as to warrant breaking the formula. He said:

So it is the position of the public members of the Board that if the only grounds for asking for a wage increase are the grounds that the cost of living has risen above the 15 percent formula, we do not propose to vote for an increase on those grounds.

Now, if the time comes when the other agencies of the Government fail to control the cost of living with the result that the cost of living reaches a point where labor cannot maintain a decent standard of living necessary to maintain maximum production, then I will vote to break the formula. But that will be only after other agencies of the Government have failed to carry out their job. I am not going to make their work an impossible one by breaking that formula until they have had ample time and opportunity to check the increase in the cost of living. And the fact that, as some leaders of labor are telling me, that the cost of living has gone up 7 percent above 15 percent is not an argument sufficient in weight, in my judgment, to break that formula, at least at this time.

* * * * * * *

The public members, in decision after decision, have demonstrated that they recognize that labor in the low paid brackets will have to be taken care of on the basis of inequalities and inequities and substandard wages if and when evidence in the case shows that they labor under such a handicap, because the President has made it very clear that the War Labor Board is to correct such inequities.

Veto of the Bankhead Amendment, April 2, 1943

When the American Federation of Labor petition was being considered by the Board on March 16, 1943, as described above, the so-called Bankhead amendment was in the final stages of passage by Congress. This bill sought to amend the stabilization law by providing, in substance, that the various benefit payments received by farmers from the Government should not be taken into account in determining the amounts of the "parity" prices which they were entitled under the law to receive for their products. The bill, if it had become law, would have substantially increased the price of farm products.

On April 2, 1943, the President vetoed the bill. His veto message was of particular significance as reflecting the President's attitude at that time not only toward the whole stabilization program but toward the policies of the War Labor Board, including the Little Steel formula. The central propositions in the message may be summarized as follows:

(1) The act of October 2, 1942, authorized the Price Administrator to fix maximum farm prices which would reflect to producers the highest prices received from January 1, 1942 to September 15, 1942, or parity,[42] whichever was the higher. As a result of increased prices,

[42] "Parity" is the ratio of prices received by farmers to prices paid by farmers including commodities used in farm production, interest and taxes, and commodities used in farm living. For some commodities this ratio is measured by taking the average of 1909–14 as 100: for other commodities more recent periods have been designated by statute. In the pending *Steel* case the Union pointed out (panel report pp. 75–77) that increases in

and also of increased production, farm income in terms of purchasing power is at the highest peak in history.

(2) Some farms present special price problems. "But, as in the case of substandard industrial wages or industrial production involving abnormally high costs, we must deal with these situations specially on their merits and not imperil our stabilization program by general price or wage increases."

(3) The farmers, like every group, would suffer if the stabilization program were to fail.

(4) The only "practical basis" on which the program can proceed is "faithful adherence to the present balanced relationships between wages and prices. To change the present delicately balanced price relationships would not merely change, but would jeopardize the entire stabilization program."

(5) The War Labor Board is "resolutely adhering to the Little Steel formula which compensates labor, in its wage rates, for the increase in the cost of living which occurred between January 1, 1941 and May 1, 1942. The Board believes that if the formula is broken now it will start an inevitable inflationary spiral that would ultimately cancel out whatever gains labor has made, and place an intolerable burden on widows and old folks with fixed incomes, and on teachers and unorganized workers in low-paid occupations."

(6) "It will become impossible to hold this line if the cost of living is still further increased * * * by the action of the Congress in departing from its declared policy to stabilize all prices and wages."

(7) "If by this bill you force an increase in the cost of the basic foodstuffs, and as a result the National War Labor Board increases wages, no one can tell where increases will start or what those increased wages will ultimately cost the farmers and all the people of the Nation. If the price of food goes up, if wages rise, it will necessarily result in increasing the cost of our armaments, ships, and planes. We should have to borrow even greater sums to meet the increased cost of the war, and after the war an excessive burden of debt would have to be borne by all the people, including those now in uniform."

Executive Order 9328 of April 8, 1943

This order (often referred to as the "hold-the-line" order) was divided into five parts, the two most important of which dealt with prices and wages.[43]

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the cost of living to farmers are partially compensated for automatically under the parity principle by a rise in farm prices; that the share of farmers in the national income has increased by a relatively larger percentage in the period 1939–43 than any other major group, if corporate income be defined after taxes; that labor's share has shown the least increase; and that this deterioration in the position of labor relative to other groups is an additional ground for justifying a general increase in wage rates. Apart from some of the statistical difficulties (pp. 83 to 85), the War Labor Board believes that it is not in a position to attempt to determine what should be the proper division of the national income among major groups. As the President pointed out in the above message, "during much of the last two decades farm prices and farm incomes were inequitably low," and the present period may be regarded as a sort of catching up. This is but one sample of the difficulties the Board would confront if it were to undertake to weigh the relative equities of the different groups in our economy.

[43] Other portions of the order directed the attention of public agencies to the need of stabilizing and, where possible, reducing utility rates; authorized the Economic Stabilization Director to exercise all the President's powers under the act of October 2, 1942; and authorized the Manpower Commission to regulate all changes of employment "for the purpose of preventing such employment, at a wage or salary higher than that received by such new employee in his last employment, unless the change of employment would aid in the effective prosecution of the war."

1. As to wages, the War Labor Board was directed "to authorize no further increase in wages * * * except such as are clearly necessary to correct substandards of living," or as may be permissible under "the Little Steel formula as heretofore defined by the National War Labor Board for the rise in the cost of living between January 1, 1941 and May 1, 1942." The effect of this was to remove the Board's capacity (1) to change the Little Steel formula and (2) to grant wage increases to correct interplant inequalities.[44]

2. As to prices, the Food Administrator and the Price Administrator were directed among other things "to place ceiling prices on all commodities affecting the cost of living," "to prevent further price increases direct or indirect," and "to reduce prices which are excessively high, unfair, or inequitable."

In a public statement accompanying the "hold-the-line" order the President said:

> To hold the line we cannot tolerate further increases in prices affecting the cost of living or further increases in general wage or salary rates except where clearly necessary to correct substandard living conditions. * * *
>
> All items affecting the cost of living are to be brought under control. No further price increases are to be sanctioned unless imperatively required by law. * * *
>
> Some prices affecting the cost of living are already above the levels of September 15, 1942. All of these cannot be rolled back. But some of these can and should be rolled back. The order directs the reduction of all prices which are excessively high, inequitable, or unfair. The Stabilization Act was not intended to be used as a shield to protect prices which were excessively high on September 15, 1942.
>
> On the wage front the directions in the order are equally clear and specific. There are to be no further increases in wage rates or salaries' scales beyond the Little Steel formula, except where clearly necessary to correct substandards of living.
>
> * * * * * * *
>
> Under the act of October 2, 1942, Congress directed that so far as is practicable, wages, salaries, and prices should be stabilized as of the level of September 15. Under that direction inflation has been slowed up. Now we must stop it.

The Policy Directive of May 12, 1943

By Executive Order 9328 the Board was precluded from granting increases to correct interplant inequalities. After prolonged consideration the Board reached the conclusion that the process of correcting these inequalities, insofar as they represented gross inequities and not differentials normal to American industry, could not be stopped dead in its tracks without seriously impairing the war effort.

Extensive discussions between Board members and the Economic Stabilization Director led to the issuance by the Director of a policy directive on May 12, 1943, in which the Board's power to correct interplant inequalities was restored in a more limited form under the so-called "bracket system." Under this system, generally speaking, rates may be brought up only to the minimum of the sound and tested going rates for comparable occupations in the given labor market area.

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[44] Various forms of intraplant adjustments in the form of "promotions, reclassifications, merit increases, incentive wages, or the like" could continue to be made as in the past provided they did not affect prices or "appreciably" increase the "level of production costs" in the case of employers producing for a procurement agency.

The President's Veto of the Commodity Credit Corporation Bill, July 2, 1943

In vetoing the Commodity Credit Corporation bill, the President said that its effect would be to cripple the subsidy program and raise farm prices still further.[45]

In his veto message the President returned to the theme of his veto of the Bankhead bill and his statement accompanying the "hold-the-line" order—namely, that all sectors of the stabilization front should be held; that the balance was a delicate one; and that unless the rising trend of living costs could be definitely stopped and food prices pushed back there would be a strong case for wage increases, which would then in turn make it more difficult to hold the line at a higher level. In addition, he drew attention to the particularly difficult situation of millions of underpaid wage earners, of millions of families who had had no appreciable increase in their income, and of the millions who were on a fixed-income basis.

The President said in part:

> The cost of living is now about 8 percent above the level of May 1942, and about 6 percent above last September. There has been an increase in the average worker's weekly pay check since September. This increase has come primarily through longer hours and through the shift of workers into war industries from lower-paid civilian occupations, although increases in wage rates to correct inequities have played a part. But there are many workers who have enjoyed no increase in earnings.
>
> It is too easy to act on the assumption that all consumers have surplus purchasing power; and that the high earnings of some workers in munitions plants are enjoyed by every worker's family. This easy assumption overlooks the 4,000,000 wage workers still earning less than 40 cents per hour, and millions of others whose incomes are almost as low. * * *
>
> These millions are entitled to be protected against skyrocketing food costs. It is my duty to guard them against the ravages of inflation—and I shall guard them unless the Congress shackles my hands.
>
> The plea has been urged on behalf of industrial workers that if the cost of living is not cut to September, or even to May 1942 levels, wage rates should be raised to compensate. But to raise wages because living costs have risen will be at best only a temporary solution. * * *
>
> To prevent this spiral of rising costs and prices we must hold firm to the stabilization of wage rates. But to do this, we must assure workers that they can get a fair share of available goods on legitimate markets, and at prices "so far as practicable on the basis of the levels which existed on September 15," as prescribed by the act of October 2.
>
> Whatever theoretical choices may conceivably be open to us, practically we will have only two. We must keep the cost of living more nearly in line with the level prescribed in the law or we will not be able to hold the wage line or protect the millions of men and women living on low salaries and small fixed incomes. If wages rise, the cost of living will not stand where it is; it will go up and the inflationary spiral will gain strength.
>
> I do not think that a reduction of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living costs and push back the price to consumers of important key commodities in the family market basket.[46]

On the day that this message was presented to the House, the House sustained the veto by failing to repass the bill by the necessary two-thirds majority.[47]

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[45] 89 Cong. Rec. 7051.
[46] 89 Cong. Rec. 7054.
[47] The vote was: to over-ride the veto, 228; to sustain, 154.

War Labor Board Activities From the Summer of 1943 to the Renewal of the Stabilization Act in June, 1944

Beginning in October 1943, a series of major disputes in basic industries were certified to the Board in which the union made demands for general wage increases admittedly beyond the Little Steel formula. On February 9, 1944, the American Federation of Labor presented to the Board its second petition for a change in the Little Steel formula. As described in part II of this report, panels were appointed to hear the disputes and to receive testimony regarding the Federation's petition.

In the spring of 1944 in the midst of these panel proceedings, the renewal of the Emergency Price Control Act as amended by the act of October 2, 1942, came up for consideration in Congress. The action which Congress took will now be briefly reviewed.

THE STABILIZATION EXTENSION ACT OF JUNE 30, 1944 (RENEWING FOR ANOTHER YEAR WITH CERTAIN MODIFICATIONS THE EMERGENCY PRICE CONTROL ACT AS AMENDED BY THE ACT OF OCTOBER 2, 1942)

(a) The Views of Government Officials Regarding Renewal

In the hearings before the Senate and House Committees on Banking and Currency, the Price Administrator (Mr. Bowles), the chairman of the Federal Reserve Board (Mr. Eccles) and the Economic Stabilization Director (Judge Vinson) appeared in favor of a renewal of the stabilization law for another year without substantial change. Extracts from their statements, relevant to the wage policy, are as follows:

Mr. Bowles said: [48]

I believe that the experiment of legislating a little inflation would be a dangerous one, and that fairness does not require it. The balance between prices and wages is precarious at best, and any attempt to write into the law a guarantee against the possibility of hardship to anyone would certainly jeopardize and probably destroy that balance.

Mr. Eccles said: [49]

It is the duty of all those charged with public responsibility for holding the line against the pressures for higher prices and higher wages to see to it that nothing is done to impair the public confidence in the future buying power of the dollars invested in Government securities, life insurance, or other forms of savings. If that confidence were impaired there would be an increasing impulse to spend money instead of saving it. That would seriously affect the Government credit and the financing of the war. The stability of all credit, including Government credit, depends upon maintaining faith in the purchasing power of the dollar. If the public is assured by the extension of this legislation for a sufficient length of time, without crippling amendments, that the line will be held against inflationary forces, the problem of financing the war and refunding the public debt will continue to be met successfully. If the public is led to believe, however, that the price, wage, and rationing controls are going to be

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[48] Hearings before House Committee on Banking and Currency, 78th Cong., 2d sess., on H. R. 4376, p. 2123.
[49] Hearings before House Committee, pp. 1559–1561.

weakened, or not continued as long as may be necessary, confidence cannot be maintained in the purchasing power of our money.

Judge Vinson submitted a prepared statement to both committees In the course of the statement, and in the discussion following it, he opposed any upward change in the Little Steel formula. He said in part: [50]

We are no longer in the realm of speculation or hypothesis. We have made a record. We have fought a battle against a deadly enemy. The past 12 months marked the first time in the history of the United States as a Nation that we have ever checked this enemy during war. It is of critical importance to the future of the country and to the future of our economy that, having won the first battle we do not lose the war. The most critical period is yet to come. But we can only judge the future in the light of the past. Let us therefore survey the record.

In the year which has passed since the President issued his hold-the-line order, the price level has been stabilized. The cost of living is now 0.3 percent below the level prevailing April 8, 1943.[51] Wholesale prices are down 0.1 percent. These figures become especially significant when contrasted with an increase of more than 4 percent in the cost of living between October 1942 and April 1943.

I should state at this point that I have just received information that the cost of living figures for April 15, 1944, are up. They are up 0.6 percent over March 15, 1944. Of that increase 50 percent of it, according to my information, is due to the impact of the excise taxes, the increased excise taxes; and the other 50 percent, or 0.3 is due to increases in house furnishings, food, and clothing.[52]

Our battle to stabilize the family budget over the past two years has been won primarily on the food front * * *. The upward spiral of food prices has been checked. Since April 1943, when the hold-the-line order was issued, food prices have actually gone down by 4.3 percent.

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Mr. Chairman, as it stands today price control is a proven success. The job which the Congress assigned has been carried out and carried out extremely well. For its continuation, no significant change in the statute is required.

The record of the National War Labor Board in stabilizing wages has been equally impressive. * * * I think the National War Labor Board has done a tremendously successful job in administering a national wage policy firm enough to hold the line, and yet flexible enough to meet the varying conditions to which such a policy must be applied.

* * * * * * *

Even the official index, however, indicates that living costs have risen almost 10 percent since May 1, 1942. Superficially, then, it might be argued that we ought to let wages rise an additional 10 percent. But there are many factors of which such a simple conclusion would fail to take account.

Although cost-of-living adjustments are only permitted to the extent of 15 percent over the rates prevailing in a particular industry in January 1941, wages as a whole have risen far more than 15 percent. The best measuring rod by which to gage trends in straight-time hourly earnings of industrial labor is a weighted index which measures industrial wages according to employment in January 1941, thereby statistically discounting such factors as the transfer of workers to high paying war industries. Measured by that index, straight-time hourly earnings have increased about 32 percent above the level of January 1941, as against an increase of about 25 percent in the cost-of-living index over the same period of time.

But the important fact to remember is that, whatever index or measurement is used, prices have remained in a reasonably fair relationship with wages since October 1942 when, for the first time, we instituted control over all wages and all prices.

The laboring classes as a whole could not benefit from a renewal of the wage price spiral. Higher wages cannot create more food, more clothes, or more shelter in a wartime economy. Supplies of essential goods are limited by the

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[50] Hearings before House Committee, pp. 2331, 2336, 2338 to 2340.

[51] Judge Vinson was using the BLS figures for April 15, 1943, 123.1, and for March 15, 1944, 122.8 (January 1941 as 100).

[52] The index has continued to rise slowly. On April 15, 1944, the last date available to Judge Vinson, the index stood at 123.6. On December 15, it stood at 126.

needs of our soldiers, our sailors, our airmen, and our allies. If that inescapable truth is kept firmly in mind it points plainly to the conclusion that higher wages cannot improve the worker's standard of living. At best they will benefit some workers who are well organized and powerful at the expense of other workers' who, because they are not so well organized, have already fallen behind the procession.

* * * * * * *

For the most part our wage stabilization policy has worked well. Its standards, like any others, sometimes encounter difficulties in application. But all in all I do not believe that we could devise a set of wage policies better in any material particular than those we now have.

During the course of the discussion in the Senate Committee which followed Judge Vinson's statement, he was asked by Senator McClellan whether, "under the conditions that now exist," there could be "any justification for any modification or the breaking or the revision upward of the Little Steel formula." Judge Vinson replied:[53]

As far as I am concerned, I have no intention or purpose to break the Little Steel formula * * * I do not think that the Little Steel formula should be discarded.

After some further discussion with members of the Senate Committee, Judge Vinson said,[54] referring to the hold-the-line order of April 8, 1943, as supplemented by Justice Byrnes' directive of May 12, 1943:

If you think the wage test in the Byrnes directive is too severe you can write limitations into the law. If you think the theory too generous you can write language into law that will take care of it. If I am to administer it I will do my best.

(b) The Views of Organized Labor

The principal views expressed to Congress by representatives of organized labor may be summarized as follows:

1. The act should be renewed without change.

A joint statement was filed with the committees by the American Federation of Labor, the Congress of Industrial Organizations, and the Railway Labor Executive Association, in which it was said that:[55]

The American people expect the Congress to pass the price-control bill intact, with adequate funds for enforcement.

Mr. Green, President of the American Federation of Labor, asked for an "extension of the Price Control Act without change for 2 years after the war."[56]

2. "A restoration of the relationships between prices and wages which existed September 15, 1942, is absolutely essential to make the law work equitably and build the morale of American workers to the highest degree of efficiency."

This recommendation was contained in the joint statement filed by the three national labor organizations referred to above. It was repeated in Mr. Green's testimony, but without any explanatory observations.[57]

The three national labor organizations, however, expressly opposed any changes in the law, and it is clear that their objective was to secure

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[53] Hearings before the Senate Committee on Banking and Currency, 78th Cong., 2d sess.. on S. 1764, p. 1209.
[54] Same, at p. 1211.
[55] Same, at p. 794.
[56] Same, at p. 793.
[57] Same, at p. 793.

a change in the Little Steel formula by executive action. There appears to have been no misunderstanding on this score by the Senate Committee. Mr. Murray submitted to the committee copies of the brief of the United Steelworkers of America in the steel cases pending before the War Labor Board, in which the Board was being urged to ask the President to make a change in the Little Steel formula; and he devoted a considerable portion of his testimony to material contained in the brief.

He described [58] the Little Steel formula as "so unworkable in itself that it has created throughout the United States more discomfort and more confusion and more misunderstanding in American industry than anything of which I know," but when asked by Senator Taft whether he desired Congress "to make any amendments * * * dealing with wages," he replied:

> We do not ask for any amendments whatever.[59]

3. The BLS index greatly understated the rise in living costs.

This criticism was made by Mr. Murray in considerable detail, with reference to the work of the President's Cost of Living Committee and to the report of the labor members thereof, which contended that as of December 1943, the cost of living had risen 43½ percent over January 1, 1941, and not 23½ percent as stated by the index.[60]

4. There should be more vigorous enforcement of price controls; adequate subsidies in aid of the program; the prevention of extortionate profiteering; and the rejection of all weakening amendments.

Some of all of these points were stressed in the testimony of Messrs. Green [61] and Murray; [62] of Mr. Thomas, president of the United Automobile, Aircraft, and Agricultural Implement Workers of America (CIO); [63] of Mr. Carey, secretary-treasurer of the Congress of Industrial Organizations; [64] and of Mr. Fitzgerald, president of the United Electrical Radio & Machine Workers of America (CIO).[65]

(c) Testimony of Mr. Davis, Chairman of the War Labor Board

Mr. Davis, after describing to the Senate Committee the work of the Board, and after pointing out that the Board was bound by Executive Order 9328 to adhere to the Little Steel formula, referred as follows to the decision of the Board on March 22, 1944, to go into the whole question of the operation of the Little Steel formula and the demands for its modification by executive action:

> Now, you perhaps saw in the paper this morning, we did yesterday initiate a sort of prima facie look at the question whether the Little Steel formula was creating gross inequities or not. We agreed with the A. F. L. and the C. I. O. that we would go so far now as to look at it, to inform ourselves. My feeling about that is—I am speaking for myself alone, again—the War Labor Board ought to inform itself whether what it is doing results in gross inequities or not * * * I like to keep informed. And besides that, speaking for myself alone, if the present wage stabilization policy is doing gross injustice, I want to know it. And if I find it out, I am going to say so.

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[58] Hearings before the Senate Committee on Banking and Currency, 78th Cong., 2d sess., on S. 1764, p. 719.
[59] Same, at p. 729.
[60] Same, at p. 708.
[61] Hearings before the Senate Committee on Banking and Currency, 78th Cong., 2d sess., on S. 1764, pp. 788–793.
[62] Same, particularly at pp. 706–720.
[63] Same, particularly at pp. 760, 765.
[64] Same, particularly at pp. 734–741.
[65] Same, particularly at pp. 772–774.

The CHAIRMAN (Senator Wagner). That would mean a modification, would it not?

Mr. DAVIS. Yes; but I think the President is entitled to know from me. I say "me," because I am not speaking for all my associates.

The CHAIRMAN. Yes.

Mr. DAVIS. But I am just telling the way I feel about it. We created the Little Steel formula because we thought it was a fair and equitable way to handle it, that would avoid gross inequities, and we thought it would stabilize. Now, if I am ever convinced that it is unstabilizing, on the one hand, or that it is grossly inequitable on the other hand, I am going to say so; and I will say so to whomever it may concern. If Congress is interested at that time, I would say so to Congress.

The CHAIRMAN. The question is right before you now, is it not?

Mr. DAVIS. Yes, sir.

Report of the Senate, House, and Conference Committees

On May 30, 1944, the Senate Committee on Banking and Currency submitted its report, advocating renewal of the law for another year, with a few minor changes having to do with the price controls. The committee expressed satisfaction with the existing program, stating in part:

> The committee believes that the legislation upon which the stabilization program is based is generally satisfactory. The program has served and is serving this country well. It is holding in check powerful inflationary forces which, if uncontrolled, would be disastrous. A remarkable degree of stability has been attained without undue injury to any group. Compelling pressures have required and continue to require upward adjustments of prices and wages in particular cases. Such adjustments may be made under the present stabilization policies, and if held within strict bounds do not have an unduly inflationary effect. However, any substantial relaxation of the program on any broad front will throw it out of balance and set in motion new inflationary forces which it is likely to be impossible to control. Experience has shown that prices cannot be controlled unless wages are stabilized. It is equally clear that it is futile to attempt to stabilize wages unless prices are controlled. On the whole it appears to the committee that the policies which are now being followed provide as equitable a relationship between the different groups in our country as it is practicable to attain.
>
> In view of these considerations, the Committee has felt obliged to reject most of the amendments presented to it * * *

The committee acted unanimously on all proposed amendments except the one relating to cotton textile prices. That amendment a minority [66] of the committee opposed. Commenting on its effect on the stabilization program, the minority said:

> It would be tragic if the Congress were thus to destroy the economic stability which has been won with such great difficulty over the past two years. Prices and wages have been stabilized, as they have been, only by dint of arduous work and the courage to say "no" again and again when the easy way would have been to say "yes". * * *
>
> If adopted, it (the amendment) will inevitably touch off demands by other industries for the granting of price increases on the same basis. If these are yielded to, then, having enormously increased the profits of industry and materially increased the cost of living, it would be out of the question to continue the present stabilization of wages. To take but a single example, how could the textile workers be denied an increase in wages in the face of the enormous increase in textile profits which this amendment would permit?
>
> Today, the cost of living and wages are in delicate balance. If that balance is broken, no one can say how far and how fast prices and wages will rise before they can be stopped. And once they break loose, no one can say how far and how fast they will fall—and with what devastation to all industry and all workers alike—once the inflation has run its course. (The amendment, as modified, was adopted.)

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[66] Senators Wagner, Glass, Maloney, Radcliffe, Murdock, and Danaher.

On June 3, 1944, the House Committee submitted its report. Its report expressed, in general, satisfaction with the law.

The Senate and House being unable to agree on certain proposed changes, the bill went to conference. In presenting the report of the Conference Committee Senator Wagner stated: [67]

In my opinion no more important or, considering the difficult and novel problems involved, more successful wartime legislation has been passed by the Congress than these two acts. They have provided the statutory basis for the stabilization of our economy during a period of unprecedented strain. I am glad to state there was agreement among the members of the committee, not only that the price control and stablization acts have worked successfully and should be extended but—apart from the amendment relating to cotton textile prices which I shall discuss later—that they should be extended without substantial change.

* * * * * * *

More imporant for the future is the fact that these (inflationary) pressures are still growing as the war effort reaches peak intensity. Resistance to these inflationary pressures must be maintained more vigorously than ever.

The cost of living has arisen by a little more than 25 percent since the outbreak of the war in Europe.[68] Most of this increase took place before January 1942, when the Emergency Price Control Act became law. In the past 2½ years the increase has been only a little more than 10 percent.[69] Since October 2, 1942, when the Stabilization Act was passed, the increase has been only 5 percent.[70] And for the past year, in the face of the most extraordinary pressure there has been practically no change in the cost of living.[71]

The President's Statement Accompanying His Approval of the Stabilization Extension Act of June 30, 1944

The President said in part:

By the Stabilization Extension Act which I have just signed, the Congress renews the general authority vested in the executive agencies by the Emergency Price Control and Stabilization Acts to hold the line against inflation.

For more than 2 years, under the Emergency Price Control and Stabilization Acts, we have been fighting inflation and fighting it successfully. Although the cost of living rose substantially in the early years of the war, for a whole year the cost of living has been held without change. This, of course, was possible only with the aid of the limited subsidies authorized by the Congress.[72] While clothing prices have risen during the past year, they have not risen enough to wipe out the reduction in retail prices of necessary food items. Meantime rents have been firmly held.

The Stabilization Extension Act represents the considered judgment of the Congress that the policies and the programs which have resulted in this achievement are sound policies and sound programs and should be continued for another year.

In particular it should be noted that the Congress rejected all pleas which would require any general change in the wage, price, and subsidy policies now in effect.

During the past 3 months, while the Extension Act was under consideration and debate in the Congress, the clamor of pressure groups was loud in the land. I think it is a source of gratification that in spite of this clamor the Congress has stood firm against any departure from the basic principles which have made it possible for us to hold the line.

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[67] 90 Cong. Rec. 5378.

[68] For September 15, 1939, the BLS index was at 99.8.

[69] For January 15, 1942, the index was at 111.1; for February and March 1944, the latest figures probably available when Senator Wagner spoke, the index was 122.8, a difference of 11.7 points or about 10 percent.

[70] For September 15, 1942, the index was at 116.9, 5.9 points, or approximately 5 percent lower than the figures for February and March 1944.

[71] March 15, 1943, 121.8; March 14, 1944, 122.8. See note 52 for rises since then.

[72] The act, as amended, provided that after June 30, 1945, no further subsidy payments should be made by executive agencies without appropriations for that purpose by Congress.

Some of the amendments introduced in the Stabilization Extension Act may make it somewhat harder to hold the line. But I am advised by the enforcing agencies that in their opinion the line can be held against inflationary price increases if they are supported in a firm administration of the law in accordance with its basic objectives.

* * * * * * *

In enacting the Stabilization Extension Act, the Congress has performed a signal service. * * *

History of the Stabilization Program: Summary and Conclusions

The Board, the President, and Congress appear to have acted throughout the stabilization period on the basis of the following principles:

1. That avoidance of inflation is of paramount and controlling importance.
2. That, in order to place a terminal point on the race between prices and wages, the direct connection between prices and wages should be broken and prices and wages should be stabilized together as of a given base date (September 15, 1942, being selected by Congress for that purpose);
3. That the relationships then prevailing should be maintained so far as practicable;
4. That there should be no absolute freeze of prices or wages, but that adjustments should be permitted in each when necessary to correct gross inequities or to aid in the effective prosecution of the war;
5. That, as a matter of equity, all groups of workers should start off under the stabilization program with their peacetime standards of living preserved as nearly as possible (for this purpose the Little Steel formula permitted those groups of workers whose wages had not kept pace with the 15 percent cost-of-living rise between January 1941 and May 1942 to have the impairment made good);
6. That thereafter, as war production mounted, there could be no assurance that peacetime standards of living could continue to be maintained;
7. That while wages could not automatically be adjusted to increases in prices without leading to a resumption of the race between prices and wages, if prices went up too far above wages, a readjustment of wages might have to be made, the question being one of degree and of the particular circumstances at the time.

When, in March 1943, the Board rejected the first petition of the American Federation of Labor asking that the Little Steel formula be revised, the majority of the Board concluded that the price-wage relationship had not changed sufficiently to warrant a change in wage policy.

In April 1943 when the President wrote the Little Steel formula into Executive Order 9328 and placed stricter controls over both wages and prices, it is apparent that the President did not then believe that the price-wage relationship was such as to call for upward wage adjustments.

At the time of the hearings on the renewal of the Stabilization Act in the spring of 1944, the cost-of-living index was substantially at the same level as in April 1943, and the report of the Senate Banking and Currency Committee indicated that in the judgment of that committee the price-wage relationship was then in reasonably satisfactory balance and that the policies which were being followed were serving the country well. Whether in its reference to these policies the committee intended to include the Little Steel formula is not wholly clear.

Some of the language in the report expressed opposition to any change in policy which would result in a general change in wage or price levels, as distinguished from adjustments to correct particular inequities. Judge Vinson had expressed such a view, and in answer to a specific question had declared his opposition to any modification of the Little Steel formula.

On the other hand the committee's real function was to recommend whether or not the statute should be renewed, and, if it should be renewed, whether or not any changes in it should be made; and the committee was not concerned with executive policies under the statute save as these might point to a needed change in the statute. The committee knew that the Little Steel formula was under attack by organized labor; that the War Labor Board was inquiring into its operation and intended to report any injustices which might be found in it; and that there was nothing in the statute to prevent the modification of the formula by executive action if a change were deemed to be necessary as a result of the pending inquiry or of any subsequent inquiry. The committee proposed no amendment to the statute which would hamper or prevent executive action in this respect. The law was renewed with the same broad provisions as before, directing the stabilization of wages and prices as of September 15, 1942, "so far as practicable", and authorizing the President to make such adjustments thereafter as he might deem necessary "to aid in the effective prosecution of the war or to correct gross inequities."

Whether under these circumstances a modification of the Little Steel formula by executive action (if sufficient grounds for modification were shown) would or would not be in accordance with the congressional intention and understanding at the time the Stabilization Act was renewed, is a question which is properly one for the President to determine.

In reviewing the stabilization history up to this point four further observations might be made.

First, the President's Committee on the Cost of Living has now submitted a detailed report on the cost of living index published by the Bureau of Labor Statistics. This report concludes that in order to reflect certain war-time effects on the market for consumer's goods, three to four points should be added to the index, while an additional half point should be added to include living cost changes in small towns not covered in the index.

Secondly, on December 15, 1944, the cost of living index (as published) stood at 126.0 as compared with 123.6 in April 1943.

Thirdly, as a result of recently published studies by the Bureau of Labor Statistics, together with a detailed analysis of the War Labor Board's wage actions affecting some 11 million workers, we are in a position to trace the course of wage movements since 1941, and to appraise the measurements available for that purpose, with relatively greater precision and understanding than has heretofore been possible.

Fourthly, in the recent hearings before the Board organized labor for the first time urged that the effects of the large-scale cut-backs in war production which are expected to follow after VE-day should be taken into account in the determination of wage policy. It was argued that the cut-backs will result in unemployment and loss of consumer purchasing power which can be avoided or ameliorated only by upward wage adjustments, and that those adjustments should not be postponed till after VE-day because employers then, with a surplus of labor at their disposal, will be less willing to make adjustments and the government will be less in a position to order adjustments. These contentions, and the countering views of industry, are summarized more fully in appendix E. They are mentioned here because (the possibility of VE-day having been previously less to the fore) they were not advanced or considered when the various steps in the wage stabilization program described above were formulated.

APPENDIX C

THE WAGE STABILIZATION POLICY OF THE NATIONAL WAR LABOR BOARD

BY GEORGE W. TAYLOR

Developed in the manner described in appendix B of this report, the present wage stabilization program is that no wage-rate increases will be approved by the National War Labor Board except (1) those permissible under the Little Steel formula; (2) those necessary to minimize, within restricted limits, the inter-plant differences in wages for similar work in the same labor market area; (3) those necessary to provide reasonable adjustments for the correction of inequitable relationships in the wage-rate structure of a particular plant; and (4) those necessary to eliminate substandards of living.

It is important to understand the wage stabilization policy in its entirety, since it involves more than the Little Steel formula. An appraisal of the effect of the Little Steel formula, moreover, requires an understanding of the nature of each of the four grounds for wage increases.

1. The Little Steel Formula

The Little Steel formula limits the general "across the board" increases in wage rates which can be approved for appropriate groups of employees in order to compensate them for increases in the cost of living.

For many months prior to January 1, 1941, there was a period of relative stability in the cost of living as measured by the Bureau of Labor Statistics index of retail prices, and in wage rates as measured by the average hourly earnings for all employees in manufacturing industries reported by the Bureau of Labor Statistics. Shortly after January 1, 1941, the cost of living started a steady rise which amounted to approximately 15 percent by May 1942. Widespread increases in wage rates were made during this period of increasing living costs as wages were trying to "catch up." To a large extent, wage rates were adjusted by general increases applied uniformly to groups of employees. The increases in wage rates, however, varied in amounts between plants and between industries. No adjustments were made in the wage rates of some employees. Other groups of employees received wage rate adjustments totaling as much as 25 or 30 percent.

In developing the Little Steel formula the Board was impressed with the wage inequities between different groups of workers which arose from the disparities in amounts of general wage increases previously made by various plants and in different industries. The Board acted to correct such inequities through the Little Steel formula under which those wages which had lagged most in the race would be brought to a level which would restore peacetime standards of real wages. The use of the Little Steel formula permitted the equitable completion of the process, already well under way, by which wages were moving up to a higher level in response to increases in living costs.

The Board concluded that if any group of workers, during the period from January 1, 1942, to May 1942, averaged less than a 15 percent increase in hourly wage rates their established peacetime standards had been broken and their scheduled wage rates should be increased to a total of 15 percent of their straight-time average hourly earnings of January 1, 1941. The Little Steel formula provided an exception to the general rule that there should be no more general wage increases.

The starting point for the application of the Little Steel formula is the average straight-time hourly earnings of a group of employees on January 1, 1941. The group is entitled to general increases in scheduled wage rates amounting to 15 percent of the January 1, 1941 average straight-time hourly earnings. If the employees in the group had average earnings of $1 per hour on January 1, 1941, and if a $0.05 per hour general wage increases had already been made since the base date, a general wage increase of $0.10 per hour could still be authorized. A uniform increase of $0.10 per hour would then be paid to each employee in the group so that, on a percentage basis, the employee who earned $0.70 per hour would receive more than the employee who earned $1.25 per hour. The Little Steel formula does provide, however, a lesser general wage increase in cents per hour to all the employees in a low-paid group as contrasted to all the employees in a high-paid group.

As now administered, therefore, the Little Steel formula operates to preserve the established wage differentials in cents per hour between various occupations in the same group of employees but to widen somewhat the previously existing differentials between high wage and low wage industries. This latter observation does not apply, however, to the lowest wage industries in which substandards of living have been corrected without reference to the Little Steel formula.

The stabilization of wage-rate schedules through general wage increases under the Little Steel formula has been substantially completed.

2. Inter-Plant Wage Relationships (The Wage Bracket Policy)

Even though a group of employees in a plant have already received the full cost-of-living adjustment permissible under the Little Steel formula, the wage rates of particular occupations may be out of line with the rates prevailing for similar work in the same labor market area. Wage rates grossly out of line may be corrected at the present time under the so-called wage bracket policy. Under the authority of the May 12, 1943, directive of the Director of Economic Stabilization, the Board has established, by occupational groups and labor market areas, wage-rate brackets embracing all the various rates found to be stabilized, sound, and tested going rates. They are not subject to change under the wage bracket policy. Rates below the sound and tested bracket may be increased, but generally not above the minimum rate of the bracket.

The effect of this policy is to narrow, but only to a limited extent, the present differentials between occupational wage rates in the same labor market area. In emphasizing area wage rate relationships, because of the manpower situation, the area bracket approach prevents the development of uniform company-wide rates. It may also result in variations in labor cost between units of the same industry. These problems are now under study by the Board.

3. Intra-Plant Wage Relationships

Executive Order 9328 of April 8, 1943 provided that nothing in the order should be construed as preventing "reasonable adjustments of wages and salaries in case of promotions, reclassifications, merit increases, incentive wages or the like, provided that such adjustments do no increase the level of production costs appreciably or furnish the basis either to increase prices or to resist otherwise justifiable reductions in prices."

By its General Order No. 5 and later by its General Order No. 31, the National War Labor Board has authorized the making, without prior Board approval, of certain adjustments of the wages paid to individual employees which do not require a change in the basic wage-rate schedule. Individuals may be promoted to a new job; others may receive merit wage increases on the same job within the limits of established rate ranges; and piece workers may receive added earnings due to increased production. These kinds of adjustments in wages paid to individual employees through the application of a wage rate schedule are incident to the day-by-day operation of a plant and should be determined at the plant level. The manner in which a wage-rate schedule is administered in these particulars has a significant bearing upon the average hourly earnings received by groups of employees. With the placing of restrictions upon changes in wage-rate schedules, there has been a marked acceleration in the number of wage adjustments to individual employees through the manner in which wage-rate schedules are administered.

Wage adjustments of one important type which do require a change in wage-rate schedules may be made under the above-quoted part of Executive Order 9328. The War Labor Board is given the authority to make "reasonable adjustments of wages and salaries in case of * * * reclassifications * * *." When jobs are "reclassified," or more precisely revalued in relation to other jobs, reasonable wage-rate adjustments and changes in job classifications may be authorized by the Board to eliminate grossly inequitable relationships between the rates paid for different jobs, or for the same job, in a particular plant.

The wage-rate structures of many companies have been developed in a haphazard manner. Various rates are frequently paid to individual employees performing the same job with the same degree of efficiency. In addition, established wage rates for different jobs are sometimes not set in reasonable relationship to required differences in skill and ability. It has been the experience of the National War Labor Board that inequitable relationships between rates paid to various employees in the same plant may result in extremely difficult labor-relation problems and, of all inequities, are most likely to impair the morale of employees.

The National War Labor Board has consistently encouraged the development of balanced wage-rate structures to the extent that changes in rates may be made consistent with the limitation set forth in Executive Order 9328. The National War Labor Board has approved a large number of such job reevaluation programs even though a full 15 percent general increase may already have been provided to compensate for increased living costs.

The War Labor Board also approves or directs certain improvements in wage standards and in working conditions which do not involve changes in basic wage-rate schedules and which are permissible under Executive Order 9328. These matters relate to vacation pay, shift premiums, certain types of incentive bonuses, and the like. Such adjustments have been made in many cases by the Board when it is determined that they are equitable and do not result in an appreciable increase in the level of production costs or do not furnish the basis for increasing prices. They have been made, moreover, without relation to the allowances permissible under the Little Steel formula or the wage-bracket policy.

4. Elimination of Substandards of Living

Wage increases may be approved or directed, if necessary to correct substandards of living, without regard to the limitation of the Little Steel formula. It is, moreover, left to the judgment of the War Labor Board to determine what increases are approvable to eliminate substandards of living. This judgment can be exercised, however, only as respects particular cases which are brought within the jurisdiction of the Board. The Board cannot issue any general order establishing a certain minimum wage throughout an area or throughout an industry.

The Board has provided by general order, however, that increases in wages up to a specified level can be made without securing prior Board approval if voluntarily agreed to by an employer and his employees. Substandard wage cases frequently involve not only increased compensation to the lowest skilled employees but also corrolary adjustments of certain occupations above the minimum in order to maintain a reasonable balance between various occupational rates paid in the plant. These wage adjustments in the jobs of greater skill, but incident to wage increases made directly to correct substandards of living, are made pursuant to that part of the May 12, 1942, directive of the Economic Stabilization Director which reads:

> In connection with the approval of wage adjustments necessary to eliminate substandards of living * * * the Board may approve wage or salary adjustments for workers in immediately interrelated job classifications to the extent required to keep the minimum differentials between immediately inter-related job classifications necessary for the maintenance of productive efficiency.

The policy of the War Labor Board in voluntary cases then is to approve rate increases up to a designated level to correct substandard conditions of living. Many requests for approval of wage adjustments under this category are for increases to less than the full allowable amount; to, say, $0.42 or $0.45 per hour for the lowest rated occupation. Such requests, of course, are approved as submitted since the Board has no authority to require the payment of a higer wage in a voluntary case. In consequence, there are areas in which the prevailing wage in certain industries is fixed by voluntary action at less than the allowable amount. Under such circumstances, it is not possible for the Board to follow a hard and fast rule of ordering any fixed amount in dispute cases in which the elimination of substandard of living is an issue. A dispute case may, for example, involve one plant in an area in which a number of competitors operate with wages considerably below the allowable amount but which are not in dispute and which are not before the Board. A failure to give consideration to such area wage relationships in dispute cases could lead to the ordering of wage rates under which the plant involved in the dispute would not be able to continue to operate.

5. "Rare and Unusual" Cases

Situations sometimes arise in which the critical needs of war production require exceptional wage adjustments to give a preferred wage position to a certain plant or industry. In the summer of 1943, for example, the need for Flying Fortresses was acute. Maximum production was hindered, however, by a shortage of manpower. The problem defied solution by all other means which were utilized by the parties and by various governmental agencies. It became necessary, therefore, to increase wages at the Boeing Co. beyond the ordinary limits imposed by the stabilization program in order to give this company a preferred status in the labor market.

The May 12, 1943, directive permits the Board "in rare and unusual cases, in which the critical needs of war production require the setting of a wage at some point above the minimum of the going wage bracket, to set such a wage." In these cases, therefore, a wage may be authorized which is on a par with, or even above, the going rate for comparable work in the same area. The limitations of neither the Little Steel formula nor of the wage-bracket policy are applicable to the "rare and unusual case."

The National War Labor Board has recognized cases to be "rare and unusual" in relatively few instances. They have involved special manpower considerations vital to the war effort. The November 6, 1942, policy statement of the National War Labor Board set forth the conviction of the Board that the problem of a general shortage of manpower could not be met by a series of wage increases.

The above described wage policy, developed out of the history recounted in appendix B, has been intended to stabilize wages without freezing inequitable wage-rate relationships and without precluding wage-rate adjustments in the interests of successful prosecution of the war.

APPENDIX D

THE TREND OF WAGE STANDARDS UNDER THE NATIONAL ECONOMIC STABILIZATION PROGRAM

BY GEORGE W. TAYLOR

The idea of a "wage freeze" as a part of the national economic stabilization program was specifically rejected by the Board, by the President, and by the Congress. It was determined to stabilize wages by maintaining their general level while providing for increases in particular cases to correct gross inequities or to aid in the successful prosecution of the war.

The extent to which previously established wage standards have been preserved under the stabilization program is a question of national concern. One of the major objectives of the stabilization program is the preservation of labor standards against the demoralization which would come with an inflationary spiral. Even though no one can escape the risks and hazards of total war (and most people would not choose to escape the sacrifices required to win the war), it has been recognized that the substantial preservation of established standards for various groups can be a potent force in the effective prosecution of the war. In addition, the jobs which the members of our fighting forces left to go to war should be available to them upon their return at no lower real wage than was formerly paid to them.

It is timely to check up now on the effect of the economic stabilization program upon established wage-standards after more than 2 years of control. Such an inventory-taking calls for a measurement of the increases in wage-rate schedules and of the changing level of employee earnings. A consideration of these measures is the purpose of this part of the report.

The decision of Congress, on October 2, 1942, to stabilize prices and wages inaugurated a kind of program never before undertaken in this country's history. The program was instituted only after the country had gone through ten months of total war. During this time the stabilization of our domestic economy became widely recognized as vital to the effective prosecution of the war. Development of a national wage policy called for a venture into unexplored territory. In now evaluating the results of that policy the National War Labor Board must again undertake a task for which no commonly accepted standards of measurement are available. The task is made complex by the need for both a quantitative and a qualitative consideration of changes in wage standards; it becomes even more difficult because of the limited wage data at hand.[1] The findings in this part of the report may prop-

[1] Budgetary limitations have made it necessary for the Bureau of Labor Statistics in the past to concentrate its work in the wage field largely upon trends in average hourly earnings for manufacturing industries.

erly be considered, therefore, as reasonable estimates made through the use of all available data, interpreted in the light of the experience of the National War Labor Board in dealing intimately with a vast number of wage problems over the past 3 years.

A. INCREASES IN WAGE-RATE SCHEDULES

The typical wage issue involves a proposed change in the labor "price-list" or, in other words, in a basic occupational wage-rate schedule. In most of the wage-dispute cases before the National War Labor Board a request is made for general increases in occupational rates which affect all or a substantial proportion of the employees in a plant.

There is also a different kind of wage schedule, used especially in nonmanufacturing industries, in which wage-rates are fixed for individual employees[2] rather than as standard rates for particular jobs or occupations. Where such wage schedules are used, general wage increases affecting all employees at the same time are rarely given and it is difficult to distinguish wage-rate increases as such from individual merit increases.[3] Even in a manufacturing establishment where fixed minimum rates are effective, general increases may be made by an acceleration in the number and in the extent of the wage adjustments for individual employees.

A labor "price-list" may also consist of piece-rates or incentive rates. Basic wage-rate schedules of this type may be increased by a change of piece-rates or by a liberalization of the base upon which incentive wages are computed.

An analysis of the effects of the economic stabilization program upon established wage standards will properly begin with the changes which have occurred in basic wage-rate schedules. This is not the customary approach to a study of general wage-rate changes. In most of the available measures of wage-rate changes, the emphasis is placed upon how much employees earn per hour. It has been assumed that trends in average straight-time hourly earnings will follow in a general way changes in wage-rate schedules. Whatever may have been the case in prewar years, such a relationship has not prevailed under the wage stabilization program.

In this report, therefore, attention has first been focused upon wage-rate schedules and then consideration is given to the earnings derived under such schedules. National War Labor Board approvals and directives in wage cases have to do mainly with changes in wage-rate schedules. They are the wage-rates that have been stabilized by the Board.

Under the act of October 2, 1942, the National War Labor Board has had the duty and the responsibility to stabilize, "so far as practicable", all wages on the basis of the levels prevailing on September

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[2] These schedules may include such widely different rates for employees doing the same job that the rates are "random" when viewed in terms of occupations. The National War Labor Board has found that there are a considerable number of "random" rate-schedules in American industry. Such rate schedules underlie many of the job-reevaluation and reclassification cases which the Board acts upon.

[3] Genuine merit increases ordinarily do not change, to any significant extent, the average straight-time hourly earnings of a plant because of normal labor turnover. Nor do merit increases increase labor costs when they are given for an increased contribution to production. An increase in the general level of wage-rates does affect costs of production since it results in greater wages for the same work.

15, 1942.[4] These fundamentals of the national wage program, including the key date, were specified by Congress, representing all the people of the United States. They are the law of the land.

Changes in wages since October 2, 1942, have, therefore a special significance. In addition to this point of major emphasis, attention is given in this report to changes in wages made since January 1, 1941, the base date of the Little Steel formula. The ensuing discussion will, therefore, evaluate changes in wage-rate schedules for the two mentioned periods.

Changes in Wage-Rate Schedules Prior to October 2, 1942

For several years ending January 1, 1941, there existed a relatively stabilized relationship between prices and the average hourly earnings of manufacturing employees.[5] It appears, moreover, that scheduled wage-rates maintained a relatively stable relationship with average hourly earnings. It is of interest to evaluate, as far as possible, what changes were made in the scheduled rates from January 1, 1941 to October 2, 1942. Such an appraisal will provide one basis for determining how well peace-time labor standards had been preserved up to the time the national economic stabilization program was inaugurated by Congress.

Increases in wage-rate schedules could, prior to October 2, 1942, be made without reference to governmental rules and regulations. Collective bargaining would be freely carried out. Established on January 12, 1942, the National War Labor Board had jurisdiction only over dispute cases in which collective bargaining had not resolved the issues. Not until July 1942 did the Board enunciate the Little Steel formula, for dispute cases involving general wage increases, as an offset against increases in the cost of living. Most of the changes in wage-rate schedules prior to October 1942 were made voluntarily by employers, with or without union agreement, but without coming before the National War Labor Board.

The only detailed analysis of changes in basic wage-rate schedules from January 1941 to October 1942 is included in a recent study of the Bureau of Labor Statistics[6] which deals principally with manufacturing industries. In this study, general wage changes affecting the rates of 10 percent or more employees simultaneously in an establishment were measured. It is stated in this report that during this period "wage rates were typically raised by means of broad, general increases in time or incentive rates, many of which affected all workers in a given establishment. Out of the total increase in wage-rates during this period, estimated at 17 percent, about 13 percent—or roughly three-fourths—was accounted for by general increases[7] affecting 10 percent

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[4] The law also provides, of course, that prices which go to make up the cost of living should also be stabilized, so far as practicable, on the basis of levels prevailing on September 15, 1942.

[5] The coverage of Bureau of Labor Statistics data on average hourly earnings is comprehensive for manufacturing industries. The available data for nonmanufacturing industries are much more limited.

[6] Issued in October 1944 and entitled "Wartime Wage Movements and Urban Wage-Rate Changes" (Serial R, 1684).

[7] The general wage changes reported by the Bureau of Labor Statistics exclude merit increases and other types of adjustments affecting individuals or small groups of less than 10 percent of the workers in a given establishment. Information regarding general increases was obtained by the Bureau of Labor Statistics in 1943. The amount of general increase reported by the employer was expressed as a percentage of the estimated straight-time hourly earnings for all workers. Weighted averages were then computed for industry-area units and for urban manufacturing. The Bureau of Labor Statistics reports that the summaries should "be regarded as approximations, suitable primarily as a basis for broad, general conclusions."

or more of the workers (or all workers in a key occupation) in a given establishment."

It is estimated by the Bureau of Labor Statistics, therefore, that basic wage-rate schedules in manufacturing industries were increased through general wage increases from January 1, 1941, to October 2, 1942, on the average by 13 percent of the average straight-time hourly earnings. This estimate of wage increases excludes all merit increases or increases in earnings through greater productivity. In addition to the general wage-rate increases, which have thus been isolated, other increases in the level of wage rate schedules, were effected through increases to individual employees working under a random rate structure or through liberalization of the basis for incentive earnings as new rates have been set. There are no data by which such increases can be directly measured. There can be no doubt, however, that some increases in the level of wage rates were made by adjustments other than the general wage rate increases which have been accounted for. These other increases can only be estimated.

It is of interest that during the period in question, average straight-time hourly earnings of manufacturing employees, adjusted for inter-industry shifts in relative employment, increased by approximately 21 percent according to Bureau of Labor Statistics data. This figure includes, in addition to wage rate changes, the effect of promotions, of increased productivity of incentive workers and of such items as premium payment for extra shifts.

Although the total increase in wage-rate schedules in manufacturing industries from January 1, 1941, to October 2, 1942, was something more than the 13 percent effected through general increases alone, it was less than the 21 percent increase in adjusted hourly earnings. Weighing the various factors which influence these data, in one way or another,[8] it can be reasonably estimated that the total increases in basic wage rate schedules for manufacturing industries from January 1, 1941, to October 2, 1942, was approximately 15 percent of the average straight time hourly earnings of January 1941.

Comparable information for changes in scheduled wage rates in nonmanufacturing industries is not available for the prestabilization period. For the later period from April 1943 to April 1944, the Bureau of Labor Statistics study, quoted, above, does report on wage rate changes in five nonmanufacturing industries.[9] In commenting on the changes in this later period, the report states that "there is reason to believe that the substantial wage increases * * * during this period represented a delayed reaction to the forces which had raised wages in manufacturing industry many months earlier." It may well be, therefore, that increases in the wage rate schedules of nonmanufacturing industries amounted to less than 15 percent for the prestabilization period.

For manufacturing industries, however, we may assume that on September 15, 1942, the level of wage rate schedules had risen on the

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[8] The Bureau of Labor Statistics estimates that the upper limit of 21 percent may be reduced by 2 percentage points to eliminate the influence of shift premiums, and by 2 to 3 percentage points to account for the increased productivity of incentive workers. This brings the figure to about 17 percent. As noted earlier, this figure reflects, however, in-grade merit increases and other individual adjustments.

[9] Wholesale trade; retail trade; finance, insurance, and real estate; local utilities: and service trades.

average since January 1, 1941, by an amount approximately equal to 15 percent of the straight time hourly earnings in January 1941.

Changes in Wage Rate Schedules Since October 2, 1942

Executive Order No. 9250 issued on October 3, 1942, provided that:

No increases in wage rates, granted as a result of voluntary agreement, collective bargaining, conciliation, arbitration, or otherwise, and no decrease in wage rates, shall be authorized unless notice of such increases or decreases shall have been filed with the National War Labor Board and the Board has approved such increases or decreases.

Substantially all of the legal changes in wage rate schedules since October 3, 1942, therefore, are included in War Labor Board records,[10] except that the War Labor Board records do not cover adjustments in basic wage rates made pursuant to general exemptions from Executive Order No. 9250. These include wage increases made by employers of 8 persons or less; increases which do not bring wage rates in excess of $0.50 per hour; increases necessary to provide an equalized pay to female and male employees for the same quantity and quality of work; and wage increases made by State, county, and municipal governments and by certain exempted charitable institutions.

The most significant approach to an understanding of the trends in wage rate schedules since the stabilization date of October 2, 1942, is through an analysis of the approvals and the directive orders issued by the National War Labor Board.

Of the 25 million employees subject to War Labor Board jurisdiction approximately 12.3 million employees received, between October 2, 1942, and October 31, 1944, increases in their wage rate schedules which average approximately $0.06 per hour. This estimate is exclusive of the above-mentioned wage rate adjustments legally made without prior authorization of the Board.

The specific increases averaging $0.06 per hour for 12.3 million of the 25 million employees subject to War Labor Board jurisdiction may be considered, but only in the sense of a mathematical average, as increasing the general level of wage-rate schedules for all the employees by $0.03 per hour since October 2, 1942. This estimated increase covers employees in manufacturing and nonmanufacturing industries. The average straight-time wage for these employees in September 1942 has been computed at approximately $0.72 per hour.[11] Using this figure as a base, it can be said that the increases in wage-rate schedules from October 2, 1942, to October 1944 authorized by the National War Labor Board and its agencies amounted to 4.1 percent of the average straight-time hourly earnings of September 1942.[12] This may be taken as a reasonable measure of the average increase in wage-rate schedules

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[10] Some wage increases were undoubtedly put into effect in violation of the statute and of the Executive orders, and despite the efforts of the Enforcement Branch of the Board's legal division. Illegal wage increases, however, should not be taken into account in appraising the trend of wages under the stabilization program any more than "black market" prices can be introduced as a factor in the cost-of-living index.

[11] Estimated for manufacturing industries by use of Bureau of Labor Statistics straight time hourly earnings for September 1942. The corresponding figure for nonmanufacturing was computed from frequency distributions as of January 1944 as shown in National War Labor Board Research and Statistics Branch, Research and Statistics Report No. 24, adjusted to account for changes in straight-time hourly earnings for nonmanufacturing industries between September 1942 and January 1944.

[12] The percentage increase in basic wage rate schedules is, of course, greater when computed on the basis of straight time hourly earnings prevailing on January 1, 1941.

above the level prevailing on September 15, 1942. In other words, that part of the wage standard of employees which is measured by changes in basic wage-rate schedules has been increased on the average by approximately 4.1 percent since the stabilization date of October 2, 1942.

The increases in basic wage-rate schedules, to more than 12 million of the 25 million employees subject to Board jurisdiction, were provided to those employees whose wages were most out of line with prevailing rates paid to the majority of all employees. They were employees who had not received the Little Steel allowance, whose wage rates were far out of line with those prevailing in the area, or whose wage rates were out of line with other wage rates paid in the same plant, or whose wage rates had to be increased to correct sub-standards of living.

Effect of Increases in Wage-Rate Schedules on Price Increases

The increases in wage-rate schedules affecting more than 12 million employees were made within the limits of the national economic stabilization program. They were moderate in amount and were made available to those employees whose wages had lagged behind. They were justified under the wage stabilization policies to eliminate inequitable wage relationships, and they were made without basically affecting the general structure of prices.

Industry price structures were affected in only a few instances by increases in wage rates approved by the Board. The significant examples are the cotton garment, laundry, canning, and nonferrous metals industries. The first three of these industries employed many workers at substandard rates; in the case of nonferrous mining, a critical war industry was involved. In coal mining, price relief was required to compensate for greater wage costs due almost wholly to longer hours of work at overtime rates.

Aside from these special industry-wide situations, price relief has been necessitated in comparatively few instances. In fact, price relief has not even been requested in the overwhelming majority of the applications for approval of wage adjustments. Thus, between October 1942 and October 1944, price relief was requested in only 1.6 percent of the voluntary wage adjustment cases approved by the National War Labor Board and its regional boards.

Conclusions Respecting Increases in Wage Rate Schedules

At the time Congress passed the Economic Stabilization Act of October 2, 1942, certain changes in relationships had occurred since January 1941 between cost of living, wage rate schedules, and employee earnings. The foregoing analysis has measured the changes which occurred in the one item—wage rate schedules. From January, 1941 to September 1942, as has been stated, basic wage rate schedules increased by approximately 15 percent of the average straight-time hourly earnings of January 1941. This represents the changes in the general level of such schedules in manufacturing industries at the time Congress declared that wages were to be stabilized, so far as practicable, at September 15, 1942, levels.

To what extent has this September 15, 1942, level been raised by actions of the National War Labor Board? The foregoing analysis shows that as of October 31, 1944, basic wage rate schedules for the approximately 25 million employees subject to the jurisdiction of the National War Labor Board increased by about 4.1 percent on the average, above the September 15, 1942, levels.[13] This average increase was not, however, distributed uniformly among all employees. On the contrary, as already stated, increases averaging $0.06 per hour were made available to an estimated 12.3 million employees while nearly 13 million employees subject to the jurisdiction of the Board have received no increases in their wage rate schedules since October 2, 1942.

Under the wage stabilization program, therefore, a substantial proportion of all wage earners received increases in their basic wage rate schedules. The increases which were authorized, moderate in amount, were confined to the elimination of inequitable wage rate relationships. In consequence, the September 15, 1942, level of wage rate schedules was increased only by about 4.1 percent on the average.

The status of employees under the national economic stabilization program is related not only to changes in their basic wage rate schedules; their earnings under those schedules are also important. This aspect of the matter will next be considered.

B. INCREASES IN AVERAGE EARNINGS

In authorizing wage increases, the National War Labor Board approves or directs changes in the occupational rates which make up a wage rate schedule. Earnings available to employees vary, not only with changes in wage rate schedules but also with changes in operating conditions. In addition, earnings depend upon the manner in which wage rate schedules are administered. A relaxation or a tightening of the rules upon which merit increases and promotions are made, for example, may have a vital bearing upon average earnings of the wage earners affected.

The earnings possibilities of wage rate schedules normally play a great part in their determination. Many an industry typified by seasonal employment, for example, has been required to pay relatively higher basic rates in order to insure a reasonable annual return to its employees. A run of bad material often impairs piece-work earnings and makes it necessary to pay "extra" compensation to maintain earnings. Different piece rates may sometimes be designated for an operation on short runs involving frequent changes in machine set-up as compared with the same operation on long runs where production is much greater.

Straight-Time Hourly Earnings

Average straight-time hourly earnings of all manufacturing employees tend normally to follow relatively closely the changes which are made in the level of wage-rate schedules. During the year 1941, for example, and through most of 1942, average straight-time hourly earnings of all manufacturing employees, adjusted for inter-industry shifts of employees, appeared to move closely proportionate to changes in scheduled wage rates.

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[13] Since wage rate schedules on October 2, 1942, were about 15 percent above the level of those prevailing on January 1, 1941 (as detailed previously) it follows that basic wage rate schedules increased more than 19 percent by October 31, 1944, over the January 1941 base of straight-time hourly earnings.

Of marked significance to the present analysis is the fact that since the middle of 1942, straight-time average hourly earnings have increased at a much faster rate than changes in scheduled rates. The factors underlying this development are of the utmost importance to an evaluation of the national stabilization program.

At the same time that their average hourly earnings were increasing, employees were afforded a greater opportunity to work longer hours at premium pay and to transfer to better jobs in the higher paid industries.[14] Their economic status was improved, moreover, through the provision of such payments as shift premiums and vacation pay allowances. These various benefits are not considered as wage-rate increases even though they increase take-home pay. Most of them will probably vanish with a return to the extensive production of consumer goods.[15] Such increases in employee earnings are significant mainly in appraising generally the question whether or not manufacturing employees have had to endure economic losses under the wage-rate stabilization program. Increases of this type are not directly related, however, to an inquiry as to how basic wage standards have been maintained.

As indicated previously, the question of how well employee wage standards have been preserved requires consideration not only of changes in basic wage-rate schedules but also of changes in straight-time hourly earnings. The earnings of employees for 1 hour's work at regular wage-rates is the return in money which the wage-rate schedules produce. How much employees actually earn per hour times the number of hours worked determines their economic status. Such earnings are equally important with, if not more important than, the wage-rate schedules themselves, which are fundamentally but a means to an end.

The present report does not deal primarily with the over-all economic status of employees but with their wage standards embodied in wage-rate schedules and related to the earnings received by employees for an hour of work at straight time.

Administration of Wage-Rate Schedules

Average hourly earnings data are influenced by a great number of variables apart from changes in wage-rate schedules. The earnings received by employees depend partially upon the way in which the wage-rate schedule is administered. The manner in which particular jobs are classified, for example, has an important bearing upon earnings and may be vital to employees as a change in the wage-rate schedule itself. Then, too, piece-rate earnings may vary widely between plants, and at various times in the same plant, depending upon the manner in which piece-rates are adjusted when there are changes in the kind of goods produced or in the manner of conducting operations. Basic hourly wage-rates specified in terms of rate-ranges for various occupations, may also provide earnings which vary with such factors as changes in job content, and with practices governing in-grade and

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[14] The average income to the family unit has, moreover, probably increased slightly more than increases in the income of individual employees. The Bureau of the Census reports that the number of "employed persons per family with employed workers" increased from 1.22 in March 1940 to 1.29 in May 1944, or an increase of 5.7 percent.

[15] This applies most definitely to the added hours of work at premium pay and to the opportunity to work in relatively high-wage war industries. The provision of paid vacations is most likely to continue; the extension of paid vacations during the war completed a trend which was well under way before the start of the war.

between-grade promotions. Even where occupational rates are specified as single rates on an hourly basis, average straight-time hourly earnings will often vary between plants because of differences in job assignments, job content, and promotion policy. There are a number of recorded instances of considerable variations in such earnings between plants which use the identical wage-rate structure. Although these variations are most pronounced where piece-rates are employed they are also found as between hourly rate plants.

There is strong evidence indicating that since October 2, 1942, many wage-rate schedules have been administered in such a way as to provide increased hourly earnings which would normally be made available by adjustments in the wage-rate schedules themselves.

From January 1, 1941, to October 2, 1942, there was an increase of approximately 21 cents in average straight-time hourly earnings of manufacturing employees after adjustment for interindustry shifts in relative employment. Almost two-thirds of these increased earnings, or approximately 15 percent, were brought about by general increases in basic wage-rate schedules. A little less than one-third, or 6 percent, resulted from promotions, merit increases, greater output of incentive workers increased employment in higher-wage plants and areas, change in premium pay and increased payment of shift bonuses. The added earnings resulting from some of these factors are dependent to a large extent upon the manner in which the wage-rate schedules are administered.

The Economic Stabilization Act of October 2, 1942, and the Executive orders issued under it, imposed definite limits upon the adjustments which could be made in basic wage-rate schedules. As a result, they were increased, as noted earlier, only by approximately 4.1 percent from October 2, 1942, to October 31, 1944, for both manufacturing and nonmanufacturing industries. During this same period, however, adjusted average straight-time hourly earnings increased by more than 13 percent. With the stabilization of wage-rate schedules, therefore, there seems to have been a tendency to administer the schedules in such a way as to produce proportionately greater hourly earnings. In any event, relatively slight increases in wage-rate schedules (or no increases) have been accompanied by substantial increases in earnings per hour of work at straight time. Promotions, merit increases, and increased employment in higher wage plants and areas, and similar factors mentioned above, have resulted in much greater increases in straight-time hourly earnings than changes in basic wage-rate schedules.

For reasons already stated, changes in average straight-time hourly earnings must be considered in an appraisal of wage standards under the economic stabilization program. But what kind of average straight-time hourly earnings should be used as a measure of employee standards? Average straight-time hourly earnings may be computed for various groups of employees and in various ways. In the present analysis of changes in wage standards, it is necessary to decide which average hourly wage computation is of greatest significance.

Average Straight-Time Hourly Earnings—All Manufacturing Employees

Under wartime conditions, the average straight-time hourly earnings possibilities of established wage-rate schedules have increased

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decidedly for the employees as a whole. Many persons who had long worked in a relatively low-wage industry, or who are taking their first job, have earned an opportunity to work in a relatively high-wage industry. Their economic status has improved markedly. Promotions and up-grading within given plants have been accelerated, moreover, as plant capacity increased and as it became more difficult to retain employees in a tight labor market. Piece-rate schedules produce higher hourly wages not only because of a greater effort by employees to meet war needs but also because of the greater production which frequently results from long runs without machine changes. Shift bonuses have become available. There are more job openings in higher wage plants and areas. In short, many more good paying jobs have become available in wartime and many more people have been afforded an opportunity of working at them.

A general increase in wage rate schedules, which averaged approximately 19.7 percent since January 1941,[16] has been accompanied by an increase in the average straight-time hourly earnings of all manufacturing employees from $0.664 in January 1941 to $0.956 per hour in October 1944, or an increase of 44 percent.[17]

In evaluating the extent to which employee standards have been maintained, however, it is neither equitable nor logical to use the data just summarized, which are averages for all manufacturing employees. The composition and industry distribution of "all manufacturing employees" changed markedly from January 1941 to October 1944 in the adjustment of our economy to war purposes. Thus, the total civilian labor force was approximately one million employees smaller in 1944 than it was in 1940, although the number of persons in the armed services had increased by approximately 10.6 million during the same period.[18] New entrants into the labor market, and the virtual elimination of unemployment, provided accretions which almost equalled the call of the armed services for military personnel. Many of the new entrants into industry were women and young persons taking a job for the first time. Where were they employed? To a large extent in the expanding industries which were also the relatively high wage industries. Their employment in the less skilled jobs of these industries was accompanied by the upgrading of older employees to better jobs. Increased wartime opportunities to secure better paying jobs resulted in a vast up-grading of a substantial part of our labor force.

The availability of most of the relatively high paid jobs came with the expansion of certain heavy industries. Munitions manufacturing industries, including all metal-working industries, increased their work-forces by 5.8 million employees from 1940 to 1944. This great increase in the number of employees in the munitions industries significantly influenced the average straight-time hourly earnings for manufacturing industry as a whole.

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[16] It has previously been estimated that from January 1941 to September 1942 wage rate schedules increased by about 15 percent of average straight-time hourly earnings of January 1941. Since the passage of the Economic Stabilization Act, the National War Labor Board has approved increases in wage rate schedules averaging 4.1 percent of the straight-time hourly earnings on a September 1942 base or 4.81 percent on a January 1941 base.

[17] The increase was 50.9 percent in terms of gross average hourly earnings, which take into account the premium payment for overtime work. Because of longer hours of work, the average weekly earnings of all employees in manufacturing increased by 76.3 percent from January 1941 to October 1944.

[18] Source: Analysis prepared by the Employment and Occupational Outlook Branch of the Bureau of Labor Statistics and issued on June 10, 1944.

The increase of 44 percent in average straight-time hourly earnings for all manufacturing employees between January 1941 and October 1944 reflects, therefore, the significantly improved economic status of many persons who, for the first time, have had an opportunity to work in a relatively high-paid industry. These employees, many coming into the labor market for the first time, sometimes earn more per hour and much more per week than experienced and skilled workmen in the same household who have remained on old jobs in a lower wage industry. The disparity between such earnings is an understandable source of dissatisfaction. It could not, however, be eliminated by a general wage increase affecting all manufacturing employees equally.

After a careful appraisal of this particular measure of wage changes, i. e., average straight-time hourly earnings for all manufacturing employees, one comes inevitably to the conclusion that it is not an equitable measurement of changes in employee wage standards.

Average Hourly Earnings—Adjusted for Interindustry Shifts

It is possible statistically to correct, within reasonable limits of error, for the effect upon changes in average straight time hourly earnings of shifts in the relative number of workers employed by various industries. Using the method adopted for this purpose by the Bureau of Labor Statistics, the average hourly earnings for each industry have been weighted by the number of employees on the industry pay roll as of January 1941.[19] On this basis, the adjusted average straight-time hourly earnings for all manufacturing employees increased from $0.664 per hour in January 1941 to $0.908 in October 1944. This is a rise of 36.7 percent. During the prestabilization period, prior to October 2, 1942, the increase was 21.5 percent. From October 1942 to October 1944, the increase in average straight time hourly earnings was 15.2 percent (using January 1941 as a base) or 12.5 percent (using the September 1942 earnings as a base).

Straight-time hourly earnings, so adjusted, provide an important measure for appraising changes in the wage standards of the average employee in manufacturing industry. They exclude the effects of increasing employment in high wage industries as well as the influence of overtime premium rates. It can be said, therefore, that those manufacturing employees who remained in the industry where they are customarily employed received an increase of 36.7 percent in average straight-time hourly earnings from January 1941 to October 1944 and of 12.5 percent from October 1942 to October 1944.

What accounts for the greater increase in the adjusted hourly earnings as compared with increases in wage rate schedules? A number of factors, whose effects cannot be individually isolated, are involved. Any greater concentration of the production of an industry in relatively high wage areas would contribute to the result. Or the needs of war-time production may have resulted, in some industries, in the assignment of a larger percentage of the total work-force to

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[19] The use of the distribution of employees among the various industries as of January 1, 1941, does not imply that this is a "normal" distribution or one which will prevail in post-war years. Such use does provide a statistical basis for isolating the effect upon average hourly earnings of the increase in relative importance of the high-wage industries during wartime.

the higher wage occupational groups.[20] The average increase in adjusted straight-time hourly earnings of manufacturing employees is also affected by promotions, merit increases, and by increases of earnings under piece-rate and incentive systems of pay. Hourly earnings have been increased, moreover, by the payment of premiums for work on late shifts, a practice which has been extended in recent years, and by the increase in such shifts. There are, moreover, reasons for believing that the wage-rate schedules have been administered less rigidly than in former years in order to provide better paying jobs in a tight labor market.

The 36.7 percent increase in adjusted straight-time hourly earnings from January 1941 to October 1944 results, therefore, from a combination of influences of which changes in basic wage-rate schedules are but one factor. It would appear that all the other influences combined have nearly as much importance as the changes in wage-rate schedules alone. These "other influences" have, therefore, provided substantial increases in earnings during the war and will undoubtedly continue to do so as long as the manpower supply is limited.

Most of these "other influences" are reversible, however, without any change in wage-rate schedules. Many of them will, in all probability, become inoperative when the manpower supply again becomes adequate for industrial needs. The level of adjusted straight-time hourly earnings consequently does not represent a firm or a secure labor standard which can be counted upon to carry over to a peacetime economy. It is, on the contrary, a wage standard related to wartime operating conditions. Since it is a real standard today, representing money in today's pay envelopes, the present level of adjusted hourly earnings is an important measure of the results of the stabilization program. It is emphasized, however, that a large part of the increase in adjusted straight-time hourly earnings above the increases in wage-rate schedules probably will be eliminated when cut-backs occur and when the labor supply becomes adequate for industrial needs.

Adjusted Average Straight-Time Hourly Earnings—By Industries

In considering general policy questions, use may be made of the adjusted average straight-time hourly earnings increase of 36.7 percent from January 1941 to October 1944 for all manufacturing employees. Such use should not obscure the fact that this average is a composite of varied changes in hourly earnings for many industries.

In the women's clothing industry, for example, where piece-rates prevail and where constant adjustments of rates for new styles are necessary, average straight-time hourly earnings increased by 86.8 percent from January 1941 to October 1944. By contrast, average straight-time hourly earnings increased by only 17.7 percent for employees in "newspapers and periodicals," an industry in which single, hourly rates are customarily specified for well-defined occupational groups. The increases for other industries vary between the two extremes noted.

In terms of adjusted average straight-time hourly earnings, then, the wage standards in the different manufacturing industries have been variously affected under the wage-stabilization program. The possi-

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[20] There are, on the other hand, industries in which the influx of inexperienced employees has resulted in a proportionately greater employment in the relatively low paid occupational groups.

bility that particular problems may exist in particular industries does not vitiate the use of the general measure of increases in average straight-time hourly earnings in dealing with general policy questions.

Average Straight-Time Hourly Earnings—By Plant

Since reference has just been made to variations in average hourly earnings between industries, it may also be noted that there is typically a similar variation between plants within the same industry. These variations occur because of such factors as differences in the general increases in wage-rate schedules, through different practices in administering wage schedules, and also because of innumerable variations in operating conditions.

The average straight-time hourly wage for all employees in the steel industry, for example, increased by approximately 27 percent from January 1941 to August 1943. During the same period, an increase of less than 15 percent in straight-time hourly earnings was reported, in terms of plant averages, for concerns employing 7.4 percent of all workers in the industry. Increases of 50 percent and over in plant averages were reported for concerns employing 7 percent of all the workers.[21]

From the available data, it is not possible to understand the reasons behind the variations in plant averages within a particular industry. The adding or expansion of a particular department, so commonly necessary in wartime, could result in a significant change in the plant average. So, of course, could any change of operations necessitating a marked shift in the composition and distribution of employees among the various occupations. An understanding of these variations in plant averages can come only through dealing with particular cases involving individual plants. It is quite possible, however, that wage standards as measured by average hourly earnings may have changed quite differently in a particular plant as compared to the industry as a whole or manufacturing industries in general.

Average Straight-Time Earnings—By Occupations

It has previously been noted that average straight-time hourly earnings for all manufacturing employees, adjusted to eliminate overtime pay and inter-industry shifts, constitute an important measure in a consideration of how well employees wage standards have been maintained under wartime conditions. As noted previously, this measure is influenced by changes in the composition and distribution of workforces within an industry and also by such factors as merit increases, added production by piece workers and increased shift differentials. Certain of these influences have been eliminated in the recent study of urban wage rates made by the Bureau of Labor Statistics.[22] The urban wage rate data measure changes in average straight-time earnings by occupation groups.[23] These data exclude the effect of changes

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[21] Source: Bureau of Labor Statistics, Employment Statistics Division, Special Tabulation, unpublished, March 1944.

[22] "Wartime Wage Movements and Urban Wage-Rate Changes," October 1944.

[23] The wage data used relate to specific occupations, defined in writing to assure uniformity, and with appropriate distinction between men and women workers, experienced workers and learners, etc. The use of constant weights assure that each occupation, each industry, and each area (but not each establishment) will exert the same degree of influence in all periods. The Bureau of Labor Statistics reports that this measure of wage-rate change eliminates "the influence of most of the disturbing factors which affect even the best over-all estimate of straight-time earnings."

in concentration of an industry in particular areas, of between-grade promotions, and of shift premiums. They are influenced not only by changes in basic wage-rate schedules, however, but by changes in output under incentive systems,[24] changes in the prevalence of incentive systems, and in-grade merit increases to individual employees.[25]

On the basis of straight-time hourly earnings by occupational groups, measured by the Bureau of Labor Statistics as urban wage-rate changes, the wages of all manufacturing employees increased on the average by approximately 30 percent from January 1941 to October 1944. The increase of urban wage-rates from the stabilization date of October 2, 1942, to October 1944 was approximately 11.3 percent. Urban rate changes may be said to measure the increase in average earnings for an hour's work of those employees who remained at their regular job in the same plant where they have customarily been employed.

SUMMARY OF DATA ON WAGE CHANGES

The foregoing discussion of wage changes has dealt with various kinds of measurements. The use of some of these measures required the filling in of gaps in data by the making of estimates. It is believed, however, that the estimates are reasonably satisfactory for the consideration of broad policy questions.

The estimated changes in wages for the periods under discussion may be summarized as follows:

Changes in Wages of Manufacturing Employees, by Percent

	January 1941 to October 1944	January 1941 to October 1942	October 1942 to October 1944 [1]
	Percent	*Percent*	*Percent*
Average gross weekly earnings	76.3	46.0	20.8
Average gross hourly earnings	50.9	30.7	15.4
Average straight-time hourly earnings	43.9	26.4	13.9
Average straight-time hourly earnings (adjusted for inter-industry shifts)	36.7	21.5	12.5
Average straight-time hourly earnings by occupations (urban wage rates)	30.0	17.0	11.3
Wage-rate schedules	19.7	15.0	[2 3] 4.1 [4] 3.2

[1] These data are computed with September 1942 as the base in order to show the changes which have occurred since the stabilization date. Data in the two other columns are on a January 1941 base in order to show the changes which have occurred since the base date of the Little Steel formula.

[2] The figure of 4.1 percent is for both manufacturing and nonmanufacturing industries. Greater percentage increases in nonmanufacturing industries as compared with manufacturing industries seems to have occurred from October 1942 to October 1944.

[3] All industries.

[4] Manufacturing industries estimated.

The above table shows that since January 1, 1941, but especially since October 2, 1942, there have been but relatively small percentage increases in the basic wage-rate schedules, which may be conceived as a "price list" for work done within various occupational groups. A

[24] The Bureau of Labor Statistics report states: "In many cases, however, it is impossible without prolonged and intensive investigation to ascertain to what extent a change in incentive pay reflects a change in the basis of payment and to what extent a change in the intensity or effectiveness of work."

[25] Changes in the relative importance of particular establishments are not eliminated as a factor but the Bureau of Labor Statistics suggests that this influence is only of minor importance.

greater increase is shown by the average straight-time hourly earnings by occupational groups, largely because in-grade merit increases and increased earnings at incentive rates, have provided more wages, on the average, for an hour's work than would result solely from a change in wage-rate schedules. The average straight-time hourly earnings, adjusted for interindustry shifts, is still greater because of premium pay for extra shifts and between grade promotions. The measure is also affected by any concentration of production in high wage areas and in high wage plants gave many employees an opportunity to increase their earnings by working at a higher wage plant. Since there has been a great expansion of the high-wage heavy industries in wartime, the unadjusted average straight-time hourly earnings increased to an even greater extent especially during the "tooling-up period" prior to October 1942, when the new and expanded industries were hiring new employees. Average gross hourly earnings reflect changes in the prevalence of overtime work at premium pay, while the data for gross weekly earnings are influenced by increased hours of work per week.

It may be noted that since October 2, 1942, wage-rate schedules have changed only slightly, but average straight-time hourly earnings by occupational groups increased by a relatively greater extent than in the earlier period. Since October 2, 1942, however, there has been a marked slowing down in the percentage increases of the other measures since further shifts to higher-wage industries and plants became less extensive, additional overtime hours were not worked, and still longer hours per week could not be provided. The large increases in earnings, as well as of wage-rate schedules, occurred prior to October 2, 1942, when the full benefits of extensive upgrading, of longer hours of work and of unrestricted changes in wage-rate schedules were secured in combination.

APPENDIX E

PRICES AND PURCHASING POWER

BY LLOYD K. GARRISON

Throughout the cases and proceedings the representatives of labor appearing before the Board have emphasized increased living costs as the major justification for a change in the wage policy, while the representatives of industry have emphasized the extent of increased take-home as the major justification for holding fast to the wage policy. It is apparent from their respective presentations, however, that the general attitudes of both labor and industry toward the wage question have been influenced by other considerations which must be taken into account in any over-all appraisal of the problems involved in labor's demands. First and foremost among these considerations is uncertainty about the future.

Uncertain of what the return to competitive conditions will bring forth, industry seeks to retain a low-cost operating position and to conserve its surpluses and reserves. The workers are apprehensive of widespread production cut-backs with a consequent loss of earnings and unemployment. They are seeking to obtain wage-rate increases now to protect themselves against these hazards. They fear that they will be unable to obtain wage-rate increases later when labor is no longer at a premium in the market. Labor's search for security expresses itself also in demands for guaranteed annual wages, severance pay, and other provisions designed to check or cushion the shocks of unemployment.

Labor notes the fact that industry has been given some substantial protection against post-war losses by the carry-back provisions of the tax laws and that agricultural producers have been assured minimum prices of 90 percent of parity for two years following the cessation of hostilities. On the other hand, there are no comparable provisions in the law for the protection of wage earners against post-war losses. Under these circumstances labor urges that wage earners are justly entitled now to the protection which increased wage rates would afford them, particularly since industry has made unprecedented profits during the war. Even after taxes are deducted, these profits stand at their highest peak in history.

The representatives of labor who have appeared before the Board recognize that inflation would fall with devastating effect upon wage earners. But they minimize the danger of inflation. They contend that the profits of industry are such that reasonable wage increases can, in general, be absorbed without the necessity of price increases. They believe, moreover, that even if wage increases would lead to some price increases, wage earners would in the end be better off even at the cost of some additions to their living expenses. Overlooked at this point of the argument are the millions of unorganized workers and the millions of people living on fixed incomes for whom any further rise in living costs would be an uncompensated hardship. On the other hand, it has been argued vigorously by labor that its program will benefit the whole country by helping to sustain full production and full employment after VE-day through the maintenance of consumer purchasing power resulting from a higher wage level.

On behalf of industry it was argued that the balance between wages and prices is a very delicate one; that an inflation, disastrous to the war effort and to the future economy of the country, could easily be brought about; and that it ought not to be risked by any general change in wage policy. Industry fears that such a change would lead to a round of wage increases and inevitably to price increases. It was argued that the over-all figures of profits are misleading, and that the profit margins of so many concerns have been so narrowed that further wage increases could not be absorbed and would require the general lifting of price ceilings.

These are the main attitudes on both sides which need to be taken into account in the shaping of policy. The views presented by the spokesmen for industry and labor are, we believe, sincerely held and deeply felt. They call first and foremost for assurances against the unknown and unpredictable—assurances which cannot be achieved merely by wage determinations, and which it may perhaps be beyond the power of any government to give. But insofar as the needs can be recognized and dealt with, the better able we shall be to face the tasks that lie ahead after victory has been achieved.

We shall now summarize the material presented to the Board by the representatives of industry and of labor regarding (1) industry's capacity to meet the wage demands without price increases; and (2) the deflationary effect of cut-backs after VE-day as bearing upon the demand for wage increases now.

PART I

The Price Question

It must be emphasized at the outset that under the Stabilization Act, the responsibility for determining whether or not particular wage increases require price relief rests upon the Office of Price Administration, and that the War Labor Board has neither the power nor the requisite knowledge to say what effect on the price structure a given change in the wage policy might produce. During the course of the recent hearings, however, much material was presented to the Board, by representatives of labor seeking to show that there was nothing inflationary in their demands, and by representatives of industry seeking to show the opposite. It has seemed to the Board that a brief analysis of that material might be a helpful addition to this report, even though the Board is not itself in a position, for the reasons already stated, to draw final conclusions.

In considering the evidence bearing on the capacity of industry to absorb the wage increases which are sought through a change in the national wage policy, it is pertinent to inquire first of all into the extent of the change which is demanded, and the relative magnitude of the increases which it would permit. As stated in appendix B, part I, the most frequently expressed aim of the various labor representatives, and the one most strongly urged upon the Board, is to substitute for the January 1941–May 1942 cost-of-living yardstick in the Little Steel formula a new yardstick incorporating the increase in living costs from January 1941 to the date of the change in the formula.

Very roughly, it can be estimated that on an over-all average, if such a change were made, and if 30 percent be taken as the figure for the rise in living costs from January 1941 to date, the total wage increases which would be permitted in all private nonagricultural industries would roughly be somewhere in the neighborhood of from 6 to 8 billion dollars.[1]

The fact that increases of this general order of magnitude would become permissible under the proposed change in policy would not mean that all workers would necessarily get the increases, or that all the increases would be made at the same time.[2]

Whatever the aggregate increases would be, the representatives of labor have contended that employers could, in general, absorb them without price increases because of the very large profits accumulated in wartime.

Profits

The level of corporate profits in industry generally during the war years in comparison to peacetime was presented by the companies and unions in a number of the pending cases[3] and in the hearings before the Board.[4] Representatives of industry for the most part stressed the measure of profits after taxes while representatives of the unions cited the level of profits before taxes.[5]

The following table contains the basic figures on corporate profits before and after taxes cited at different times by representatives of both industry and labor:[6]

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[1] These estimates are based upon a level of straight time average hourly earnings in January 1941 as reported by the BLS, of 66.4 cents in manufacturing, and 55 cents in nonagricultural industries, exclusive of Government. It is presumed that wage rates in manufacturing have increased as a result of general increases in wage-rate schedules by approximately 18 percent during the period since January 1941. See "Wartime Wage Movements and Urban Wage-Rate Changes," *Monthly Labor Review*, October 1944, pp. 684–704. This is only an approximation, and the increases in nonmanufacturing are even less certain. They are estimated to be somewhat higher than in manufacturing since April 1943, and somewhat less prior to that time. The figure of 18 percent has been used for nonmanufacturing as well as for manufacturing, realizing that it contains a considerable margin of error. In calculating the total amount of increases which would be permissible under a changed cost-of-living yardstick in the Little Steel formula, the general increases in wage rate schedules already received since January 1941 (18 percent) have been deducted from the 30 percent. The aggregate of wages and salaries for 1943 in nonagricultural industries, exclusive of Government, is estimated at $78.5 billions. The estimated wage increases which a changed Little Steel formula would permit on this basis would be 6.7 billions. (*Survey of Current Business*, April 1944).

[2] In the Steel case the companies expressly recognized this fact, and made calculations of the over-all cost of a 17 cents increase for all workers based on the possibility that only half of the increase might be effective. Companies' Exhibit No. 5, pp. 8–9.

[3] In the General Motors-U. A. W. case, *Wage Stabilization and Post-War Security*, the Union Brief, p. 34; in the Steel case, Companies Exhibit 5, p. 30, and Union Exhibit A, p. 24.

[4] Mr. Matthew Woll cited the increase in corporate profits in the period 1939–44, Transcript, September 26, 1944, p. 20.

[5] Office of Price Administration uses profits before taxes in appraising requests for price increases.

[6] The source is [from] the Department of Commerce, *Survey of Current Business*, June 1943 and July 1944.

Year	Corporate profits		Year	Corporate profits	
	Before taxes	After taxes		Before taxes	After taxes
	Billion dollars	*Billion dollars*		*Billion dollars*	*Billion dollars*
1929	9.3	8.1	1940	7.4	4.8
1936	5.1	3.9	1941	14.5	7.3
1937	5.2	3.9	1942	20.0	8.5
1938	2.4	1.5	1943	22.8	9.0
1939	5.3	4.1			

For manufacturing only, the figures are as follows: [7]

Year	Manufacturing profits		Year	Manufacturing profits	
	Before taxes	After taxes		Before taxes	After taxes
	Billion dollars	*Billion dollars*		*Billion dollars*	*Billion dollars*
1929	4.5	3.9	1940	4.9	3.4
1936	3.2	2.6	1941	9.9	5.0
1937	3.2	2.6	1942	12.8	5.3
1938	1.3	.9	1943	14.6	5.7
1939	3.2	2.6			

The effect of an increase in the general level of wage rates on the price structure, however, cannot be appraised simply by reference to the over-all level of corporate profits. Under the standards for price control developed by the Office of Price Administration,[8] the level of prices for an industry must be increased when the return (before taxes) falls below that earned in a representative peace-time period, generally, 1936–39,[9] with suitable adjustments for increases in invested capital.[10] Thus, the general level of corporate profits is inconclusive for appraising the effects of a general wage adjustment because of possible divergent profit positions among the various industries and because of uncertainty over the proper adjustments for increases in invested capital.

Further, the distribution of profits among companies within an industry is an important factor in price determination. The Office of Price Administration may authorize price increases to an industry to assist in calling forth the needed volume of production from marginal companies even though the general level of profits for the industry

[7] Survey of Current Business, June 1942, June 1943, July 1944. Citing these same figures, the Economic Stabilization Director, Judge Vinson, stated to the Senate Banking and Currency Committee on April 26, 1944 (Hearings, p. 1196) : "Corporate profits are at an all-time peak." The Price Administrator, Mr. Bowles, stated (Hearings, p. 44) : "These represent the highest level of earnings before or after taxes, ever reached by American business. * * * Small business, too, is doing better today than ever before. Not only are profits at record levels, but business failures are at an all-time low."

[8] The summary of price standards which follows is drawn largely from the testimony of Mr. James F. Brownlee, OPA Deputy Administrator for Price, before the House Banking and Currency Committee, April 14, 1944. Hearings, pp. 49–82.

[9] In his testimony Mr. Brownlee said that this period had been chosen "because it represents a mixture of good years and poor years, no one of which was a year of severe depression or exceptional prosperity and because Congress selected these years as a base period for excess profits tax purposes, presumably for the same reasons." Hearings, p. 56.

[10] A special study by the OPA of 1,328 large industrial corporations in 30 different industries showed the following profits before income taxes expressed as a percentage of net worth (net worth being taken as the sum of common and preferred stocks, surplus, and surplus reserves, calculated on the average of the beginning and end of each year) : 1936–39 average, 9.1 percent; 1942, 24.2 percent; 1943, 27.5 percent. (Release by OPA, Div. of Research, Financial Analysis Branch October 1944.)

as a whole may be satisfactory. Consequently, the effects of a wage rate increase on the profit position of marginal companies, in at least some industries, must be determined before the total effects of a general wage adjustment can be accurately indicated.

In industries making a number of different products, the Office of Price Administration may increase the prices of particular products, even though the industry has a satisfactory over-all earnings position. In general, prices may be thus increased if producers incur an out-of-pocket loss on the particular commodity. The effect of a general increase in wage rates cannot adequately be indicated, therefore, until the impact on particular commodities has been ascertained.

The Office of Price Administration also authorizes increases in prices to individual companies, as distinct from industry-wide and product-wide adjustments, under certain conditions. In general, individual adjustments are made to aid in securing supplies that are essential for the war program or for civilian needs, to keep in the market low-price supplies so that people will not be forced to turn to higher priced products, and to remedy substantial "inequities." Here again, the effect of a general increase in the level of wage rates on prices may not be immediately apparent by reference only to over-all profit levels.

In the pending cases, data were presented for the particular companies or groups of companies involved showing greatly enlarged profits before and after taxes,[11] with some exceptions.[12] But the question of whether or not a given wage increase would require price relief for the industries involved would still be a matter for the Office of Price Administration to determine, and in any event the answer would not be decisive of the larger question as to effect of a modification of the Little Steel formula on the price structure generally.

Productivity

Representatives of labor have contended that the increase in productivity since the outbreak of war, and that which may reasonably be expected to take place with the return to peacetime operations, should further enable industry to absorb the wage demands of the unions within existing price levels.[13] Bureau of Labor Statistics reports, cited to the Board, state that the output per man-hour in manu-

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[11] In the steel case, Report of the Steel Panel, p. 115. Companies' Exhibit 12, Union Rebuttal Exhibit D, Steel Profits 1936 through 1943. In the General Electric and Westinghouse cases. Fact Finding Report of Panel, pp. 7 and 8. In the *Packinghouse cases,* CIO brief, p. 280, and AFL brief, pp. 132 and 138. In the General Motors-U. A. W. case. Transcript, September 30, 1944, pp. 9–10.

In the Steel case the union contended that the published profits figures do not adequately reflect the true profit position of the companies, and that the various reserve accounts for post-war contingencies and depreciation in fact represent hidden profits. (Transcript, September 27, 1944, pp. 236–40, and Union Rebuttal Exhibit D, Steel Profits 1936 through 1943, also see, Report of the Steel Panel, p. 112). The companies replied that the reserves were set up in accordance with good accounting practice, and that they will be needed for the purposes for which they were set up. (Companies' Exhibits 11, 12, and 17, and General Statement in Reply to the Rebuttal Presentation of the Union, pp. 19–21.)

[12] For example, in the *Steel* case, the Andrews Steel Company reported a loss for the first quarter of 1944. (Report of the Steel Panel, pp. 109–10.) The United Steelworkers of America-CIO, in a pamphlet, "Save Small Steel" stated that "there are at least 20 small semi-integrated steel producers that are presently confronted with disaster and bankruptcy as a result of wartime distortions of the company." (Union Exhibit A–4.)

[13] In the General Electric and Westinghouse cases, Union Brief, pp. 44–45; Transcripts, September 26, 1944, pp. 4041; Transcript, September 27, 1944, pp. 182–221; Transcript, September 29, 1944, pp. 16–19.

Increased productivity has also been cited as a reason why, on the merits, wage increases should be granted. "One of the inequitable features of the Little Steel Formula is that it has frozen wage rates while productivity—man-hour output—has been rapidly increasing." (Transcript, September 27, 1944, p. 220; also see, Report of the Special Panel Summarizing the Contentions Advanced by the American Federation of Labor in support of its Petition for the Modification of the Little Steel Formula, pp. 7 and 13.)

facturing industries increased 61.5 percent in the period 1925–40, an average increase of approximately 4 percent a year during the period. This rate of increase is equivalent to a cumulative rate of 3.25 percent a year.[14] There are as yet no authoritative figures for the war years.

The argument that increased productivity constitutes a method of absorbing a wage increase within the present price level may be considered as a variant of the argument that the level of profits is such that wage increases may be absorbed. The productivity factor, in any event, is one which the Office of Price Administration would normally consider in arriving at price determination.

Other Factors Affecting Profits in Transition

In their appearances before the Board representatives of industry and labor, from differing points of view, have directed attention to a group of cost factors which (if there are no significant price changes) may influence the general level of profits during the transition to a peacetime economy, and which to that extent are pertinent to the question of industry's capacity to absorb wage increases. The main factors are as follows:

(a) *The effect of shortened hours.*—Representatives of labor have argued that a return to more normal hours of work per week will not only reduce the "take-home" of wage earners but will also reduce unit labor costs more than proportionately as a result of the reduction in premium overtime.[15] Representatives of industry have pointed out that in a period of transition other factors affecting unit labor costs are operative; that certain labor costs are fixed and may not decline proportionately to output; that lower levels of output may bring higher unit labor costs as well as higher unit overhead costs; that higher labor costs will follow shorter runs for civilian customers; and that it is very doubtful if on balance unit labor costs will decline.[16]

(b) *The composition of the work force.*—The labor force in wartime has had to absorb many millions of new and inexperienced workers. Representatives of labor have contended that the return to peacetime operations will witness lower rates of turn-over and a higher proportion of experienced workers, with consequent favorable effects on unit labor costs.[17]

(c) *The scrapping of marginal plants and facilities.*—Representatives of labor have emphasized that average costs may be reduced by the withdrawal from production of the least efficient, highest cost and most obsolete facilities which have had to be used for war production. They have also stressed the fact that the Federal Government has financed the construction of many new and efficient plants, and that with return to peacetime operations, production may be expected to be concentrated in these plants, to the great benefit of the companies. Industry representatives have pointed out that companies which have only one plant will not so benefit.[18]

(d) *The proportion of profitable and less profitable products.*—In certain industries profit levels depend in part upon the proportion in

[14] Bureau of Labor Statistics, Productivity and Unit Labor Cost in Selected Manufacturing Industries, and supplements, March 1942 and April 1944.
[15] Report of the Steel Panel, p. 115.
[16] Transcript, September 28, 1944, pp. 418–25.
[17] Transcript, September 29, 1944, p. 17.
[18] Transcript, September 28, 1944, p. 425.

which the most profitable and least profitable products are produced. The return to peacetime operations will, it is argued, result generally in a less profitable combination of products since many of the most profitable wartime products will be withdrawn from production.[19]

This very abbreviated summary does not attempt to do more than draw attention to some of the principal factors which may affect profit levels when peacetime operations are resumed. Each such factor, to the extent that it may be pertinent to the situation of a particular industry, may be taken into consideration by the Office of Price Administration in the determination of price levels. This brief review of the limited material presented to the War Labor Board indicates how complex are the price problems with which Office of Price Administration must deal.

PART II

Wage Rates and Purchasing Power

In addition to their main case for a change in the Little Steel formula based upon the increase in the cost of living, leading spokesmen for labor also contended that general wage increases should be made now as the only practical way to fill in the gap in consumer purchasing power which may be expected when war production falls off and which, if not filled in by increased wage payments, may be expected to result in mass unemployment and in the creation of a deflationary spiral.

The most complete presentation of this argument was by Mr. Matthew Woll, on behalf of the American Federation of Labor. In his statement to the Board, he developed the following propositions:[20]

1. "The moment Germany surrenders, telegrams will go out to war plants all over the country cancelling war orders; and immediately men will be laid off, literally by the million. The smallest unemployment we can expect will be about 4,000,000, if everything possible is done to facilitate reconversion of industries. But if we do not manage well, unemployment may mount as high as 8,000,000. These are estimates based on Government information. Gradual demobilization of servicemen will add another one to two million to those seeking jobs."

2. This demobilization of war workers and servicemen plus the anticipated ending of overtime payments will result in a drop in consumer purchasing power of "at least 14 to 16 billion dollars. This means that about 15 percent of our consumer market will be cut away. For consumer spending in 1944 has been running at about 100 billion dollars yearly according to Commerce Department figures, and we will lose 14 to 16 billion dollars of this market."

3. If the Little Steel formula is abandoned "wage increases can replace the buying power that will be lost by layoffs and the end of overtime."

4. It is not enough to consider the immediate problem of deflation which will arise when victory in Europe has been achieved. To sus-

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[19] For example, with reference to the steel industry, the companies stated: "* * * further fabrication of the final products whether produced in peace or war normally may be expected to provide larger margins between costs and selling prices. The steel industry is now producing a higher percentage of further fabricated articles than it does when engaged in peacetime production." (Transcript, September 28, 1944, p. 423.)

[20] Transcript, September 26, 1944, pp. 27.

tain full employment after the war is over both in Europe and in the Pacific, it will be necessary to lift very substantially the existing levels of consumer purchasing power. A recent study by the Federal Reserve Board shows "that at 1944 price levels industry must sell 114 billion dollars worth of products to consumers if full employment is to be maintained." A similar study by the U. S. Department of Commerce "shows 119 billion dollars. To sell less than this means unemployment, declining prices, the road to business depression. But at present wage rates, *even with full employment*, consumer buying power will amount to only 105 billion dollars with which to buy 114 to 119 billion dollars of consumer goods. These are preliminary figures of the U. S. Commerce Department." [21]

5. The high wage program necessary to maintain full production and employment after the war can be accomplished "by increasing productivity as we did in our miracle of war production. During the war we raised production per worker 42% in eighteen months in munitions industries. Many of the new machines and techniques which brought about this amazing increase will be carried over into the peace. A level of productivity far above pre-war is certain. The ingenuity of American managements and workers will not end with the peace. * * *"

Similar though less detailed arguments were made for the American Federation of Labor by George Meany, and for the Congress of Industrial Organizations by Philip Murray and R. J. Thomas. Mr. Meany said:

> This brings us face to face with our most vital post-war problem confronting our Nation today: The problem of securing an adequate wage level that will enable American workers to enter the market as large consumers of peacetime goods, and to stay in that market to the extent necessary to achieve and maintain full employment.[22]

Mr. Murray stated:

> * * * this Board is confronted with the responsibility of meeting the problems which will arise in the very near future due to reconversion of available facilities * * * But one essential factor is lacking * * * that factor is the purchasing power of the people.
>
> Purchasing power does not drip down from the tremendous reserves accumulated by business. The realistic approach must be adequate wages for the workers. This is the proposal of the Union, that there now be a general wage adjustment.[23]

Mr. Thomas stated:

> * * * the only way to counteract these deflationary forces is by vigorous and prompt action to raise basic wage rates.[24]

On behalf of the United States Chamber of Commerce, Mr. Eric Johnston expressed himself generally as in favor of a high wage economy. He stated to the Board that "* * * large volume, high

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[21] The figure of 105 billion dollars was arrived at, according to Mr. Woll, as follows: "consumer income at present in 1944 is running at the yearly rate of 153 billion dollars. But the ending of overtime, the shift from high-paid war jobs to lower paid work, the retirement of surplus war workers, and the demobilization of servicemen will cut away workers' buying power. Even after servicemen have again found jobs in industry, the total decline in workers' buying power will amount to 23 billion dollars. Allowance must then be made for normal savings and post-war taxes, a total of 25 billion dollars. This reduces to 105 billion dollars the consumer income available to buy the goods and services produced by industry. (Details of these figures are submitted herewith in a table appended to this statement.)" The calculations of Mr. Woll are based upon data from the Federal Reserve Board (Federal Reserve Bulletin, May 1944) and the Department of Commerce. See Transcript, September 26, 1944, pp. 16 to 43.

[22] Transcript, September 26, 1944, pp. 10–11.

[23] Transcript, September 27, 1944, p. 157–158.

[24] Transcript, September 29, 1944, p. 31.

wages and low unit costs have given us the best standard of living in the world. We must make every effort to preserve this pattern of progress." He advocated "* * * progressive wage increases as improved methods permit increased production."[25] Similarly, Mr. Robert M. Gaylord, President of the National Association of Manufacturers, testified that American manufacturers "believe in high wages. They want them just as high as production will permit."[26]

The representatives of labor went much further than this, not only in indicating the general magnitude of the wage increases which they believed to be necessary to sustain full production, but also in urging that these increases be made *now* and not at some indefinite time in the future. As Mr. Meany put it:

> We cannot afford to wait until we are suddenly thrown into the post-war period to decide what to do about wages. Unless we act before victory has been achieved, the question of wages in the vital reconversion period will be left to be decided by the economic forces involved. Strikes, strife and economic chaos will result * * *

The principal arguments advanced by spokesmen for industry in opposition to any change in policy which would permit the general raising of wages (as distinguished from the adjustment of particular inequities)[27] may be summarized as follows:

1. If a general wage increase should be authorized it will not come out of the pockets of industry so long as management is caught between a 95 percent tax and fixed prices.[28] In the case of companies with sufficient profits to absorb the increased wages, the increases would chiefly come out of the United States Treasury and would, therefore, sooner or later be borne by the taxpayers. In the case of companies without sufficient profits to absorb wage increases, the increases would be borne by the general public in the way of higher prices.

2. While the beneficiaries of the wage increases would be able to buy more goods and services, they would constitute only a minority of the American people and the great majority would suffer either through increased prices or taxes, or both. These increases would fall most heavily upon farmers, school teachers, local and state employees, white collar groups and people living on old age and retirement pensions.[29]

3. Our foremost danger is not a lack of purchasing power, but an excess amount of it in the form of swollen bank deposits and other forms of liquid savings which could have disastrous inflationary effects if the people once became fearful that the stabilization line was not going to be held and that prices were going to go up. This view found its fullest expression in the statement of Leland Hazard on behalf of the two principal Glass companies.[30] He first drew attention

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[25] Transcript, October 2, 1944, pp. 282 and 274.

[26] Transcript, October 2, 1944, p. 261.

[27] Mr. Gaylord testified: "We believe, too, that where real inequities exist they can and should be adjusted—just as price increases should be permitted in specific cases of inequity. However, that is totally different from either a general wage increase or a general price increase. Neither one is in the public interest." (Transcript, October 2, 1944, p. 261.)

[28] Mr. Gaylord's statement, Transcript, October 2, 1944, pp. 257–258.

[29] Ibid.

[30] Libbey-Owens-Ford Glass Co. and Pittsburgh Plate Glass Co. For Mr. Hazard's statement, see Transcript, September 30, 1944, pp. 227–239 and his formal statement offered as an exhibit.

to the "inflationary gap," quoting from a statement by the Director of the Budget Bureau on August 2, 1944, that there is a difference "of 45 or 50 billion dollars between current receipts available for spending and the value of goods and services in the market."

Mr. R. J. Thomas, voicing the general viewpoint of organized labor, has referred to the inflationary gap theory as "discredited" [31] because the various prophecies of inflation based upon that theory, which have been made during the past two years or more, have not borne fruit. Mr. Hazard, on the other hand, as will presently be noted, expressed the view that only the stabilization controls have held the excess buying power in check and that once these controls are impaired the buying power may be suddenly let loose.

There is another category of "dangerous dollars," Mr. Hazard said, "the accumulated wartime savings of individuals. This category of 'dangerous dollars' has increased as follows:" [32]

	Billion dollars
Fiscal year ending June 30, 1942	17
Fiscal year ending June 30, 1943	38
Fiscal year ending June 30, 1944	38
Total increase of liquid savings, 3 war years	93

* * * * * * *

A general wage increase of 1 cent per hour would amount to about a billion dollars per annum.[33] So, for every cent by which the national wage stabilization policy is relaxed you may add a billion dollars to the existing two and a third to one ratio of purchasing power to goods and services. Possibly seventeen billion dollars would not be the last straw; possibly half of that amount would not be the last straw; possibly a fourth of that amount might not—to change the figure—set affame the tinder of inflation. Possibly not, but who is to say?

The moral pointed by Mr. Hazard was that the risks were too great to be wisely taken.

In reply to these arguments, based on the existence of a great volume of "hot money," spokesmen for labor asserted that the fear of unemployment after VE-day will restrain the workers from spending their savings. Mr. Woll said:

People do not spend their savings when they see men and women being laid off from their jobs on all sides; and those laid off spend the very minimum possible. Everyone knows that unemployment compensation is wholly inadequate for those who are laid off, and that Congress has failed to make any provision to remedy this inadequacy. The threat of unemployment creates a psychology of fear and makes people cling to their savings in a desperate attempt to be ready for the layoff that may come to them. It is only by creating jobs that this fear can be overcome, and we need now to create jobs in civilian industries by raising wages and thus lifting the demand for consumer products and for workers in these industries.[34]

Mr. Meany similarly argued that when unemployment sets in, the workers will "confine their purchases to the bare necessities of life"

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[31] Transcript, September 29, 1944, p. 27.

[32] Securities and Exchange Commission, Statistical Series. Release No. 743, September 21, 1944; also Release No. 709 and 731.

[33] "The figure" (says Mr. Hazard) "is probably an understatement. According to U. S. Department of Commerce figures total wages and salaries in all nonagricultural industries are running above 100 billion dollars per year or about $1,900 average salary-wage per employee. At 48 hours per week 1 cent per hour equals 52 cents per week; at 52 weeks per annum this is $27.04 per employee or 1.4 percent of $1,900. 1.4 percent of 100 billion is 1.4 billion dollars." Furthermore, because incentive pay is frequently a percentage of base pay and because of various pay-roll taxes, the compounded inflationary effect (more purchasing power and higher costs) may be as much as 1.6 cents for each cent of increase in base rate pay."

[34] Transcript, September 26, 1944, pp. 26.

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and that "the hysteria which has characterized all the depressions of the past will prevail once again. The economic spiral downward will start."

* * * * * * *

The foregoing summary indicates the nature of the principal arguments for and against the raising of wage levels as a method of sustaining full production and employment in the return to a peacetime economy. The representatives of labor have taken the position that without such a step, a serious deflation will ensue. The representatives of industry have contended that increased wages will defeat their own purpose by raising prices and by perhaps touching off a dangerous inflationary spiral. Both sides agree that production cut-backs will pose a serious economic problem, but they differ at to what should be done.

The issue calls for an over-all national judgment in which wage, price, production, and fiscal policies will all be weighed together.

COMMENTS BY INDUSTRY AND LABOR MEMBERS OF THE NATIONAL WAR LABOR BOARD ON THE PUBLIC MEMBERS' REPORT TO THE PRESIDENT

I. Comments by American Federation of Labor Members

II. Comments by Congress of Industrial Organizations Members

III. Comments by Industry Members

LETTER OF TRANSMITTAL

March 2, 1945.

Hon. Fred M. Vinson,
Economic Stabilization Director,
Federal Reserve Building,
20th and C Streets, Washington, D. C.

Dear Judge Vinson: Enclosed you shall find the comments of the American Federation of Labor Members of the National War Labor Board on the Public Members' "Report to the President on the Relationship of Wages to the Cost of Living, and the Changes Which Have Occurred Under the Economic Stabilization Policy." In addition there is included as an appendix the report of the Labor Member who was a member of the panel set up to obtain the factual information presented by the American Federation of Labor as the basis for modifying the Little Steel formula.

This entire statement is presented in an effort to lay before the President the considered judgment of the American Federation of Labor Members on this most important issue—the proposal to modify realistically the Little Steel formula.

Yours truly,

George Meany,
Matthew Woll,
Robert J. Watt,
James A. Brownlow.

COMMENTS BY THE AMERICAN FEDERATION OF LABOR MEMBERS ON THE PUBLIC MEMBERS' REPORT TO THE PRESIDENT ON THE MODIFICATION OF THE LITTLE STEEL FORMULA

SECTION I

Introduction

The Little Steel formula was the joint product of an action taken voluntarily by all the Members of the National War Labor Board in July 1942. The formula was tangible evidence of the willingness of the Nation's workers to subject their wages to regulation for the duration of the war in order to fight against inflation. However, this contribution to the war effort was made on the assumption that the cost of living would not rise appreciably in the future. Wage ceilings are not possible without price ceilings. If price regulation were successful, the tie between wages and prices could have been cut.

Nevertheless, the fact soon became apparent that although efforts to regulate prices were being made, the workers' cost of living was rising rapidly. Indeed, by the time the Little Steel formula was publicized, the cost of living had exceeded the 15 percent allowance made to correct the maladjustment between wages and prices. On March 16, 1943, the American Federation of Labor presented its initial petition for the modification of the formula to the National War Labor Board.

This petition was denied by majority action of the National War Labor Board. The Board refused to allow an increase of wage rates in excess of 15 percent of the average straight time hourly earnings of January 1941. A fact to be noted is that the basis of the Public Members' vote was that while the relationship between wages and the cost of living had been disturbed, it had not been disturbed enough. They asserted freely, however, that if there were not a stabilization of prices the formula would have to be modified. The A. F. of L. Members of the Board accepted the democratic principle of majority rule and awaited further developments.

In slightly less than 1 year the cost of living rose so rapidly and so far that the A. F. of L. Members were obligated to protest once more against the Little Steel formula. On February 9, 1944, the second petition was presented to the National War Labor Board with the request that the Board seek power from the President to modify realistically the Little Steel formula. One year later, February 1945, the Public Members at long last commented officially to the President on this petition of the A. F. of L. Board Members.

The Report to the President

The American Federation of Labor Members take issue primarily with but two aspects of the entire report. One objection is directed against the analysis of the increases in wages allegedly received by the workers of this nation. The other objection is raised against the proposals made by the Public Members to avoid the results which rigid wage control will have upon the purchasing power of workers in the reconversion period.

The Wage Analysis

The wage analysis made in the report indicates clearly that the Public Members have altered radically their method of measuring wage increases. Prior to the issuance of this document, the Public Members had refused to measure wages in terms of "take-home pay" or gross earnings. As competent students of wages they recognized the essential inequity of using gross earnings as the basis of wage regulation. Instead, wages were regulated in the past by adjusting wage rates. Thus, the frank statement is made by Dr. Taylor:

> National War Labor Board approvals and directives in wage cases have to do mainly with changes in wage-rate schedules. They are the wage rates that have been stabilized by the Board.

In this report, however, the Public Members have substituted "adjusted straight time hourly earnings" for wage rates as the criterion of wage stabilization. This change represents a compromise between their historical measure—wage rates—and the demands of employers that gross earnings or "take-home" pay should be used to measure wage increases. Essentially, the "adjusted straight time hourly earnings" measure is a kind of take-home pay figure.

This shift of standards at this time is no mere academic change of thinking. This change has been the sole ground upon which the Public Members have been able to rationalize their recommendation to the President that the Little Steel formula could not be modified.

Wage Rates *v.* Earnings

The true significance of the emphasis upon earnings rather than wage rates can be discerned if the wage facts presented by the Public Members are considered.

From January 1941 to October 1942 wage rates increased by 15 percent. From October 1942 to August 1944 (the period covered in the report) wage rates have allegedly increased 3.9 percent more. Hence, from January 1941 to August 1944 wage rate increases have amounted to roughly 19 percent. This conclusion of the Public Members is significant on two counts.

First, the position taken by the American Federation of Labor Members is justified. Wage rate increases have increased by 19 percent. The cost of living has increased—based upon official figures—by 30 percent. To correct the maladjustment between wages and the cost of living—when measured by the same standard that was used when the Little Steel formula was adopted—an adjustment of approximately 11 percent is justifiable.

Secondly, the method used by the Public Members to calculate the 3.9 percent rise in wage rates since October 1942 is quite interesting. Specifically, all types of wage changes are defined as cost-of-living adjustments. Despite the fact that the Board historically has rigorously limited increases to offset the rise in the cost of living to the Little Steel formula or maladjustment principle, now substandard wage increases as well as adjustments to correct interplant and intraplant inequities are all lumped together as cost-of-living increases. The true import of this statistical measure lies in the fact that only when the Little Steel adjustment is granted do all workers receive an actual increase. The other adjustments yield a pay increase to only some individual workers.

An example, furnished by the Public Members, illustrates the difference between a mathematical increase in wages and an actual increase.

In measuring the increase in wage rates from October 1942 to August 1944, the Public Members state that the increase amounted to $0.062 per hour for 11.2 million workers. By spreading this $0.062 increase to cover all 25,000,000 workers under the jurisdiction of the War Labor Board, however, a mathematical increase of $0.028 is received by all the workers. In other words, a phantom increase of $0.028 per hour which was mathematically received by 14,000,000 workers is one reason advanced why the Little Steel formula should not be altered.

In summary, at this point, however, the fact is clear that American workers have not received even the 19 percent increase in wage rates alleged by the Public Members; a figure of 16 percent is nearer the actual facts.

Adjusted Straight Time Hourly Earnings

But the Public Members have not chosen to use even this mathematical increase in wage rates to measure the discrepancy between wages and the cost of living. They have utilized a so-called adjusted hourly earnings figure.

A "straight time hourly earnings" figure is simply take-home pay divided by the hours worked. The adjusted straight time hourly rate differs from the above figure in that earnings arising from overtime and from shifting to higher paid jobs are eliminated. The difference in these two measures can be seen when the BLS figure for the increase in average straight time hourly earnings from January 1941 to April 1944 is stated as 42.2 percent. The adjusted average for the same period is 35 percent. Thus the adjusted figure modifies the take-home pay somewhat.

But the adjusted figure is a far cry from the average hourly rate figure. This fact can be seen when consideration of the influences in the adjusted average which have not been eliminated are considered. Specifically these factors are:

1. General changes in hourly rates.
2. Changes in liberality of basis for incentive pay.
3. Adjustments in the hourly rates of individual workers (or small groups) in recognition of merit, length of service, etc.
4. Changes in the output of workers paid on an incentive basis.
5. Changes in the prevalence of incentive payment.
6. Changes in the relative importance of individual companies or establishments.
7. Changes in the composition of the labor force.
8. Changes in the relative importance of individual regions or localities.
9. Changes in the provisions for premium pay for work on extra shifts.
10. Changes in the extent of extra-shift work at premium pay.
11. Changes in occupational structure.

In other words, there can be no doubt that the so-called adjusted average hourly figure is essentially a take-home pay measure. Thus, after an elaborate mathematical calculation, the Public Members are now wedded to the take-home pay concept which they had originally rejected so vigorously. The 35.1 percent wage increase is the product of an interesting exercise in statistical technique—but it does not measure the income with which the workers of America can meet the ever-rising cost of living.

Summary on Wages

That the Public Members have adopted a new measure of wage stabilization; that this change was unannounced to their colleagues on the Board; and that the Public Members are not obliged to explain the bases of their recommendation against changing the formula are all admissible facts. But the American Federation of Labor Members cannot explain to the workers of America the wage increases which they have only mathematically received. Nor can they explain that an increase to some individual workers fattens the pay envelopes of all workers. Furthermore, they cannot find a convincing answer to the question of why the measuring rod of wage increases was changed at all.

Last, but not least, there remains still another question which cannot be answered frankly. Why must the workers of the Nation be made to bear the brunt of supporting the entire anti-inflation program?

The seven-point program—as a whole—has not been successfully administered. Nevertheless, its deficiencies have been hidden from public view by the success attained in regulating wages. Whenever the program skids more than usual, the customary reaction of Director of Economic Stabilization has been to turn the thumbscrews more vigorously upon wage earners.

Indeed, this behavior has occurred so regularly that a pattern has been established. Executive Order No. 9250 was drastically modified by Executive Order 9328. This hysterical outburst had to be toned down by the May 12, 1943, Directive. Now, with no more rigid wage control possible, an attempt is being made to whittle down the benefits of vacations, night-shift differentials and other fringe adjustments.

The workers of this Nation call upon the Government to look elsewhere in its seven-point anti-inflation program for improvements. What has happened to the proposals to roll back prices of food and clothes? What plans are being drawn to lessen the load of taxation borne by workers forced to live at a substandard level?

The American worker can find no convincing reply in the Public Members' Report to the President to why our proposal for a realistic modification of the Little Steel formula cannot be made at once. To the contrary, the very fact that they have had to devise a new formula to deny our appeal indicates the justice of our position.

ECONOMICS OF POST-WAR WAGES

SECTION II

It now appears that the European war will end in the summer of 1945 (except for guerilla fighting) and that the war with Japan should be over sometime before the fall of 1946. This means that 1947 would be the first post-war year. While it may not be possible to get back to a normal post-war economy by 1947, nevertheless, that year is used in the estimates that follow for the sake of having a definite point as a measuring rod.

Workers and industrial management know that unless consumers' incomes in the United States are high enough to buy back the full volume of consumer goods that will be produced at full employment levels, our American economy will have to depend on the Government and our free-enterprise system will be endangered. In normal years wage earners buy 75 percent of all consumer goods and services produced by American industry. Workers are the main support of the consumer market.

The choice that American management must make is between: (1) A free economy in which income paid to wage earners will be high enough to permit them to buy their share of the national product, or (2) A Government-dominated economy in which Government will take a large portion of industry's income in taxes and will become the employer of large numbers of persons.

The figures which follow estimate the amount of increase in workers' buying power which will be necessary in order to maintain a free economy with consumer income adequate to support full employment.

1. Wage Rates Have Not Kept Pace With the Rise In Living Costs During the War

For the above reason, workers' buying power will not be adequate to maintain a full-production, full-employment economy after the war at current price levels. A price decline cannot be counted on to make up this discrepancy because such a decline would threaten the Nation with deflation and business depression.

At current price levels, workers' total buying power is short by 13 billion dollars of the amount which will be needed in 1947 to support full employment.

To fill this gap would require an average 15-cent per hour wage increase for all workers (in round numbers). (See appendix A for supporting statistical data.)

2. Industry Is Well Able to Pay a Wage Increase Now

(A) Profits are at an all-time peak. The Commerce Department gives the following figures for profits of all corporations in the United States:

[Billions of dollars]

	Before taxes	After taxes		Before taxes	After taxes
1939	5, 460	4, 228	1942	19, 816	8, 740
1940	8, 388	5, 844	1943	24, 270	9, 842
1941	15, 721	8, 519	1944	24, 870	9, 908

The Commerce Department gives the following figures for incomes of business proprietors (unincorporated) before taxes. Incomes after taxes are not available since personal income tax applies and differs according to family members:

[Billions of dollars]

	Before taxes		Before taxes		Before taxes
1939	6.9	1941	9.6	1943	11.6
1940	7.6	1942	10.9	1944	12.3

Since the number of business proprietors has increased during this period, the increase in individual proprietors' incomes has been greater than the increase in the total figures.

(B) Prosperity and high earnings are characteristic of all business in the United States. Large and small companies, manufacturing and nonmanufacturing, nonwar industries as well as war industries are prosperous. The United States Department of Commerce makes the following statements: "There are indications that in this period the earnings of smaller corporations have increased more rapidly than those of large ones." "Unincorporated business has likewise experienced profitable business during the war." "The rise in profits during the war was not confined to the industries directly associated with war production. * * * High earnings were general, spreading to industries that served the high economy such as transportation, as well as to those that cater particularly to consumers such as retail and wholesale trade." (Source: Survey of Current Business, February 1945, pp. 5 and 6.)

Although there has been some decline in the profits of businesses which reached their peak of war production last year and have reduced their output, even these corporations are still making very high profits compared to any normal period. The prevalence of profits for both small and large companies indicates that wages can at once be raised without change in prices. All that is involved is a change in distribution.

3. Increasing Productivity Will Help Employers to Carry a High Wage Level Into the Post-War Period

It seems likely that in the first post-war year, industry may experience a per man-hour productivity increase in the neighborhood of 10 percent above the present level. This will be due to the normal yearly increase of 2½ percent in productivity during the 2-year period between now and 1947, augmented by the introduction of labor-saving techniques and devices developed during the war and the replacement of obsolete and worn out machinery.

It should also be noted that industry has large reserves which will help to carry it over the reconversion period.

Early in 1944 it was estimated that at the end of 1943 business firms held from 47 to 58 billion dollars of cash and Government bonds in reserves (in addition to their 1941 year-end holdings) which can be used to finance the transition.[1] This estimate was made by Mr. Morris Livingston of the United States Commerce Department and appears in the Survey of Current Business, February 1944, pages 9–11. Mr. Livingston also estimates that maximum charges against this accumulation would be 36 billion dollars. This leaves a reserve of 10 to 20 billion dollars available for expansion and other purposes.

It is important to note that business will have to increase wages in order to finance the consumer buying power which makes expansion possible.

[1] Includes funds which will become available during transition, such as claims on uncompleted contracts.

4. The Buying Power of Workers' Straight Time Hourly Earnings Has Declined

(A) The Commerce Department reports in its Survey of Current Business for October 1944 that the average hourly earnings of all nonfarm workers in 1940 was 65 cents an hour. In 1944 this had risen to 90 cents an hour including overtime, and about 78 cents on a straight-time basis. The increase from 65 cents to 78 cents is 20 percent, while cost of living in this period has increased 30 percent, according to Labor Department figures adjusted by Mitchell Committee estimates.

Thus the buying power of 1 hour's work straight-time had decreased from a pre-war figure of 65 cents in 1940 to scarcely more than 60 cents in 1944.

These figures represent straight-time hourly earnings and not straight-time wage rates. All increases in workers' incomes not due to rate increases will disappear after the war.

(B) The Public Members' report states that wage rate schedules in manufacturing industries have increased only 19.7 percent from January 1941 to October 1944, while cost of living has increased 29.4 percent. These wage rate schedules are the rates on which we will have to count for workers' income as we go forward to the post-war period. For we cannot count on keeping all of the 35 percent rise in straight-time hourly earnings which the Public Members cite in their report.

These figures make it clear that even in manufacturing industries wage rate schedules have increased substantially less than the cost of living and that even in this highest paid segment of our economy wages have not kept pace with our living costs.

These figures show that unless a substantial up-to-date wage adjustment is made workers will enter the post-war period with an accumulated deficit in income. American workers will be called upon to pay 1947 prices with 1942 wage rates.

(C) Federation studies in different industries show that "real" earnings of workers; that is, hourly earnings adjusted for living costs, have decreased drastically in a number of industries. Measured in constant buying power the wage rate of union truck drivers declined from 86 cents in 1940 to 76 cents in 1944. That of union journeymen building-trades men declined from $1.44 in 1940 to $1.24 in 1944. Skilled craftsmen in shipyards, numbering several hundred thousand who are members of the American Federation of Labor, have had only a 7 percent wage increase since January 1941, while living costs rose 29.4 percent, representing a 17 percent loss in "real" wages.

On the railroads straight-time earnings per hour, calculated on the same basis, have declined from 71½ cents in January 1941 to 70 cents in July 1944.

5. At Present Wage Rates the Majority of Workers Are Not Able to Give Their Families a Decent Living

According to the Heller Committee Budget, it costs $2,712 a year to support a family of four in health and efficiency. This requires an hourly wage rate of $1.30 on a 40-hour week and only 10 percent of American wage earners are today receiving a straight-time wage of that amount.

It costs $1,770 a year to support a family of four at a bare subsistence living level. This amounts to a wage of 85 cents an hour and 60 percent of American wage earners receive less than this amount.

SECTION III

The Road to Freedom

Wages should compensate for work. We have worked harder, for longer hours and with steadily increasing output during these war years. Our employers have expanded their production facilities, taken on new production problems, and with their work forces they have more than met schedule after schedule. Together we have achieved incredible production results. Our employers show fantastic profits, which are "stabilized" by war taxation. Never once was their right to their earnings questioned. Wage earners ask the right to negotiate with our employers a contract assuring us fair compensation for our work. We have been denied effective use of our rights.

Our feeling of injustice has been intensified by continuous evidence that the wage policy applied by the National War Labor Board did not seek to protect existing wage standards against substantial and unequal impairment.

Wage earners have made their war sacrifices willingly and with appreciation of the privilege of serving the cause of democracy. We voluntarily pledged ourselves not to use our right to strike in order not to stop needed production. We agreed to refer our difficulties to a national board. We did not pledge ourselves not to negotiate with our employers basic wage rates which would give us a just rate of compensation for work done. Nor did we agree to freeze our wage rates as a necessary control of inflation. We did agree with the Administration's representative, who later was made Price Administrator, that the basic tools for controlling inflation should be price fixing, rationing, and licensing. We specifically agreed with him that collective bargaining or collective contracting should continue to fix wages. But at no time did we believe wages would be frozen instead of being stabilized.

Though we believe this procedure ethically wrong, we have gone along because we were unwilling to endanger our fellow workers, sons, brothers, and fellow citizens, facing the enemy. We have repeatedly protested against the economic injustice and continued efforts to invade our freedom further. The unwillingness of the Public Members to act upon our resolution to modify the Little Steel formula realistically, makes it necessary for wage earners to bring this issue to you directly, Mr. President.

We are not only sorely wearied and harassed by the expedients and formulas which have been substituted for the basic principle which guides collective bargaining, but we are appalled by the consequences of a policy to cripple us in solving the reconversion and postwar problems. Wages are more than compensation for services rendered. They determine the kind of homes workers have, the way their lives will be conditioned, the opportunities their children will have, the provisions they can make against emergencies. Wages contribute 75 percent of the buying power in retail markets. The total of buying power determines the levels of production and therefore national well-being.

Workers basic wage rates—the primary measure of their share of what they help produce—have increased slightly more than 15 percent, while the price index of commodities they customarily buy, has increased 30 percent. Both of these factors will enter into reconstruction and postwar, while overtime and the Board devices which have bolstered total earnings, will end with reconstruction.

Why are we so concerned?

Because we want above all else to maintain the free institutions which we should transmit unimpaired to the next generation. The free institutions of our democracy rest upon individual rights and freedom in accord with our concept and understanding of the dignity and worth of each individual. We are willing to make sacrifices in this war because we want to safeguard our democracy against the totalitarian state and we know that danger does not cease with the end of hostilities. The menace of a totalitarian state here looms in the economic field. The war will leave us an enormous indebtedness, the interest alone on which will be larger than any national budget of pre-wartime. The administrative expenses of our Federal Government will increase as we assume our obligation in inter-American and world affairs. Unless the national income is large so that taxation can be paid without interfering with other necessary uses of income, our debt charges will absorb funds that are needed to maintain an economy that will provide productive work opportunities for those needing them. Jobs, by which wage earners can earn high incomes, are necessary to sustain our economy at a level that will keep us out of bankruptcy. Bankruptcy and unemployment for the United States means the same fate for the world.

To escape this fate we must assure purchasing power for the products of plants and industries as they reconvert. Give them no chance to die down, but keep them moving steadily upward. That way means jobs, purchasing power, happy homes, and a substantial economy. If private industries should fail, the Government would have to provide the unemployed with relief and opportunities to earn a living. There is a wide difference between public work to supplement the recovery of private enterprise and the Government underwriting and controlling industries. When the Government controls, decisions on those daily and internal problems of production will no longer be made by those within industry who gain or lose by the decision, but will be made by a Government administration identified with the party in power.

Appeals would utilize the tedious and for this purpose unsatisfactory procedures of pressure groups. Not only would our economy be hopelessly inefficient, but our legislative and administrative branches would be loaded up with economic difficulties and unable to perform their necessary functions. We have had indications during the war of what happens when Government takes over business controls. To prevent such a catastrophe, Labor must be ready to enter reconversion and post-war periods with a wage rate that would assure adequate purchasing power. We must have those rates established in advance. To leave that decision to the turmoil and uncertainty of change is to invite difficulties and failure of our objective.

We hope our employers will cooperate with us for this purpose which will be so fateful for them as well as for us. Our employers have nothing to gain by agreeing to the policy of continuing to freeze our wage rates. They face two alternatives: (1) Cooperation between management and labor in returning to collective bargaining to establish now the wage rates that can undergird our return to civilian production, or (2) Payment of higher taxes to Government out of funds withheld from workers resulting in undercapacity production, underemployment, and reduced purchasing power so that the Government must provide work.

We propose that, 60 days after V–E Day, managements and unions return to collective bargaining and that the minimum wage for workers in those industries in which collective bargaining is not established be raised.

Return to collective bargaining must be mindful of the dangers of inflation. Price control is the direct key to inflation control.

We propose that management and workers cooperate in every way possible with the Price Administrator, so that employment and collective bargaining may benefit by a stable economy which is the primary defense against inflation.

Our fundamental interests are not opposed to those of other groups in our Nation. We pride ourselves on being citizens of a democracy and have developed a labor movement in keeping with the ideals of democracy. As a Nation and as a Government we are pledged to a return to the free institutions of democracy for which the war itself has been fought. Free political institutions are inseparable from a free economy.

The crucial problem which we must face in economic as well as political relations is—will our democratic institutions prove themselves? Freedom we know is indivisible. Unless we have individual freedom and responsibility in the field of work, we cannot long retain our freedom and responsibility in political affairs. No dictator, no all-powerful state, no central planning, can provide substitutes for the values which personal freedom and dignity, individual responsibility and private rights provide in national life.

APPENDIX A

Post-War Shortage of Workers' Buying Power 13 Billion Dollars

Consumer buying power in 1947 will need to be 120 billion dollars in order to support a full employment economy. This figure is based on the Commerce Department study "Markets After the War" (p. 2).

At present wage rates, workers' buying power in 1947 will fall so far short that consumers will have an income of only 107 billion dollars to buy 120 billion dollars' worth of goods. This leaves a deflation gap of 13 billion dollars. These figures are based on total national income payments to consumers of 157 billion dollars in 1944, adjusted for the changes in workers' income which will occur during the transition from wartime to peacetime economy. The figures take no account of decreases in incomes of farmers, business proprietors, or investors.

		Billions of dollars [1]
National income payments to consumers 1944 [2]		157
Loss in workers' income:		
Ending of overtime	—15	
Demobilization of servicemen	—13	
Change to lower paid jobs	—3	
Deduct		—31
Gain in workers' income:		
Soldiers' return to jobs [3]	+7	
Veterans' payments, unemployment compensation, etc	+1	+8
Add		134
Consumer income in post-war 1947:		
Taxes	—11	
Normal savings	—16	
Deduct		—27
		107
Consumer buying power:		
Consumer buying needed for full production-full employment		120
Deflation gap		13

Budget for a Full Employment Economy

[Based on markets after the war projected to 1947 and raised to 1944 price levels]

	1947 (billions of dollars)		*1947 (billions of dollars)*
Gross national product	178	Consumer buying power needed	120
Bought by—		Actual consumer buying at present wage rates	107
Government	29	Deflation gap	13
Business	29		
Consumers	120		

NOTE.—This projection assumes a 5 billion dollar yearly increase in gross national product due to normal increase in labor force (population growth) and productivity.

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[1] At 1944 price levels.
[2] U. S. Commerce Department.
[3] Net increase of 3.5 million in civilian employment to reach "full employment." (From 51.5 million in 1944 to 55 million in 1947; 3 million remain in armed services; total 56 million.) Wage and small salaried workers are: 1944—40 million; 1947—43.5 million. Source: WPB.

LETTER OF TRANSMITTAL

MARCH 7, 1945.

HON. WILLIAM H. DAVIS,
Economic Stabilization Director,
Federal Reserve Building,
20th and C Streets NW., Washington, D. C.

DEAR MR. DAVIS: Enclosed you will find the report to the President on the Relationship of Wages to Consumer Prices and Cost of Living by the CIO Members of the National War Labor Board. This report constitutes the comments of the CIO Members upon the report submitted by the Public Members of the National War Labor Board to the President on February 20, 1945.

Very truly yours,

R. J. THOMAS.
VAN A. BITTNER.
JOHN BROPHY.
CARL J. SHIPLEY,
NEIL BRANT.
DELMOND GARST.

OUTLINE

Labor Has Sustained Its Case—Consumers' Prices Do Not Measure the Cost of Living—Wage Stabilization Has Always Meant Wage Rate Stabilization

Standard used by the board in the past:
(*a*) Method of applying the Little Steel formula.
(*b*) Wage Stabilization Means Wage Rate Stabilization.
(*c*) Rationale Behind The Standard.
(*d*) "Take-Home" Pay Cannot Be The Basis For Wage Stabilization.
1. Average gross weekly earnings.
2. Average gross hourly earnings.
3. Average straight-time hourly earnings.
4. Average straight-time hourly earnings (adjusted for inter-industry shifts).
a. Changes in the relative importance of individual companies or establishments.
b. Changes in the relative importance of individual regions or localities.
c. Changes in occupational structure.
d. Changes in the composition of the labor force.
e. Changes in the provisions for premium pay for overtime work.
f. Changes in the provisions for premium pay for work on extra shifts.
g. Changes in the extent of extra-shift work at premium pay.
5. Average straight-time hourly earnings by occupations.
(*e*) For members of the armed forces real wage standards will be determined by real wage rates.
(*f*) Present earnings average above wage rates, but future earnings will tend to fall to that level.

Substandard Policy Is Wholly Inadequate—Realistic Stabilization Policy Will Eliminate Spectre of Inflation—the Need for Wage Increases Is Immediate—Wages and the Postwar

REPORT TO THE PRESIDENT ON THE RELATIONSHIP OF WAGES TO CONSUMER PRICES AND COST OF LIVING

(This also being comments upon the report submitted by the Public Members of the WLB to the President, through Judge Vinson, on February 20, 1945, and released to the public on February 23, 1945)

By C. I. O. MEMBERS OF THE NATIONAL WAR LABOR BOARD

LABOR HAS SUSTAINED ITS CASE

Labor has proved its case for an upward adjustment in the Little Steel formula. Prices have not been stabilized, but wages have. By wages the National War Labor Board and Congress have always meant wage rates, not "take-home" pay.

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The Public Members of the WLB concede that wage rates have risen at the most 20 percent, and that the cost of living has risen at least 30 percent. An inequity of ten percent has developed between wages and prices. The conclusion is inescapable that at least a ten percent increase in wage rates should be made retroactive to the date since the inequity developed.

But instead of adjusting wages, the Public Members of the WLB recommend an adjustment in wage statistics.

The very foundation of wage stabilization has been wage rates. The WLB Chairman has repeatedly pointed out, and Congress has accepted, the fact that to stabilize "take-home" pay, weekly or hourly earnings, would put a brake on war production. Yet, at this critical moment when more war production is so urgently needed, the WLB Public Members recommend the very thing against which they have so long protested. To stabilize earnings instead of wage rates makes no more sense in 1945 than it did in 1942; it would have the same disastrous production results today as were rightly feared, and fortunately avoided, in 1942. The basis of wage stabilization cannot be changed except at the peril of the war effort.

There is a great difference between wage rates and "take-home" earnings. WLB Chairman, William H. Davis, cogently explained this to Senator Robert F. Wagner in a letter released on December 15, 1943. He said:

> * * * For the purpose of Congress was, wisely, to stabilize the price of labor (wage rates) not total earnings. The Congress knew that to freeze the earnings of labor would have been to freeze production instead of letting it rise to the highest level in our history.
>
> Let me give but one example. The WPB recently reported that 200 plants with incentive plans approved by our Board had increased production 40 percent. Obviously the workers in those plants received substantial increases in their hourly earnings even though their rates remained the same. To have frozen their earnings as well as their rates would have been to deprive the country of that 40 percent increase in the production of vital war materials.

To change the foundation of wage stabilization from wage rates to earnings today is to replace a foundation of stone with one of sand. The results can only be to hamper vital war production. This conclusion is emphasized by the real facts on wages and living costs, in contrast to the minimum figures accepted by the WLB Public Members. Wage rates in manufacturing industries have crept up a mere four to five percentage points above the Little Steel formula to a maximum of 19 to 20 percent, while wartime living costs have skyrocketed to 45 percent, or three times the limit of the Little Steel formula. At the same time manufacturing profits, before taxes, have risen from less than 3 billion dollars in the peacetime years 1936–39, to over 15 billion in 1944. The fear of inflation can be conquered by the courage to take the cost of the necessary wage adjustment out of swollen war profits.

On the basis of the Report prepared by the Public Members, a substantial general upward adjustment in basic wage rates is clearly required. To avoid such an increase the Board has produced a long and turgid rationalization for what is in essence a cut in real wages. We protest that every consideration of precedent, every consideration of equity, and every consideration of national policy points toward the increase which the Board is afraid to recommend.

CONSUMERS' PRICES DO NOT MEASURE THE COST OF LIVING

The United States Department of Labor does not have a measurement of the cost of living; its Bureau of Labor Statistics (BLS) for some years has published a Consumers' Price Index which it mistakenly has called a "cost of living index." Labor called this mistaken statistical index to public attention months ago, and in response to these complaints, a Presidential Committee on the Cost of Living was appointed in November, 1943.

Every person on that Committee agreed that the BLS Index is incorrectly named. The experts employed by the public chairman of the Committee recommended that the BLS Index be given a "less misleading name." The employers in the steel industry said that it was "unfortunate" that the Index was named "cost of living." Even the BLS agreed, and said that it would change the Index's name. These are indisputable facts.

The distinction between prices and the cost of living is important. The experts[1] employed by the public chairman of the Presidential Committee said:

> It seems highly desirable to describe its (the BLS) Index as a price index * * * To most people "cost of living" means the amount of money a family spends * * *

This common sense conception of the cost of living is the one utilized by labor. It is what workers mean by the phrase—Prices paid by workers are only one element in "cost of living." Workers' families have incurred a great variety of extra expenditures because of wartime conditions. Many have had to move to war centers; some have had to maintain two homes; working mothers have greater expenditures for child care, for laundry service and meals away from home. These, and other factors, increase living costs in the same way as do higher prices. The BLS Index only attempts to measure prices and officially admits that it "does not measure changes in total 'living costs'; that is, in the total amount families spend for living."

Yet, the Public Members of the National War Labor Board throughout their report continually refer to the "cost of living," as measured by the BLS Index, which, it is unanimously agreed, does not measure the "cost of living." This purposeful use of a mere consumers' price index as a cost-of-living measurement is a brazen misuse of public information. The minimum requirements of accuracy call for a frank admission that the BLS Index only affords an approximate idea on the extent to which one element (retail prices) in living costs has risen during the war.

The rise in wartime living costs is approximately 45 percent since January 1941, and the CIO Study, "Living Costs in World War II," is the only measurement of the total cost of living during the war of which we are aware. The 30 percent increase in consumers' prices—which is 3½ to 4½ percentage points above the BLS Index—found by the Presidential Committee on the Cost of Living, is, to a substantial extent, a reflection on the reliability of the BLS Index, because it shows that the BLS Index, even as a measurement of retail prices, suffers from a 14 to 17 percent margin of error.

The indisputable fact, however, which is of the greatest significance, is that the rise in consumers' prices is twice as much as the allowance

[1] Mitchell Committee Report, Pt. I, pp. 8 and 18.

permitted by the Little Steel Formula. This inequity calls for prompt action, especially in view of the fact that total wartime living costs have risen 45 percent or three times the limit of the Formula.

WAGE STABILIZATION HAS ALWAYS MEANT WAGE-RATE STABILIZATION

Standard Used by the Board in the Past

(a) Method of applying the Little Steel Formula

As defined by the Board, "the Little Steel, or maladjustment, allowance provides the range, in cents per hour, of total permissible increase in *basic wage rates* from the level of January 1941," [2] calculated as an amount equal to 15 percent above the level of January 1, 1941. In applying the formula, any general increases in wage rates granted by the employer since the base date are deducted from the allowance; any balance remaining after these deductions is the amount of increase permissible under the formula.

General increases, which are the only wage changes offset against the allowance, "may roughly be defined as those increases given to at least 10 percent of the working force in the appropriate unit. But it should be noted, general increases do not include merit increases, promotion, reclassification, length of service, or other individual increases. The fact that such individual increases were given to substantial proportions of employees in the unit at a given time need not lead to the conclusion that such increases were general increases." [3]

Thus, for example, if the 15 percent allowance is 10 cents an hour and general increases totaling 5 cents have already been given, the allowance remaining is 5 cents. This is true even though, because of merit increases, promotions, and the other factors mentioned above, the straight time average hourly earnings are already more than 15 percent greater than in January 1941.

It is clear from the foregoing that the Little Steel formula concerns, and is intended to measure, only changes in basic hourly wage rates. This is further confirmed by the opinion of Vice Chairman George W. Taylor in the original *Little Steel* case, which throughout speaks in terms of adjustment of hourly rates to the change in the "cost of living." In formulating the Little Steel formula on July 16, 1942, the National War Labor Board rejected the use of "take-home" pay, either in the form of weekly earnings or hourly earnings, as a basis for determining wage standards. Instead the Board properly used basic "hourly wage rates" to preserve "peacetime wage standards." The reasons the Board cited then are equally applicable today; they follow:

> Because of the need for maximum war production it is necessary that fair and equitable labor standards should not be broken down.
>
> All the history of industrial production shows that because of their contribution to efficient production, if for no other reason, achieved standards should be maintained * * *
>
> Not to protect those standards would justly give rise to a sense of insecurity and frustration among the workers who remain at home; and it is only fair to the workers who are drawn into the fighting services that their standards should be protected while they are away.

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[2] *Sixth Monthly Report of the National War Labor Board* to the Senate, October 2, 1943 (Release B–1030) Part II, p. 3. [Italics added.]

[3] National War Labor Board: *Wage Stabilization Manual,* June 1, 1944, p. 19. See also *Sixth Monthly Report of the National War Labor Board, 1 oc. cit.*

further highlights the fact that the wage stabilization program has always meant stabilization of basic wage rates. It states:

> The Nation's basic wage structure has remained substantially unchanged during the period of wage stabilization. The level of basic factory wage rates has been raised less than 1½ cents an hour by actions of the War Labor Board. Wages have been stabilized.

In its monthly reports to the United States Senate from May 1943 to the present time, the Board has repeatedly stressed the fact that changes in basic wage rates are the only changes for which the Board's action is responsible, and has taken great credit for the fact that such changes have been very minor in extent.

(c) Rationale Behind the Standard

In formulating the Little Steel formula, the Board reasoned that it was essential to the successful prosecution of the war that "established peacetime labor standards should be reasonably maintained as a part of the process of ending the race between wages and prices."[7] The measure of those worker standards which the Board thus sought to maintain was taken to be the hourly wage rate, which measures the price of labor, in relation to the "cost of living." The instrument developed for preserving those standards was the Little Steel formula, under which wage rates which had not kept pace with the rising cost of living between January 1941 and April 27, 1942—the date of the President's Stabilization message—were to be permitted to rise by an amount sufficient to restore the former parity. The Formula was based on the Board's assumption that the cost of living would be stabilized at the levels of April 27, 1942.

The philosophy behind the Board's objective of wage rate, as distinct from "take-home" earnings, stabilization is well summarized by the Steel Panel:

> The Little Steel formula and the other measures for effecting wage stabilization have dealt primarily with *wage rates* as distinguished from the *earnings* of wage earners. Restraints against the inflationary influences of increases in *earnings*, as in the case of increased consumer purchasing power generally, have been through price control, rationing and taxation, supplemented by voluntary measures, such as bond purchases and savings.[8]

Contrary to its whole previous practice, the Board now proposes to abandon the use of wage rates in stabilizing the price of labor, and to substitute "average straight-time hourly earnings adjusted for interindustry shifts." This new measure of "take-home" hourly earnings indicates a rise in the price of labor of 36.7 percent between January 1941 and October 1944, compared to a rise of less than 20 percent in basic wage rates, as measured on the basis heretofore used by the Board. If this increase of 36.7 percent is set off against the increase of 30 percent in consumers' prices, erroneously called "cost of living," it is apparent that what is recommended is an outright freeze of wages for virtually all manufacturing workers.

The factors included in "average straight-time hourly earnings adjusted for inter-industry shifts" which are in addition to basic wage rates, are individual wage adjustments such as merit increases and upgrading, increases due to increased production under incentive

[7] Opinion of George W. Taylor in the original *Little Steel* case. Note also the Opinion of Chairman Davis in the same case: "Because of the need for maximum war production it is necessary that fair and equitable labor standards should not be broken down."

[8] *Report of the Steel Panel*, p. 39.

For these reasons the Board used basic wage rates as the best measuring rod to gauge wage standards during the war. In effect, the Board told America's workers to work as long hours as they could, to increase production as high as possible, and to have no fear that the resulting increase in "take-home" pay—weekly earnings or hourly earnings—would be used to break down their basic wage rate standards.

Wage standards are founded upon wage scales that only change when specific changes are made. These wage scales are unaffected by the level of hours actually worked, or by the level of production, or by other variables in industrial employment. These basic wage schedules remain put until specifically adjusted.

The WLB Public Members report that these basic wage rate schedules rose 19.7 percent from January 1941 to October 1944 for manufacturing employees. In keeping with the Little Steel formula, therefore, an inequity of ten percentage points has developed between wage rates and consumer prices which rose 30 percent in this same period. Hence, to protect the wage standards of workers on the homefront and "workers who are drawn into the fighting services," a ten percent increase in basic wage rates is necessary. This is the inescapable conclusion from the Public Members' report. But, the Public Members evade this conclusion, and recommend that the foundation of wage stabilization be shifted from basic wage rates to "take-home" pay in the form of statistically adjusted hourly earnings.

(b) Wage Stabilization Means Wage Rate Stabilization

The Board has repeatedly emphasized that the task of wage stabilization, as effected through the Little Steel formula and the other stabilization measures it employs, is the task of stabilizing wage rates, as distinguished from earnings. In the words of the Steel Panel:[4]

> This (i. e., the wage rate) is the price of labor per hour or per piece. To adopt any other standard, such as hourly earnings, weekly earnings, or annual earnings, would be to limit production by restricting the amount of output per hour, the hours of work per week, or the weeks of work per year. Wage stabilization has therefore meant wage rate stabilization.

Likewise WLB Chairman William H. Davis:

> Now the hourly rate is the price of labor * * *
> Now, I say, maintain your standard. The standard is the price of labor, the hourly rate, and its relation to the cost of living. Maintain if you can a rate which gives the same real wage. That is the sensible thing to do.[5]

And further:

> This increase in the actual earnings of the workers is not subject to regulation through wage rate controls. *Nor is the increase inconsistent with the objectives of the stabilization program.* A limitation upon the total "take-home" earnings of the workers would amount to imposing maximum hours of work, precluding promotions and upgrading, restricting the productivity of workers under incentive systems, and preventing shifts of workers into war industries. Such restrictions would, of course, have been disastrous to the war effort.[6]

A joint report to the President, signed by Judge Vinson, Chester Bowles, Marvin Jones, and William H. Davis, dated April 7, 1944,

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[4] *Report of the Steel Panel* in re: U. S. Steel Corporation, et al., Case 111-6230-D (14-1 et al.), pp. 60-61. Also pp. 39, 64, 70, 123.

[5] Hearings before the Senate Committee on Banking and Currency on Extension of the Emergency Price Control Act of 1942, March 23, 1944, p. 231.

[6] Ibid, p. 257 [italics added.]

systems and the increased prevalence of incentive systems, increases due to premium pay for work on extra shifts, changes in occupational structure, changes in composition of the labor force, and other factors over which workers have no control. The WLB Public Members argue that such increases better enable the workers to meet increased prices and costs of living, yet they concede that "most of these" factors "are reversible * * * without any change in wage-rate schedules" (p. D–12).

It is by this creation of a new statistical device—"average straight-time earnings adjusted for interindustry shifts"—that Public Members of the Board seek to evade the responsibility for the maintenance of real hourly wage rates prevailing as of January 1941.

If by the old measure of hourly wage rates, labor is admittedly entitled to a minimum wage increase of 10 percent, then hourly wage rates may no longer serve as a gauge of labor standards, say the WLB Public Members. The existing maladjustment is to be met not by changing wages but by changing the statistical measure of wages.

This suggested change in the foundation of wage stabilization conflicts with the clear obligations undertaken by our government in the establishment of its wartime program of economic stabilization. This rubberized yardstick cannot serve to conceal the real deterioration to the wage standards of workers which has been going on for so many months. It cannot meet the real needs of labor and the nation in this climactic period of the war or the transition to peace.

(d) "Take-Home" Pay Cannot Be the Basis for Wage Stabilization

The concept of "take-home" pay in any form, be it weekly earnings or some form of "straight-time" earnings, cannot be accepted as a measure of wage changes in the existing framework of national wage policy.

There are five forms of "take-home" pay. An examination of the components of each form of "take-home" pay follows together with a review of the reasons why none of these forms can be the basis for wage stabilization.

1. *Average gross weekly earnings.*—The Public Members report a rise of 76.3 percent in weekly earnings in the period under consideration, January 1941 to October 1944. These are maximum "take-home" earnings and are before taxes, bond deductions, and so forth. The major component of weekly earnings that is discounted in other forms of "take-home" pay is hours of work. The WLB Public Members reject this form of "take-home" pay as a basis for wage stabilization because it would penalize workers for working extra and longer hours. Even employers do not generally urge weekly earnings as a basis for wage stabilization, because it is so generally recognized that the more hours a worker works the more energy he expends, the more food and clothing he consumes, the greater the deterioration of his remunerative life, and the greater the production he turns out. The Steel Panel, previously quoted, stated that NWLB policy rejected weekly earnings as a basis for wage stabilization because it "would limit production by restricting * * * the hours of work per week; or the weeks of work per year."

We naturally concur in both the action of, and reasons for, rejecting "take-home" weekly earnings as the foundation of wage stabilization. The Public Members are on sound ground in their report in rejecting this form of "take-home" pay.

2. *Average gross hourly earnings.*—The Public Members report a rise of 50.9 percent in gross hourly earnings. These, too, are maximum "take-home" earnings, and the major component that distinguishes this form of "take-home" pay is the prevalence of overtime work at premium pay. As in the case of working more days per week, so in working more hours per day wage earners exert greater effort which requires increased expenditures such as additional work clothes and involves greater exposure to hazards and accidents.

Overtime premium pay represents a special allowance which is paid for the continued exertion of skill and effort beyond the accepted and ordinary standard working day or week. Extra compensation for such extended and unusual exertion does not change or increase the standard price for a unit of labor applied under ordinary circumstances—the basic wage rate. The established policy of the NWLB, reiterated by the Steel Panel, is that the use of gross hourly earnings for wage stabilization purposes would restrict production.

The Public Members rightly reject gross weekly earnings, and we concur in their action and reasons for rejecting this form of "take-home" pay as the basis for wage stabilization.

3. *Average straight-time hourly earnings.*—The Public Members report a rise of 43.9 percent in straight-time hourly earnings. This form of "take-home" pay is gross hourly earnings discounted by the substantial elimination of overtime premium pay. The component that distinguishes straight-time hourly earnings is the changes in the relative importance of individual industries. The Public Members in their report reject this form of "take-home" pay. They state (pp. D–10 and 11):

> In evaluating the extent to which employee standards have been maintained * * * it is neither equitable nor logical to use * * * averages for all manufacturing employees. The composition and industry distribution of "all manufacturing employees" changed markedly from January 1941 to October 1944 in the adjustment of our economy to war purposes * * *
>
> Average straight-time hourly earnings * * * (reflect) the significantly improved economic status of many persons who, for the first time, have had an opportunity to work in a relatively high-paid industry.
>
> After a careful appraisal of this particular measure of wage changes, i. e., average straight-time hourly earnings for all manufacturing employees, one comes inevitably to the conclusion that it is not an equitable measurement of changes in employee wage standards.

We concur with the public members in rejecting this form of "take-home" pay. We agree that it is "neither equitable nor logical to use" average straight-time hourly earnings as a basis for wage stabilization.

4. *Average straight-time hourly earnings (adjusted for inter-industry shifts).*—The Public Members found that the inter-industry shift of workers accounted for 7.2 percentage point rise in straight-time hourly earnings, and having concluded that it is "neither equitable nor logical to" include the effects of these inter-industry shifts of workers, the Public Members exclude them. In so doing they produce a new form of "take-home" pay, called "average straight-time hourly earnings adjusted for inter-industry shifts," which for brevity we shall hereafter call adjusted hourly earnings. The Public Members report that these adjusted hourly earnings rose 36.7 percent from January 1941 to October 1944, and they conclude (p. 14):

The best measuring rod by which to gauge what has happened in the wartime economy to hourly wage standards is average straight-time hourly earnings statistically adjusted to discount the movement of workers into the higher paid war industries.

The use of this form of "take-home" pay is no more equitable or logical than the use of the previously discussed forms of "take-home" pay. We discuss below the several components that go to make up the difference between adjusted hourly earnings and basic wage rates to show that their inclusion in a measurement of wage standards is no more equitable or logical than would be the inclusion of the other components, already discussed, that go to make up the other forms of "take-home" pay.

The ingenuity of the Public Members in devising substitutes for the basic wage rate measurement of wage standards is not confined to these four forms of "take-home" pay. They have devised still another, a fifth one called "Average straight-time hourly earnings by occupations," which for purposes of brevity we shall hereafter refer to as occupational hourly earnings. These rose 30.0 percent for the period under discussion, in comparison to the 36.7 percent rise in adjusted hourly earnings. For convenience we first discuss those components that account for the 6.7 percentage points difference between adjusted (36.7 percent) and occupational (30.0 percent) hourly earnings.

a. Changes in the relative importance of individual companies or establishments:

b. Changes in the relative importance of individual regions or localities:

These two components, in terms of the Public Members own reasoning, should not properly be included. As already noted, the Public Members excluded the effect of "changes in the relative importance of individual industries." They noted that the shift of large numbers of workers from low-wage paying industries to higher wage-paying industries increased the average straight-time hourly earnings of manufacturing industries, and properly concluded that the effect of these shifts should be excluded in measuring wage standards. Yet similar shifts from one locality to another, or from one company to another in an industry, or from one plant to another of a company are included in adjusted hourly earnings. The effects of these shifts, like inter-industry shifts, should be excluded for the same equitable and logical reasons as the Public Members excluded the effects of interindustry shifts. There is no justification for the inclusion of these two components and, in fact, the Public Members not only fail to justify their inclusion, but they scarcely mention them.

c. Changes in occupational structure:

d. Changes in the composition of the labor force:

These two components, for similar reasons, should be excluded. The Public Members speak about (page D–12) "the assignment of a larger percentage of the total work-force to the higher wage occupational groups." Such shifts of workers within a plant are the same thing as the inter-industry shift of workers, except that they are on a plant level. A large steel foundry illustrates this. From 1940 to 1945 its employment rose from 400 to 2,000. A big majority of the 1,600 new workers are employed in the machine shop which has been greatly expanded. Wage rates are higher in the machine shop than in most of the older departments. As a result the plant-wide average of earnings has risen substantially. At the same time workers in a low-wage-paying paper box industry shifted to this higher wage-paying steel foundry, which has also resulted in increasing hourly earnings.

The Public Members exclude the effects of the inter-industry shift of workers, but include the effects of the intraplant change in occupational structure on earnings. But the "equitable and logical" reasons for excluding interindustry shifts apply with equal force to intraplant shifts. They are both ears on the same corn stalk.

Changes in the composition of the labor force is a third ear on the same corn stalk, and the effects of these changes on earnings should be similarly excluded.

e. Changes in the provisions for premium pay for overtime work:

The Public Members hardly discuss this component and its effects should be excluded for the same reasons noted in the discussion of overtime premium pay. The Public Members agree that overtime premium pay should be excluded, and upon the same logic would be compelled to agree to the exclusion of the effects of changes in the rates of overtime premium pay.

f. Changes in the provisions for premium pay for work on extra shifts:

g. Changes in the extent of extra-shift work at premium pay:

The largest components that account for the difference between the rise in adjusted (36.7 percent) and occupational (30.0 percent) hourly earnings is (1) increased work on extra-shifts at premium pay and (2) increased premium rates for such extra-shift work. The effects of these two components, however, should not be included anymore than should the effects of (1) the increased extension of vacations and (2) increased vacation allowances. The Public Members rightly exclude all effects of vacations with pay. On page D–8, they explain why in inquiring "as to how basic wage standards have been maintained" they exclude (1) increased earnings due to working "longer hours at premium pay"; (2) "better jobs in the higher paid industries"; and (3) "vacation pay allowances." The Public Members justify the exclusion of vacation pay allowances on the ground that "the extension of paid vacation during the war completed a trend which was well under way before the start of the war." This is equally true of extra-shift premium allowances, and the reasons for excluding the effects of vacations apply with the same logical force to shift premiums.

The Public Members have long since agreed that the influence of shift premiums should be excluded from "an inquiry as to how basic wage standards have been maintained." They say so in just these words on page D–8 of their report. This, we realize, was by inadvertence. In an original draft of their report the Public Members leaned toward occupational (30.0 percent) hourly earnings, and since these exclude the effect of shift premiums, the report argued against their inclusion. By the time the Public Members issued the final draft of their report they had moved from occupational (30.0 percent) to to adjusted (36.7 percent) hourly earnings, but apparently had neglected to remove from their report their original arguments against the inclusion of shift premiums.

The conclusion is inescapable, however, that the influence of shift premiums should be excluded from a consideration of the proper basis for wage stabilization.

5. *Average straight-time hourly earnings by occupations.*—As already noted this form of "take-home" pay, which we have called occupational hourly earnings, has increased 30.0 percent from January 1941 to October 1944. There is a difference of 10.3 percentage points between the rise in occupational hourly earnings and basic wage rates, or wage-rate schedules as the Public Members call them. The latter rose by 19.7 percent. This spread of 10.3 percentage points is accounted for largely by increased incentive earnings due to (1) increased war production and (2) the extension of wage incentive systems. We have already noted how vigorously WLB Chairman William H. Davis has argued, on previous occasions, that the influence of higher incentive earnings should not be included in the consideration of wage standards for purposes of wage stabilization.

The other component that accounts for the difference between occupational (30.0 percent) hourly earnings and basic wage rates (19.7 percent) is adjustments in the hourly rates of individual workers (or small groups) in recognition of merit, length of service, and so forth. A discussion of both of these components that largely accounted for this 10.3 percentage points difference follows:

Temporary increases in hourly earnings arising from increasing hourly output per worker and received as increased incentive earnings, as merit, or as length of service increases are not increases in basic wage rate standards.

This fact has been steadily recognized by the Board and every other agency of Government. When a worker receives more money for increased quality or quantity of production, no one has ever argued that wage rates have been changed thereby.

The language of Executive Order 9328 specifically excludes from wage controls "promotions, reclassifications, merit increases, incentive wages or the like, provided that such adjustments do not increase the level of production costs appreciably * * *." This principle has been consistently followed by the Board itself.

The entire difference between the 19.7 percent increase in wage rates reported by the Board and the 30.0 percent increase in "straight-time earnings by occupational groups" arises from the operation of these components.

Such adjustments were allowed freely by the Board and even encouraged on the assumption that they had no impact whatsoever upon wage-price relationships controlled under the Stabilization Act. Now when labor seeks reestablishment of the wage-price relationship existing in 1941 all this is changed. Public Members of the Board announce that this relationship has been balanced not by changes in wage rates but by increases in earnings brought about by promotions, reclassifications, merit increases, incentive wages or the like. Stabilization is now based on factors which never before had anything to do with it.

No such statistical juggling can conceal the basic facts. The real price of an hour's work has been allowed to deteriorate. If by greater skill and effort the individual worker has been able to secure higher earnings for his hour of labor, increasing living costs have, to a large extent, made the added compensation for such increased effort illusory.

Application of this new statistical measure would be in effect an announcement that this nation's government is giving countenance to a cut in real wage standards. The operation of speed-up plans under open shop conditions was very simple—offer more pay for more production. Then when higher production levels are achieved cut down rates of pay. This meant a constantly increasing level of output at constantly decreasing rates of pay.

In effect the suggestions of the Public Members would apply the same scissors formula to the nation's workers.

(e) For members of the armed forces real wage standards will be determined by real wage rates:

Returning veterans will not be hired or rehired at levels of "average straight-time earnings by occupational groups," or "average straight-time hourly earnings adjusted for interindustry shifts." Their earnings will be directly measured by schedules of basic wage rates. With reduced production needs and loosening labor markets, opportunities for promotion or even for increased incentive earnings will be rare.

The standards which our government has taken an obligation to protect are not only those of workers who have come into expanding industry since 1941. They are the standards also of those millions of workers who are now in uniform. Failure to meet this obligation will rank as a national disaster. The Public Members recognized this in 1942 when the Little Steel formula was formulated. They again recognize it in their current report (p. D–1). They state:

> The job which the members of our fighting forces left to go to war should be available to them upon their return at no lower real wage than was formerly paid to them.

(f) Present earnings average above wage rates, but future earnings will tend to fall to that level:

Already reports from a wide section of war plants indicate that demotions and downgradings are underway. This trend will sweep through industry after VE–Day. If earnings tended to rise with the quality and quantity of work—while labor shortages forced management into equitable wage policies—impending labor surpluses will immediately force reversal of that process. This is most certainly true where powerful collective bargaining agencies are not at work.

Change-overs to new types of production will offer an immediate invitation to management to cut rates for incentive workers. Transfers, demotions, reclassifications and wholesale discharges will wipe out the effect of merit or length of service increases throughout industry. New workers will be hired at minimum levels of rate ranges and will find upward progression difficult if not impossible. The Board's refusal as a general rule to order automatic progressions within rate ranges has prevented establishment of safeguards against this development.

The Public Members concede this vitally important consideration in their report. In referring to the several components in addition to basic wage rates that go to make up adjusted hourly earnings (36.7 percent), they state (p. D–12):

> It is emphasized * * * that a large part of the increase in adjusted straight-time hourly earnings above the increases in wage-rate schedules probably will be eliminated when cut-backs occur and when the labor supply becomes adequate for industrial needs.

We believe that this statement highlights the fundamental fallacy and the gross inequity of the approach adopted by the Public Members. Initially the Board grounded its stabilization policy on basic wage rates because such rates constituted the most nearly fixed aspect of the wage picture. To shift the basis of stabilization policy to earnings, now that it has been shown that prices have substantially outrun basic wages after almost three years of operation on the former policy, is profoundly unfair. But our objection goes beyond that. When cutbacks occur and the labor supply becomes ample again, the elements which have raised the adjusted straight-time hourly earnings to 36.7 percent will rapidly disappear, and the increase in hourly earnings will then, in the absence of a fundamental change in policy, equal the increase in basic wage rates, that is, 20 percent over those of 1941. Consumer prices will then be somewhere over 30 percent. Will the Public Members then shift their position again, and find some new excuse to refuse to eliminate the gross inequity between wages and prices? Even if we concede that there is no present inequity—which we vigorously deny—we can find no assurance in the present stabilization policy, or in the wholly inadequate recommendations of the Public Members, that the present level of earnings will be maintained. In the absence of such a minimum assurance, their report remains an empty exercise in statistical jugglery.

We urge the President of the United States to reject the indefensible recommendation of the Public Members, and to direct the necessary upward revision of the Little Steel formula promptly.

SUBSTANDARD POLICY IS WHOLLY INADEQUATE

The Board has failed in its duty to establish a policy adequate to correct or eliminate substandards of living. Its authority is less restricted here than in any other area of wage control, but its caution, perversely enough, is probably greater here than elsewhere.

The Public Members concede "that the situation of the lower-income wage and salary workers, upon whom the increase in the cost of living has fallen with disproportionate severity, has remained unsatisfactory under the wartime economy." They go on to lament that "all carefully developed budgetary studies show the need for minimum hourly rates much higher than those which could be ordered without shutting down establishments and throwing people out of work." But this beating of the breasts and wringing of the hands should not conceal the fact that the Board refuses to establish proper standards even for voluntary cases.

So recently as February 27, 1945, the Board resolved that it would not approve, on the basis of substandards, voluntary applications for minimum rates above 55 cents an hour. This figure is obviously far below even the most niggardly budget required for a minimum standard of living. At the same time, the WLB refused to authorize its Regional Boards to order a minimum rate as high as 55 cents an hour, on the basis of substandards, if that rate were above prevailing rates.

The Public Members have not seen fit to exercise their authority over substandards to the minimum extent necessary to do the job that must be done. We submit that this patent and persistent refusal to perform their duty properly in this respect requires that the Board be directed to establish a wage adequate to maintain a decent minimum standard of living.

REALISTIC STABILIZATION POLICY WILL ELIMINATE SPECTRE OF INFLATION

Inflation has been gaping at us throughout the war, but the grave fears which have been entertained have not been realized. Substantial price rises, yes, particularly in "cost of living" items; but serious inflation, no. And now, when deflationary forces are already at work, when war procurement has begun to slide off and over-all employment has dropped off by a million, it is economic nonsense to act as though inflation were a genuine menace. It is deflation we need to guard against.

What are the facts? The report of the Steel Panel found that between January 1941 and April 1944 weekly pay rolls in manufacturing increased 344.9 million dollars per week and that liquid savings now in the hands of individuals amount to more than 100 billion dollars. By contrast, a 17-cent per hour increase, applied to all manufacturing workers at present hours of work, would add only a little more than 100 million dollars a week to the wage bill. Assuming the continuance of existing anti-inflation controls such as heavy tax rates, bond purchases by pay-roll deduction, and most importantly price controls, it is difficult to see how an increase of this magnitude could exert any serious inflationary pressure.

The Public Members have grossly exaggerated the possible effect of another round of wage increases on prices. For example, in steel the OPA concluded that, because of greatly increased productivity during the war, and because of reduced costs anticipated as premium overtime payments decline and workers are down-graded, the steel industry could absorb the increase asked by the United Steelworkers, without any increase in steel prices. Steel price adjustments recently allowed by OPA were specifically declared not to have been caused by any wage adjustments.

While comparable analyses are not available for all industry, the following two facts offer strong support to the conclusion that a general increase in wage rates, of the magnitude called for by the present relationship between wage rates and the "cost of living," need not result in a general increase in prices. First, corporate profits before taxes will reach 24.5 billion dollars in 1944, an increase of 449 percent over the 1936–39 average, and an amount far in excess of the total addition to the wage bill which, on any reasonable assumptions, would result from wage increases granted by the Board. Second, output per man-hour in manufacturing, according to OPA, has risen by more than one-fourth between January 1939 and July 1944.[9]

Moreover, when we look ahead, the prospect is one of deflationary pressure. Any risk of inflation arising from an increase in wage rates "appears to be more than offset by the possibility of decreased earnings in the approaching period of reconversion and the increase in supply of civilian goods."[10] OPA points out that even if present levels of employment are maintained, a return to the 1939 level of average weekly hours would reduce the manufacturing wage bill by 8.2 billion dollars annually and a shift back to the 1939 pattern of manufacturing employment would result in an additional decline of

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[9] OPA Handbook of Basic Economic Data.
[10] Steel Panel Report, p. 95.

8.6 billion dollars. The effect of down-grading, not estimated by OPA though recognized as important, might well result in a still further drop of 2 billion dollars.

Isn't it palpably absurd to shiver over the prospects of inflation when we face a decline in manufacturing pay rolls alone of close to 20 billion dollars? Granting of Labor's full demand in manufacturing industries would provide an offset to this sum of only 5.5 billion dollars.

THE NEED FOR WAGE INCREASE IS IMMEDIATE

Thus far the usual reaction to such figures has been: "sufficient unto the day is the evil thereof"; we will cross that bridge when we come to it. A wage increase now, it is argued, would be dangerous to the economy; we'll wait until VE-Day.

Let's be honest. Does any one really believe that wage rates can be increased when workers are being laid off wholesale, when overtime is rapidly being supplanted by work-spreading, and when the labor force is being augmented by large numbers of returning servicemen? This is obviously unrealistic. Postponement until VE-Day is, in effect, denial of an increase at any time. The time to raise wages is now.

Prices are strong, the present conceded increase of thirty percent over January 1941 can be expected to continue after VE-Day, and may even rise still further. On the other hand "take-home" earnings are soft. The Public Members concede that soon after VE-Day workers will be compelled to live on that income that their basic wage rates will produce. The consequence will be a permanent cut of at least ten percent in real wages, since basic rates have advanced at the most twenty percent. This is not only an injustice to workers on the homefront, but is breaking faith with the millions of workers drawn into the services who will return to find their wage standards seriously reduced. Only an immediate increase in basic wage rates can avoid this calamity.

WAGES AND THE POSTWAR

We have demonstrated that on the basis of the stabilization policy announced by the President and carried through by the National War Labor Board, a substantial increase in rates is justified: living costs have clearly risen much more rapidly than wage rates. To change the basis of wage stabilization to make the comparison between the rise in the cost of living and the rise in "take-home" pay in the form of adjusted hourly earnings is grossly unfair. The increase in earnings over and above the increase in wage rates is the result of factors associated with increases in output and related factors, and in general have been encouraged by Board decisions.

The only reasonable explanation for the shift in the position of the Public Members must be that they are now convinced that a change in wage rates would endanger the stabilization program and possibly start off an inflationary spiral. We earnestly urge, on the contrary, that it is imperative to recognize that certain steps must be taken now to prevent a serious postwar collapse. Wage price relationships have become radically distorted; if they are not corrected—equally radically—the goal of full employment cannot be reached. There is no need to emphasize the serious consequences of prolonged and serious unemployment. Every country in the world recognizes that the decade of the thirties must never be repeated. It is not by chance that circumstances are compelling virtually all national leaders to be committed to the goal of full employment.

Assuming then a wide agreement on the goal, let us look at what is necessary to achieve it—not in terms of legislative action, but of economic policy. In 1939 the country's gross national product was only 88.6 billion dollars. By 1943 it was 186.5 billion dollars, or more than double the prewar level. The total of wages and salaries (exclusive of Government and agriculture) rose during these same years at precisely the same rate—110 percent. Aggregate profits before taxes, however, went up three times as fast, or 330 percent, from 5.3 billion dollars to 22.8 billion dollars. The ratio of wages and salaries to gross national product has not changed between 1939 and 1943, while the ratio of profits before taxes to gross national product has increased 103 percent.

It does not matter that a large portion of war profits was taken by the Government in taxes; we are not here concerned with the justice of the relative rise of wages and profits. What does matter is that such differential increases indicate a serious imbalance among labor costs, prices and wage rates. What has occurred during the war is that labor costs (and the same is true of materials costs) have risen less rapidly than the prices of finished products. This is in part due to the fact that the WLB has been effective in holding down wage rates, while the OPA has been relatively ineffective in holding down the prices of raw materials.

It is due also in part to a wartime rise in labor productivity. In terms of constant (1939) dollars, the dollar output per worker employed in private non-agricultural industry has risen by 40 percent from about $3,040 in 1939 to about $4,250 in 1943. Assuming that the number of hours worked per year has risen from something like 1,800 in 1939 to 2,250 in 1943, dollar output per man-hour has risen by 12 percent. Little if any of this increase has gone to workers in the form of wage increases; real hourly earnings have stayed about constant as the Public Members' report shows.

Consider now what the situation will be in the period of transition from a war to a peacetime economy. Even further dislocations, and what is more important dislocations in the same direction, will occur at that time. In the first place, a very rapid further rise in productivity may be anticipated. After World War I, output per man-hour in manufacturing industries rose by 10 percent per year from 1919 to 1922. Correspondingly unit labor cost dropped by 24 percent. Because World War II has been longer and because pressure to improve technology has been greater, we may anticipate an even more rapid rise in productivity as the new technical developments are translated into the production of peacetime goods.

Secondly, as overtime disappears labor costs will decline. If all overtime presently being worked above 40 hours were compensated at the rate of time and a half, and if we were to drop to a work week of 40 hours the decline in labor costs per year would be about six percent.

Thirdly, in the early postwar years there will be a considerable drop in business taxes. Assuming the price stability which current discussions of the transition period properly anticipate, this decline in taxes will afford an additional source of wage increases. Unless wage rates are increased as profits taxes decline, profits will increase rapidly. If invested, they would result in a short-lived boom followed by depression. If hoarded, the withdrawal of purchasing power would inevitably slow up production and start a downward spiral of deflation.

Consider finally the post-adjustment period when we hope to be well on the way toward a full employment peacetime economy. A number of Government estimates suggest that gross national product then will be in the neighborhood of $200 billions, with some 50 million civilian workers employed, and productivity up by perhaps 20 percent over present levels. These are all conservative estimates. What are their implications for wage policy?

Making conservative estimates concerning the portion of gross national product which will be derived from agriculture and Government, and assuming that full employment means a rise both in profits and in the net income of farmers, we find that these estimates of gross national product at full employment imply increases in wage rates of 25 percent to 40 percent over present levels. An increase of 25 percent would not be adequate to maintain present "take-home" pay; an increase of 40 percent would be necessary.

The increases must be large, both because of the inbalance discussed above, and because even in the prewar period wages and salaries were too small a portion of national income. To achieve and maintain full employment, it is now generally agreed, a larger share must go to the lower income groups. Otherwise, purchasing power will not be adequate to buy back the products of industry and oversaving will again cripple production.

On the basis of considerations such as these, some agreement is developing that increases in wage rates must be made at some future time. What is less commonly recognized is that, for practical reasons, some increases must be made at once. Increases of the magnitude necessary simply cannot be made all at once and in particular they cannot be made when deflationary forces begin to get the upper hand. Government policy to raise wage rates no matter how well intentioned cannot be effective in the face of growing unemployment. Increases are needed to prevent the triumph of deflationary forces. If we don't have them now we cannot prevent deflation, depression and unemployment. If we do get them now, it will be possible later to get the additional increases necessary to achieve full employment.

Would immediate increases be inflationary? On the cost side we believe that OPA figures are conclusive: present profit margins—indicative of a widespread between costs and prices—are fully adequate to absorb all or practically all of a wage increase of the magnitude requested in the various specific CIO cases before the WLB. An increase of 20 percent in the aggregate private non-agricultural wage and salary bill, even if all taken away from profits, would still leave profits before taxes approximately at the level of 1940.

On the purchasing power side, our position is as it has always been that the dangers of the inflationary gap have been greatly exaggerated.

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A hold-the-line policy on all the various fronts of price control, taxation, bond purchases, etc., if fully maintained will be adequate to prevent a serious inflationary rise in prices.

R. J. THOMAS.
VAN A. BITTNER.
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DELMOND GARST.

STATEMENT OF INDUSTRY MEMBERS WITH REFERENCE TO WAGE REPORT OF PUBLIC MEMBERS

A fair reading of the Report of the Public Members to Judge Vinson compels the conclusion that the Little Steel formula, as one of the bulwarks in the "hold-the-line" policy, must be retained without modification. On the other hand, the Report also compels the conclusion that the line cannot be held by the Little Steel formula alone; "fringe" issues, unhappily so-called, are threatening the flanks, and, if not brought under control by the establishment of fixed limits or otherwise, they may destroy the line altogether.

The Little Steel Formula

The Little Steel formula has given the Board a fixed limit on cost-of-living increases. We have heard frequent assertions that the actual increase in the cost of living has exceeded the actual increases in wages. The statistics in the report now furnish the conclusive answer to that argument. The BLS figures on the cost of living, as adjusted by the President's Committee, do not show a rise as great as the rise in the average straight-time hourly earnings. The question whether the economic status of workers has deteriorated under conditions of wartime rises in living costs is answered with an emphatic no: "There has been a substantial improvement of the economic status of the average wage earner since January 1941" (Report, p. 15).

The extent of the improvement is dramatically illustrated by the increase in average weekly earnings of 76.3 percent. The Report recognizes that this, in reality, is the item of most importance in terms of economic status—ability to pay the bills: "How much employees actually earn per hour times the number of hours worked determine their economic status. Such earnings are equally important with, if not more important than, the wage-rate schedules themselves, which are fundamentally but a means to an end" (Report, D–9).

"Fringe" Issues

The permissible increases under the Little Steel formula have been substantially completed; increases in average hourly earnings due to this cause have substantially decreased from October 1942 to October 1944. Similarly, the organization of the war economy was well on the road to completion in 1942; neither shifts to higher-paying industries and localities nor overtime bulked large as factors in increases in the average hourly earnings during that period. The bulk of the increase was due to "fringe" adjustments—shift differentials, bracket adjustments, intraplant inequalities, vacations, and the like. This is now the weakest segment of our line. The Report, taken as a whole, is clear and convincing proof that the line will not be held unless we develop standards, similar to those now embodied in the Little Steel formula, by which to maintain control over future "fringe" increases. To that goal the Board should devote its immediate and whole-hearted energies.

Reconversion Wage Policy

We wholly agree with the refusal of the Public Members to recommend the abandonment of the Little Steel formula because of supposition as to what may happen after VE-day. The uncertainty of developments at that time, the unavoidable secrecy which cloaks our military plans for that period, and the strong probability that a new round of general wage increases now would jeopardize the whole stabilization program, all join to compel that conclusion.

We cannot, however, for much the same reasons, concur in the attempt of the Public Members to begin a blueprint of post VE-day wage policies of other types. Moreover, in some respects, we believe that the projected policy is unsound.

1. We regard as unwise the suggestion that war-caused innovations be made post-war norms. There have been certain types of wartime increases of a wholly abnormal nature—accelerated up-grading, abnormal in-grade advancement and merit increases, increased incentive earnings due to longer wartime runs (Report, p. 22). Normal post-war reestablishment of accepted standards should not be prevented by any attempt to freeze wartime practices into hard and fast rules.

2. The same comment is applicable to wartime reclassifications. Many wage-rate structures have, unquestionably, benefited from the adjustments made in them during the wartime period. Many more can, no doubt, be improved. In many cases, we agree with the Public Members (Report, p. 22) that production costs are not increased, and in some cases may even be decreased as a result of improved morale and efficiency. On the other hand, because the elimination of intraplant inequities has been a "fringe" issue, free from the limits of the Little Steel formula, the adjustment in many, many cases has been only a peg upon which to hang a concealed general wage increase. In the temper of wartime economy, adjustments have seldom been made by reducing the higher rates; almost always the lower rate is increased. We cannot agree that adjustments of this sort are a sound basis for future improvements; sound technique demands both give and take; and the over-all adjustment on this basis should, in the main, result in little or no over-all increase in the total wage bill. Again, freezing present abnormal practices in intraplant adjustments into post-war standards will foster rather than prevent readjustment.

3. We disagree, fundamentally, with the proposal of the Public Members for a legislative wage structure. We have now a series of minimum wages fixed by the Fair Labor Standards Act, and the industry minima fixed pursuant to its provisions. In our judgment, that type of legislation represents the maximum amount of legislative control of wages which is desirable in the post-war economy.

The Public Members, however, would have not only basic minima, but also minima "for a limited number of key occupations above the minimum starting rate" (Report, p. 31). They would, in other words, freeze into schedules, as in a tax statute, enough key rates to make rigid and inflexible the nation's entire wage structure. Such a policy, we believe, is wholly unwise and unnecessary.

If one fact has emerged from the experience of the Board, it is that wage rates cannot be successfully crystallized. For example, even in our most elaborate attempts to set up sound wage structures for various industries we have never succeeded in ironing out the difficulties. Difference in nomenclature, differences in machines or even in age of the same machines, differences in production techniques, differences in final product, and a host of others make impossible any fixed-wage schedule except one which will give labor and management a fresh start at the mutual solution of their own problems. An attempt by the Government to formulate wage schedules for every industry, would bring only endless confusion and endless disputes. And it is one thing to iron out disputes when they arise as grievances; it is quite another to iron them out when they arise as lawsuits for injunctions, declaratory judgments, or decisions by an administrative agency.

Moreover, the consequent rigid wage structure would be a certain invitation to economic ills of major properties. Without attempting to make speculations as to wage levels in the post-war period, we can at least suggest that if legislation were to freeze wage rates at their present levels unemployment might be created rather than prevented by reason of the impossibility of wage adjustments. The functioning of the free enterprise system calls for flexible wage rates, free to adjust in accord with economic, not political, factors. Indeed, the present plight of workers whose wage rates are now fixed by statute—the teachers, the firemen, the policemen, and all the rest of the Government employees, serve as a visible reminder to labor that rigid, governmentally fixed wage rates cannot be adjusted to meet even dire need with anything like the facility that accompanies wage rates fixed by free and open collective bargaining.

4. Finally, we cannot avoid the impression that the report overemphasizes the effect of high earnings on post-war economic health. Reconversion, in essence, will be a matter of time, not dollars. Some deflation is inevitable, as in munitions, aircraft, aviation, and their component suppliers. Workers will, of necessity, be forced to make shifts, employers will be forced to pick up the threads of civilian production on a new basis, with many new factors to be taken into account. During this period, in particular, rigidity in the wage structure will retard the shift, and make it far more difficult. And, in the end, the goal for which we all are striving is a goal which cannot be expressed in term of wage rates. Real wages, not dollars, are the important thing. Another round of price increases after the war, if they were to be made necessary by an attempt to keep dollar wages high, would begin anew the tragic race between wages and prices which we have stopped during the war, thus far. Moreover, the race would occur not to the accompaniment of a practically unlimited market for labor, but to the accompaniment of fewer and fewer jobs, and probably larger and larger government deficits for made-work or relief. Real wages will remain high so long as we permit dollar wages to readjust themselves normally and gradually to a peacetime world.

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