Wage Stabilization Standards

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I should like first to summarize the main administrative and wage policies that the National War Labor Board put into effect during World War II and then try to draw some conclusions that I think might have some application to the present circumstances.

The War Labor Board was set up in January 1942, after war was declared, as an agency for settling labor disputes. It was not until October 1942, that the Board was given the task of administering a wage stabilization program that applied not only to dispute cases, where management and labor could not agree on what wage rates should be paid or on what wage increases should be given, but also to the cases where both wanted agreed-on wage-rate increases.

Any wage stabilization program has to take account of the economic, political, and other conditions that exist at the time it is devised. In 1942 the labor movement was sharply divided. There was bitter rivalry among various labor leaders and between the two great federations. Moreover, management-labor relations had not progressed to a point of maturity in general. These conditions raised obstacles to the success of the wage stabilization program. The CIO would promise wage increases and the AFL would promise higher wage increases, or vice versa, in their efforts to attract the allegiance of the large groups of unorganized workers.

It is also worth remembering that in the early days of the defense program there were seven or eight million unemployed workers, whereas we are now as close to full employment as one can reasonably imagine the economy ever getting.

It should also be borne in mind that the controls over the prices of many foods, the most important item in workers' budget, were inadequate or non-existent. In other words, farmers were in a preferred position in the whole program of price-wage control. This fact helped to make labor somewhat less than enthusiastic about the wage-rate control program. It meant that the wage stabilization fight would have to consist in large part of a slow, delaying action — a retreat from line to line.

The chief administrative policies that the Board put into effect, once it was given the job of complete wage control, were as follows:

First, the Board said that all employers with eight or fewer

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employees did not have to come to it for approval of any wage rate increases they might wish to grant. I think that this was a wise decision because, manifestly, with hundreds of thousands, even millions of small employers in this country, it would have been an impossible administrative task adequately to appraise the wage applications of all of them. So the Board merely expressed the pious hope that the small employers would conform to the principles of wage stabilization. In certain industries like the restaurant industry, some small employers caused the Board a lot of grief, because, being free to raise wage rates without much except their consciences to guide them, they were able to attract labor away from the larger employers who had to get approval of wage rate increases. But on the whole I think it was a wise administrative decision.

In the second place, the Board had to decide whether to try to stabilize wage rates on a local area basis or by industries. Many of you may not be aware that this was a serious issue during the early months of the Board's existence. The choice, after considerable debate, was mainly in favor of area control. As a result it was decided that the administration of the program would have to be decentralized. From the point of view of getting the feel of grass root sentiment of the country, expeditious settlement of cases, and adequate wage control, this was certainly a wise step. Twelve regional war labor boards were set up. However, there were created, in addition some half-dozen industry commissions to administer the wage programs for particular industries, such as trucking, shipbuilding, and others. The reasons for establishing these commissions included the following: special problems peculiar to the industry, such as shipping; the inter-state character of the labor market and product market, as in trucking; and perhaps political necessity. Some of the wage stabilization work done by the industry commissions was acceptable. In other cases it was often unstabilizing to the area efforts of the regional boards.

Third, it was also decided that merit or automatic length-of-service wage rate increases for individual employees would not require specific Board approval. Imagine how swamped the Board would have been if it had had to pass on every case of a wage rate increase for a particular employee based on his individual merit. Accordingly certain general orders were issued prescribing the amount and frequency of such increases.

The wage rate policy that was promulgated in November 1942, had several aspects. In general it was designed to allow laggards to catch up with those who had already obtained sizable wage rate increases before the controls were instituted. There were, to be sure, certain social welfare elements in the program. Among these were the provision for wage rate increases for substandard wage workers, that is workers getting below 30 or 40 cents an hour, and the fact that increases generally were granted in cents per hour rather than as percentage adjustments, thereby narrowing the differentials between skilled and unskilled workers and giving the larger percentage of increase to the unskilled worker. But in the main the program of the Board was designed to allow those employes who up to the time of the wage control program had not obtained increases or only small ones to catch up with those who had obtained large ones. That was the purpose of the Little Steel formula. It permitted all employees to have an increase of 15 percent above their wage rates as of January 1, 1941. If any group of employees had not received 15 percent of their average hourly earnings as of that date, they got the difference; or they were granted the full 15 percent if they had received nothing at all. This was the wage line to be held in terms of general, across-the-board wage rate increases.

By May 1942, about two-thirds of the employees of the country had already obtained 15 percent or more, some much more, of their January 1941, earnings, leaving one-third to catch up.

Some seventy percent of the cases that came to the War Labor Board were those involving allegations of interplant inequities. That is to say, in a given locality, workers in certain plants claimed, or their employers claimed on their behalf, that workers in other plants were getting more for the same work in the same industry or in comparable jobs in other industries.

The War Labor Board's original position on this kind of case was set forth in the Chrysler decision. The Chrysler employees were getting less than the Ford or General Motors employees and asked the Board to bring them up to the latters' level. The Board found that historically the Chrysler workers had always gotten less and it refused to disturb the historical differential, especially since it appeared that the differential had not widened but had remained as it always had been.

This principle of deciding cases on interplant inequities was enunciated as part of the program for stabilizing all wage rates. However, the program was not administered as originally enunciated. What happened was that an employer, or an employer and a union jointly, came to the Board with figures showing that certain competitors were paying higher wage rates for the jobs in question.

Obviously the Board could not accept without some questioning data that were presumably presented in order to win a case. It had to ask the Bureau of Labor Statistics to make a wage survey to discover what rates were being paid by the various competitors.

That soon became an impossible task for the Bureau, which just did not have the manpower. So, having no data as a basis for saying 'no', the Board had no alternative but to say 'yes.' Inevitably in saying 'yes', it created more inequities than it settled.

So by early 1943 it became evident that this main part of the Board's wage policy was becoming not only unadministrable but also very unstabilizing. Huge backlogs of cases were piling up in the regional offices. And the general level of wage rates was being effectively whipsawed upward. Accordingly, the director of economic stabilization, Jimmy Byrnes, ordered the Board to stop granting any wage rate increases based on interplant inequities. This was contained in Executive Order No. 9328 of April 1943.

The whipsawing that had been going on had been very profitable for employers and unions alike, and they were stricken by this executive order. So the Board devised what it thought would be an acceptable substitute. The substitute was approved by Mr. Byrnes possibly because it was what he had in mind from the beginning. It is to be doubted that he ever really intended to shut off entirely the settling of interplant inequities.

The new scheme, the so-called "bracket" system, drew a line beyond which such wage rate increases would not be given. The Bureau of Labor Statistics was authorized to collect wage rate data for key jobs in the major industries of the various local labor market areas. From these data it would be possible to determine what the weighted average or modal rates were for the key occupations. If the applicant employees' wage rates in a given case were more than a certain amount below this weighted average or modal figure, they were allowed increases. Otherwise, the applications were denied except in "rare and unusual cases" involving special war production. Incidentally, the term "rare and unusual" was not a loophole and was not abused. There are only one hundred or so cases in the Board's bracket program in which increases were granted under this exception.

However, the pressure for wage rate increases continued to rise. The validity of the cost-of-living index, which was the basis of the Little Steel adjustments, was questioned. One device the unions emplayed for getting wage rate increases was the claim of intraplant inequities and the use of job evaluation plans to raise the whole level of wage rates in a plant. There were good labor-relations reasons for redress of real intra-plant inequities. But the Board eventually had to issue rules regarding the amount of net increase in job rates that were permissible under job-evaluation plans. Another method of obtaining wage concessions was to ask for shift premium pay, paid vacations, and other items which my friend, Lew Gill, labeled "fringe". Here the practice prevailing in the area was supposed to determine the acceptability of applications.

The War Labor Board's wage-control program included restraints on permissible wage-rate increases under wage incentive plans. It also handled the problem of providing wage-rate structures for newly built war plants; it provided that the job rates in such plants should be set at the weighted average or at the mode of the rates being paid for similar jobs in the locality.

In brief this is the story of the War Labor Board's wage stabilization activities. To summarize, there was mainly the Little Steel formula; there were the interplant inequities which constituted the bulk of the Board's cases; there were the intraplant inequity cases; and there were the adjustments for substandard wage earners. Hundreds of thousands of cases were processed. In retrospect, I think that the wage line was held pretty well, considering the pressure, the number of employees involved, the economic-political conditions of the time, and our lack of previous experience. It is obvious that the War Labor Board played pretty much by ear. The earlier experience of the public members of the Board had been largely in meditation and arbitration. They were used to taking cases on their merit as they arose and they were disinclined to work out in advance a wage stabilization program.

Now to the second main part of my discussion: In listing the lessons to be learned from the War Labor Board experience, I offer the following: In the first place, in formulating policies for the emergency that faces us today, it is necessary to take into consideration, just as the War Labor Board did, the degree of maturity in the labor movement and the degree of responsibility that labor can assume. Bear in mind that during World War II England had no War Labor Board; the unions voluntarily imposed disciplines on themselves. American unionism and labor-management relations are still some distance from those in Britain. But there can be little doubt that our labor movement is less disunited, better organized, and more mature than in 1942. And there has also been marked improvement in union-employer relations. These facts should be among those making for the second of any current wage-control program.

Second, the success of the program depends a great deal on the existence of an emergency and of a feeling of urgency. Wage controls would be much more comfortably borne after an atomic bomb had been dropped on Chicago or Detroit. The extent to which all of us, including employers and unions, feel the sense of urgency will be a major determinant of the extent to which we cooperate with a control program. I note no great sense of urgency among American workers or other groups today.

Third, a control program, like any government regulation must have three characteristics. It must make economic sense and have economic validity. It must make political sense and be politically acceptable and feasible. And it must be administerable, that it, reducible to manageable proportions.

In this connection I raise the question as to whether the present control program should provide for the rectifying of interplant inequities. It has always been a fact that there are a great variety of rates paid by employers in the community. There will always be the low-wage employer who gets along and makes profits by virtue of paying low wages in spite of getting poor labor in return for such wages. Then there is always the employer who pays very high wages and gets the cream of the labor market and keeps competitive because he has the best labor by reason of paying high rates. In between there are the mass of employers. Furthermore, organized labor has made marked progress in removing both interplant and intraplant inequities. If these things are so, that I should advocate handling interplant inequities only as a measure for easing the sting of what may be considered the basic inequities of the whole wage-price stabilization program. I shall refer to these in a moment.

Fourth, I think the War Labor Board was wise in eliminating the very small employer from consideration in devising rules for granting individual increases without prior approval as well as in general decentralizing administration as much as possible. These steps help to reduce the job to manageable dimensions.

Fifth, although it makes for some administrative inefficiency, the control program should be administered tripartitely in policy matters. In a state of war the government becomes at least semi-authoritarian, which strikes at the heart of collective bargaining at the plant level. If management and labor are not permitted to work out free settlements under the control program, a very serious blow is struck at harmonious labor-management relations. There should at least be some collective bargaining at the top level, that is, in the regional and national war labor boards. It is the remainder of collective bargaining that can exist during a period of emergency.

Sixth, experience showed that wage rates cannot be used as a means of moving manpower from place to place. This has to be the job of a war manpower commission or similar body. We quickly learned, for example, that in a community where there are 100,000 jobs and 80,000 people you cannot supply the shortage of 20,000 people by raising wage rates first in this plant, and then in all the others because you have created inequities by your first decision. All you have done is to increase labor turnover and raise the whole level of wage rates. And you still haven't relieved the shortage. The only way to do this is to increase efficiency, lengthen work periods, and get women, young people, old people, and other groups not normally in the labor market to go to work.

Seventh, any wage-control program must, I think, permit workers, organized or unorganized, who have lagged behind the others to catch up in the matter of increases since some proper base date. A major inequity would exist if all existing wage rates were frozen as of some current date. The problem is to hold the pacemakers in check, not to prevent the laggards from catching up. The Stabilization Board has wisely issued its present-day version of World War II's Little Steel formula.

Finally, there is another point that deserves the utmost emphasis, both for economic and human-relations reasons. Wage rate control is inextricably related to price control. You cannot have any workable wage rate control without price control because when the cost of living rises, you have unrest, you have demands for wage rate increases, the very thing you want to get rid of. So the control of the cost of living is absolutely essential to successful wage rate control. And it is just as true that in order to make price control successful you have to have adequate wage rate control because wage cost is usually a major part of total cost. An increase in either product prices or wage rates keeps us on the merry-go-round of inflation or produces serious economic distortions and keen senses of injustice.

This fact brings up for our consideration one of the major fruits of collective bargaining since the war, a fruit of the rankly spreading tree of inflation. I refer of course to the successful efforts of unions to protect themselves against the depreciation of the buying power of their money wage rates, either through the formal escalator clauses or through contractual provisions for frequent reopening on wage rates. Should the wage board declare such provisions null for the duration of the emergency?

My answer to this question is "no", provided that certain other actions are taken by government. These actions would include the control of virtually all important product prices, including those of farm products and house space, and the imposition of adequate taxes on profits in excess of those needed for the maintenance and expansion of productive facilities and for the payment of normal dividends. It is repugnant to my conception of the public interest and it offends my sense of social equity for any group to be especially favored at a time when the country as a whole must make sizeable sacrifices as we prepare to defend ourselves against the threat to our way of life. I feel very strongly that these sacrifices should be fairly shared by all groups.

If we were to have adequate price controls, then, there would be no need to nullify the escalator wage clauses of labor contracts. Adequate price control would almost automatically mean adequate wage-rate control. The most important wage stabilizers would then be the price stabilizers. And there would be no interference with an important achievement of free collective bargaining.

The wage-control program could then consist mainly of (1) a Little Steel formula of general wage-rate adjustments for the laggards, which would cover fringe as well as straight wage-rate adjustments; (2) provisions for individual intra-plant adjustments, subject to specific rather than general limitations; and (3) provisions for changes in incentive wage systems and for new-plant wage structures, both similar to those used by the War Labor Board during the war.