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THE PROBLEM OF COORDINATING PRICE AND WAGE PROGRAMS IN 1950-1953

PART II†

JOHN H. KAUFMANN‡

III. PRICE AND WAGE PROGRAM COORDINATION

The price-wage freeze of January, 1951, was a temporary expedient to put a stop to the rising price-wage spiral. It was not possible nor desirable to consider the freeze an eduring program. Both the price and wage agencies were immediately forced to fashion programs which achieved their own program objectives. The Economic Stabilization Agency had the responsibility of assuring that these programs were effective and compatible while, at the same time, affording both business and labor an adequate incentive to achieve maximum production.

Immediately following the freeze both OPS and WSB had the difficult task of determining the level at which prices and wages should be stabilized, as well as determining the stringency with which the program should be administered to maintain this determined level. Both of these questions required the highest skills of seeking, within the limits of the Act, a balance of the economic, political, administrative, and social factors affecting the program.

The price and wage programs were developed to fit the pressing economic factors. The index of prices had reached its highest level of history, and there were gross distortions and inequities obscured within the average price and wage levels. While wages in some industries had kept up with rapidly rising prices in the late summer and fall of 1950, it was estimated that as many as half of all wage and salary workers had not participated in a general wage rate or salary rate adjustment. Furthermore, it was recognized that consumer prices could not be held at the level of the freeze despite intensive price control efforts. Not only were there glaring holes in the price control authority (agricultural commodities in particular) but the price increases at wholesale levels, which

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could not be rolled back, would necessarily eventually reflect themselves at the retail level.⁷²

In the spring of 1951 both price and wage agencies were seeking to establish by summer an equitable level or plateau of control which could be firmly held as inflationary pressures mounted from the expanding defense program, which represented as little as seven percent of the national product in December, 1950, but which was expected to go to eighteen percent by the end of the year. This had to be achieved with limited stabilization authority and with the major organized labor and business organizations on record against direct controls.

A. *Establishment of Price Policy*

Although the voluntary pricing standards of December 19, 1950, warned sellers that future controls would be established using a December 1 level of prices, by the time of the freeze at the end of January this had become an impossibility. Had only a few prices risen above this level they could have probably been rolled back as some were, but price increases were far more general and so imbedded in the price structure that a price level base of a later date had to be sought and the serious inequities adjusted. The price-cost distortions were caused by the fact that prices and costs did not rise at the same rate or at the same time; many sellers more than anticipated their current and future cost increases and reflected them in their prices, while others complied more nearly with the voluntary standards. In addition, there were wide disparities in marketing situations where some sellers sold on the basis of long term contracts while others sold on the basis of daily quotations.

Thus the OPS was faced with the problem of eliminating the price-cost distortions between sellers while at the same time holding as closely as possible to the general price level established by the freeze. To make this adjustment, as well as holding such a price line, two complementary standards were developed: an interim pricing standard which would permit the removal of these disparities and inequities, and a basic long-run policy of holding prices at established levels as long as earnings were above some reasonable minimum.

The interim pricing policy attempted to reconstruct the price structure by utilizing a pre-Korea base and allowing the newly computed prices

72. At the beginning of February, 1951, for example, it was feared that by July, 1951, the consumer price index would rise about seven percent over December, 1950, assuming (1) effective price control, (2) necessary pass-through to retail of price increases at primary and wholesale level, (3) no change in rent control, (4) the rise of agricultural commodities to parity levels, and (5) the continuation of imported material prices at close to freeze levels. Consumer prices from December to July did in fact rise about four percent.

to reflect only actual direct labor and cost increases occurring since then.⁷³ During its development, it was anticipated that this regulation and its major companion regulations⁷⁴ would have the effect of reducing the many prices that had been raised beyond mere reflection of actual increases in costs yet would also allow manufacturers to raise other prices which had been caught inequitably in the freeze. On balance, however, it was expected that the reductions would be larger than the increases because most manufacturers had taken a mark-up on the cost increases experienced since Korea, while the regulation allowed for none.

For distributors the interim pricing policy was to establish mark-ups at the pre-Korea level (a dollar-and-cent margin, rather than a percentage mark-up) to be added to the inventory price. For food commodities, distributive and processing margins were established on the same basis as the general manufacturing and distributive policy, but allowance had to be made for a pass-through for farm products where their prices were below parity.

While the Office of Price Stabilization worked diligently on the preparation of the manufacturer's interim price policy regulation, it was not until April 25, three months after the freeze, that it was issued.⁷⁵ The OPS had attempted to make the basic regulation as fair and equitable as possible, and this required time and also posed a dilemma. The more equitable the regulation, the longer it took to prepare and the more complicated it became, with each manufacturer finally given a choice of one of four methods of calculation. However, the longer it took to prepare the longer the inequities of the freeze had to be endured. Despite pressure from ESA, the interim regulations were not issued by OPS until the end of April.

In issuing CPR 22, DiSalle emphasized that the agency was not adopting a cost-plus principle in establishing ceilings. He said:

73. Specifically, for manufacturers, each was instructed in Ceiling Price Regulation 22, April 25, 1951, to find for his commodities the highest unit price charged in a pre-Korea base period of three months and to the pre-Korea price add the increase in the unit factory labor cost between June 24, 1950, and March 15, 1951, as well as the unit increase in materials cost which he experienced from June 24, 1950, to December 31, 1950. And some imported material cost increases were allowed through March 15, 1951. Manufacturers were required, however, to absorb increases for general administration, sales, advertising, research, plant expansion and improvement, and overtime pay. CPR No. 22, April 25, 1951, 16 FED. REG. 3562 (1951).

74. CPR No. 30, May 4, 1951, 16 FED. REG. 4108 (1951) and CPR No. 45, June 9, 1951, 16 FED. REG. 5753 (1951).

75. CPR No. 7, the distributor's regulation, was issued on February 26, 1951. 16 FED. REG. 1872 (1951). CPR Nos. 14, 15, 16, the food regulations, were issued on March 28, 1951. 16 FED. REG. 2725, 2735, and 2750 (1951). And CPR No. 30, Revision 1 to CPR 18, CPR Nos. 37, and 45 were issued May 4, 9, 16 and June 15 respectively. 16 FED. REG. 4108, 4327, 4644, and 5753 (1951).

This regulation allows only for past increases, and it does *not* carry any implications that any future cost increases will be handled on a similar automatic basis.

It would be completely futile to attempt price control on a cost-plus basis, for it would result in prices spiraling upward. If each material and labor cost could be passed along immediately and automatically, it would mean higher production costs, higher prices for finished products and thus raise living costs. That would result in demands for new wage increases and still higher production costs.

In short, we cannot successfully stabilize prices if we permit automatic escalation.⁷⁶

These interim price regulations were directed at correcting the price-cost distortions caught in the freeze. A further basic regulation was needed to hold the price level once the distortions were corrected. This was established by the Industry Earnings Standard which was the basic long-range policy of requiring manufacturers to absorb future cost increases without raising prices if they were in a favorable profit position. Johnston noted in a letter to DiSalle that: “[t]he basic policy shall be to allow no price increase above the levels set by interim regulations except to the minimum extent required by law, or for exceptional reasons of public policy.”

The Defense Production Act, in Section 402(c), merely required that regulations be “fair and equitable and . . . effectuate the purposes of this title.” Johnston established that this minimum requirement would be met for any industry other than certain farm and food commodities, if:

. . . the dollar profits of the industry amount to 85 per cent of the average for the industry’s best three years during the period 1946-1949, inclusive. The profits should be figured before federal income and excess profits taxes and after normal depreciation only, with adjustments made for any changes in net worth.

Any increase in manufacturing or processing prices may not be passed along at distributive levels except to the extent necessary (a) to meet the above earnings standard; or (b) to prevent dislocations in the relationship between costs and ceiling prices; or (c) to avoid serious hardships or inequities or to

76. Press Release, OPS-0-94, April 25, 1951.

preserve enforceability. Any such increases shall not, in general, exceed the actual dollars-and-cents rise in costs.⁷⁷

While the Industry Earnings Standard directly resembled its OPA predecessor in form, it was in one regard a great deal less severe in substance. The OPA earnings standard, also following the excess profits law base, used the years 1936 to 1939—years which reflected fairly normal profits after lean years of the depression. The 1946-1949 period of the Johnston standard were levels of comparatively high profits, estimated at the time to represent for manufacturing industries a rate of return on net worth before taxes of 23 percent. The return on net worth before taxes for manufacturing corporations in the OPS base period averaged only 9.9 percent.⁷⁸ It was difficult for the argument to be made generally that the Johnston standard was not quite liberal and therefore not generally “fair and equitable.”

However, since the profits before taxes for the first quarter of 1951 were at the record high annual rate of \$50.1 billions for all private corporations, compared to a range of \$23.5 to \$39.6 billions during the years 1946 to 1950, there was a significant cost absorption gap for most industries. Only a few individual manufacturing industries were operating at profits below earnings standard levels;⁷⁹ most manufacturing industries were far above the standard.⁸⁰ Thus these latter industries because of relatively low base period earnings and high current earnings had a tremendous amount of cost absorptive capacity under the Industry Earnings Standard before any price increase could be granted. In the spring of 1952, a year after the Industry Earnings Standard was established, the high cost absorptive capacity of the steel industry was to become a national issue.

The pricing standards developed in the spring of 1951 were aimed at achieving the freeze level of prices at wholesale with a reflection of the past cost increases at retail, maintaining pre-Korea margins, and requiring absorption for any future cost increases up to the Industry Earnings Standard. These standards were the most stringent which either ESA or OPS believed possible to establish. As will be noted, standards with this degree of stringency were not viable, for Congress, in the 1951 amendments of the Act, relaxed them. But at the time they were devised they appeared to be the most viable within the limits of law and the public

77. Letter, Johnston to DiSalle, April 21, 1951, ESA files.

78. Compare memorandum, Johnson to Johnston, *Fairness of the Base Period in the Earnings Standard*, May 10, 1951, ESA files.

79. *E.g.*, the food and beverage, apparel, and printing industries.

80. *E.g.*, the transportation equipment, primary non-ferrous, primary iron and steel industries.

acceptance of controls. They were less severe than those of World War II, yet Eric Johnston wrote Wilson that he believed the pricing policies and standards were "tough and highly restrictive, and that they will have an increasing impact on the level of corporate profits. They can be justified on grounds of law and equity, only as a part of a firm stabilization program which has comparatively restrictive effect on other economic groups."⁸¹

B. *Development of Wage Policy*

Even before the price-wage freeze, and certainly shortly thereafter, Eric Johnston found that necessary as it was to establish programs of comparable restrictiveness, it was far more easily said than done. Johnston, wishing to avoid some of the apparent difficulties of his predecessor, requested as a condition precedent to his acceptance that he be allowed to establish an advisory board having representation of top level business, labor, agricultural, and public members and that he also be allowed to report directly to the President. With an advisory board and direct access to the President, Johnston believed he could better establish and administer a stabilization program in all of its interlocking parts. However, he was never granted either of his requests. Although he did establish his own advisory board of lower echelon representation while a national advisory board was established by ODM, he did not get the direct access to the President which he desired and felt necessary in order to deal authoritatively with business and labor, as well as to bring his influence to bear on the other economic controls basic to the success of the direct controls program, namely, tax, credit, savings, and expenditure programs. He was limited right from the start more than he had expected to be, and from the start he was to be blessed with another problem—a tripartite wage board.

Johnston had no desire or intention of keeping the Wage Stabilization Board as a captive advisory committee on wages as Valentine had planned. This was borne out by his immediate delegation of authority the day he assumed office. However, Johnston assumed that with his responsibility for direct price and wage control went an authority which he intended to wield. He looked to the OPS and WSB as constituent agencies having broad delegations of operating authority but ones which would seek approval on all major policy issues and would carry out other policy decisions which he might direct. He conceived of himself by desire and by requirement of law far more of an administrator over price and

⁸¹. Memorandum, Johnston to Wilson, *Outline of Price Control Policies*, April 4, 1951, ESA files.

wage controls than did the Directors of the Office of Economic Stabilization in World War II. The OES in World War II was an "appellate" agency to which OPA and NWLB brought conflicting problems. Johnston viewed the Defense Production Act as requiring him to see that these problems would not arise or at least that they be nipped in the bud before flowering into national issues.⁸²

Undoubtedly the first price-wage coordinating difficulty Johnston had was launching the price-wage freeze. DiSalle readily issued the General Ceiling Price Regulation, and Johnston signed it also to signify his wholehearted approval. The Wage Stabilization Board, however, showed no desire to approve the General Wage Stabilization Regulation establishing the freeze, although it did not oppose it. Labor members were dissatisfied with the organizational layers between the WSB and the President, and since they were still hoping that the WSB could be made more directly responsible to the President, they showed no interest in taking any action which implicitly recognized the current organizational relationship. Furthermore, the labor members believed that if the freeze order was promulgated from above it would leave them in a better position with their rank and file and enable them to criticize more freely the development of wage policy. Similarly, the industry members of the Board shied away from voting for the wage freeze order since this implicitly connoted agreement with the price freeze which business organizations had specifically opposed. For these reasons the tripartite board would not vote for the wage freeze. This was the first of a series of instances in which Johnston found the Wage Stabilization Board refusing to take actions known to be necessary and inevitable but which were embarrassing or awkward. The WSB found Johnston a useful "fall guy" in such situations. Johnston had to issue the wage freeze himself in order to have it go into effect as of January 25, 1951, simultaneously with the price freeze.

All the inequities growing out of the turbulent movements of 1950 were caught in the wage freeze, just as in the case of the price freeze. While the general pattern of collective bargaining wage increases was in the range of five to eight percent over the year, among organized workers increases of at least ten percent had been negotiated in basic steel, coal, northern textiles, footwear, aluminum, and some other industries of lesser importance. While these larger wage increases were obtained by perhaps no more than two million organized workers, they set a firm

82. Compare HERBERT KAUFMAN, *THE ECONOMIC STABILIZATION AGENCY IN THE JOHNSTON PERIOD* 37 ff. (unpublished manuscript in ODM Library, 1953).

pattern. Furthermore, the ten percent increase in wage rates did not include the value of pension plans and other supplementary benefits.

In addition to the distortions in the wage rate movements in 1950 were the difficult problems of automatic cost-of-living clauses and annual productivity clauses in contracts. About 1.5 million workers were covered by cost-of-living escalation clauses in some 500 contracts at the time of the freeze. About 1.6 million employees were covered by contracts calling for general wage increases to be made after January 25, 1951, of which one million were under contract to receive these annual improvement increases prior to June 30, 1951, and of these workers about 650,000 were under clauses similar to the General Motors contract under which a four cent an hour increase was due on May 29, 1951.⁸³

There were, of course, other pressing problems requiring the Board's early attention, including hardship and inequity increases, health, welfare, and pension plans, to say nothing of the issue of the disputes function. Immediately after the freeze, however, the issue was how to allow "catch-up," relax the rigidities of the freeze, and yet establish the tightest wage stabilization policy which could be maintained and supported by the industry, labor, and public members of the Board.

The catch-up issue posed basic questions. What would be the proper catch-up base date, and how large an increase should be given to bring the wage structure into alignment? Should this increase also cover future cost of living, productivity, and fringe benefits? Also there was the inevitable dilemma in wage stabilization of establishing a regulation which, while a "ceiling" for the wage leaders, would tend to be regarded as a "government sponsored goal" for others, strengthening the collective bargaining position of workers employed at rates below the "ceiling."

While the WSB struggled with these questions there was a growing dissatisfaction in organized labor's ranks regarding the part which they were playing in the mobilization effort. This dissatisfaction was dramatically displayed when labor walked off the WSB. No one specific issue caused the walkout; a complex of dissatisfactions existed. The United Labor Policy Committee believed that the Wage Stabilization Board should not have been smothered under the organizational hierarchy of ESA and ODM before reaching the President; it believed that labor was not being given a significant part to play in formulating mobilization policy, and it was particularly concerned by the reasons and implications in transferring the Labor-Manpower Commission from the Department of Labor to the Office of Defense Mobilization. They

83. Compare memorandum (unsigned), *Wage Policy and Problems*, April, 1951, ESA General Files.

feared this transfer, rather than specifically opposing it, because Wilson, who directed it, would give no satisfactory reasons for the move. Labor had not been pleased with the Wilson appointment and furthermore saw General Clay as one of his close advisers. Labor clearly remembered Clay's position in 1944 behind the National Service Law proposal, which they had strongly opposed.

The public and industry members of the Board, on February 15, recommended to the Administrator that wage increases up to ten percent over levels prevailing on January 15, 1950, should be allowed without prior approval by the WSB, and that any fringe benefits negotiated in the future should be included in the allowable ten percent limit. While there was no substantial difference of position between the industry and labor members, the three labor members dissented vigorously. The labor members of the Board had a substitute recommendation of a twelve percent increase over January 15, 1950, and less restrictive language on particular points. The two percent difference of position on the recommendation was not the full reason for the labor members walking off the Board. When leaving the Board they claimed that the ten percent recommendation had, ". . . restrictive and harsh provisions . . . [placing] the primary burden of sacrifice involved in current mobilization effort on only one segment of the population, those who depend upon wages and salaries for their living. There is no single provision in the Regulation which is responsible for this result. Rather, the entire tenor of the Regulation is one of harsh restriction."⁸⁴

Johnston held the ten percent catch-up recommendation for almost two weeks, attempting to find a means of reestablishing the Board. He was unsuccessful because he was trying to buck a labor tide of reaction far more significant than this issue, and on February 27 he accepted the recommendation. On February 28, the United Labor Policy Committee staged a full walkout on the government, by withdrawing all labor representation from government mobilization organizations.

In approving the ten percent catch-up (Wage Regulation No. 6), Johnston outlined to Cyrus Ching, Chairman of the non-functioning Wage Board, his concept of the development of wage policy and the part which Regulation 6 should play. Regulation 6, Johnston noted, was a necessary first step in evolving a step-by-step, rounded wage policy which could handle equitably the complexities of the problem and simul-

84. Dissenting Opinion of Labor Members of WSB concerning Regulation 6, February 20, 1951, signed by Harry C. Bates, Elmer E. Walker, and Emil Rieve, reprinted in *Wage Stabilization Program, 1950-1953*, appendix at 63.

taneously achieve the objective of wage stabilization. Johnston wrote Ching that in evolving this policy the Board must be fair yet stringent.⁸⁵

An equitable policy which would share the burden of defense should include, Johnston wrote, a wage policy permitting automatic escalator clauses in existing contracts to operate until June 30, 1951, even though they might pierce the Regulation 6 limits. Similarly, clauses in existing contracts providing annual wage increases in recognition of increased productivity should be allowed to take effect until June 30, 1951. He requested the Board to prepare regulations to carry out this policy. Furthermore, Johnston asked the Board to study and recommend to him regulations covering fringe benefits, hardships and inequities, new plants, exempt industries, and tandem wage adjustment.⁸⁶

By this letter Johnston hoped to make Regulation 6 more acceptable to labor so as to resurrect the tripartite board, and lay a basis for wage stabilization policy commensurate with the stringency of price and other stabilization efforts. Firmly believing that a tripartite wage board was the most effective method in our democratic society of administering wage stabilization, Johnston sought for two months to find the combination of factors which would make the Board work and still have a stabilization policy worthy of the name. It appeared that labor participation on the Board could only be obtained if the wage matters coming before the Board were to be dealt with quite "liberally." Pressing issues, such as the wool, cotton, meatpacking, railroads, and shipyards cases up for decision, forced an immediate position to be taken. In light of the coal agreement which sneaked in under the freeze, it appeared difficult to deny, on equity grounds, the increases in other important cases. To deny them, it appeared, would mean no labor participation; to grant them would mean no stopping of the "sixth round" of wage increases and a possibility of the withdrawal of industry members from the Board. Labor continually pointed to the looseness of controls on farm prices, prices for manufactured goods, and credit, as well as

85. In his letter he observed: "We can't hope to go on doing things in the usual way. Each of us must give up something. Each of us must practice self-discipline and self-restraint. That is the only way we can halt the inflationary disease eating at our economic vitals.

"Certainly we can't stabilize the economy if different segments race for advantage, and first one and then another shoots ahead of the rest. Our job in this Agency is to see that the burden is shared as equitably as possible on the principle of equality of sacrifice." Letter, Johnston to Ching, February 27, 1951, ESA files.

86. Because the Board was not functioning, Johnston found it necessary on March 1 to issue Wage Regulation No. 8, himself, which embodied his first policy recommendation, *i.e.*, allowing the automatic cost-of-living escalation clauses that were in effect on January 25, 1951, to function until June 30, 1951. GWR No. 8, March 1, 1951, 16 FED. REG. 2032 (1951).

inequitable taxes as reasons why their position was "equitable" with the other action being taken in the stabilization program. Thus it seemed that a wage program not approving the recently negotiated wage increases but only giving partial support to them, would possibly be acceptable to organized labor only if accompanied by tighter price regulations, such as strict maintenance of freeze level for manufactured goods prices and farm parity levels, along with a broad program of inflation control.

In a period of "half-mobilization" could the Administration gather the support of Congress and the people to back such a stabilization program in its various parts? In March at a Defense Mobilization Board meeting, Johnston raised the question of whether the American public wanted stabilization. He noted a lack of willingness of any economic segment of the country to hold the line at current levels despite such favorable factors as high level of industrial profits, a liberal wage policy for the vast majority of labor under the ten percent catch-up regulation, above parity prices for many agricultural commodities, and general opposition to balancing the budget through higher taxes. "A general situation exists," he observed, "in which nearly every group wants everybody else to be controlled but remains unwilling to accept controls imposed upon themselves."⁸⁷

The Defense Mobilization Board agreed with Johnston that he had only one course of action in current wage cases, that of holding the existing ceilings except where hardship or inequity was clearly evident. The Board agreed that the stabilization program must be continued and must be made effective. To accomplish this end it felt that the general public had to be better acquainted with the need. Johnston outlined five points as essential to an effective stabilization program: (1) a wage freeze, probably as of July 1, 1951, (2) an agricultural parity frozen as of January 15, 1951, (3) the sharp curtailment of business profits, (4) a balanced budget, and (5) stricter credit controls. It was far easier to conceive of this program as fair, equitable, compatible, and necessary in the public interest than it was to get acceptance of it by Congress and the powerful economic groups in society which would be affected by it.

C. *Resurrection of WSB and Establishment of Disputes Function*

On April 21, 1951, the Wage Stabilization Board was resurrected as an eighteen man tripartite board with George Taylor as Chairman. It was possible to reappoint the Board with labor representation only by making provision for limited disputes authority for the Board. Unlike the National War Labor Board which was established as a disputes settling

87. Minutes, Meeting No. 6, DMB, March 14, 1951.

body in early 1942 after a labor-management conference and a no-strike no-lockout pledge and which only later (in October 1942) was given general wage stabilization authority, the Wage Stabilization Board started with wage stabilization authority but no disputes authority and no labor-management conference or pledge.

While authority existed for a labor-management conference, both Johnston and Ching recognized that such a conference would neither produce a no-strike no-lockout pledge nor aid in resurrecting the WSB. The most that could be hoped for, it appeared, was a new Wage Board with some disputes authority in which labor and management had representation and confidence so that it could settle disputes without interruption of defense production. If this could be achieved it was felt an implicit, partial, no-strike no-lockout understanding would eventually be established.

The WSB was reestablished by Executive Order 10233 which gave the Board authority to assume jurisdiction in any labor dispute which was:

. . . not resolved by collective bargaining or by the prior full use of conciliation and mediation facilities and which threatens an interruption of work affecting the national defense where:

(a) The parties to any such dispute jointly agree to submit such dispute to the Board for recommendation or decision, if the Board agrees to accept such a dispute, or

(b) The President is of the opinion that the dispute is of a character which substantially threatens the progress of national defense and refers such dispute to the Board.⁸⁸

It is most important to note, in regard to the problem of price-wage coordination, that labor had partially won their point of reducing the distance between the Wage Stabilization Board and the President. The Board was directed in Executive Order 10233 to report to the President its recommendations as to "fair and equitable terms of settlement" on any dispute which the President might have referred to the Board. Although the Executive Order required that any action taken by the Board "be consistent with stabilization policies,"⁸⁹ it did not require that the Board seek approval from the Economic Stabilization Administrator of its recommendation before submission to the President. Thus the WSB in establishing new wage stabilization policy was required to submit its recommendations to Johnston for approval, but in settling labor disputes was accountable to the President and only under a moral obligation to

88. Exec. Order No. 10233, §405, 16 FED. REG. 3503 (1951).

89. *Id.* §409.

discuss the issue with Johnston if the settlement recommendation appeared to the Board to involve issues of new wage policy.

With the WSB having independent dispute functions for which it was accountable directly to the President, the Economic Stabilization Administrator lost the assurance of control over the stabilization policy of the Board. It became possible for the Board to make a recommendation to the President inconsistent with stabilization objectives, yet over which the Economic Stabilization Administrator had no veto authority. The WSB, before the steel crisis, indignantly denied that this might happen, saying:

It should be presumed that the Board, like any other government agency, will act within its authority . . . if the Board, in order to arrive at a fair and equitable settlement in a disputes case, should find that some change in existing general policies, or the adoption of a new general policy, is necessary or desirable, it should not be presumed that the Chairman of the Board will not consult with the Administrator in advance, whether or not legally bound to do so.⁹⁰

Yet if the Administrator was presented with a dispute settling recommendation which was inconsistent with the stabilization program he would be faced with the dilemma of readapting his stabilization program or finding a new Wage Stabilization Board and yet still be required to live with the disputes recommendation once it was made public. Roll-back of prices or wage levels or revocation of government decisions on prices and wages have proven next to impossible once they have been made public. The steel dispute recommendation presented this dilemma.

With the Wage Stabilization Board having disputes settling authority, Johnson recognized the added importance and need for the Board's establishment of a total wage policy, the considerations of which he had enumerated in his February 27 letter. During the summer of 1951, however, he was to discover that the Board was not anxious to establish a clear-cut definition of a total wage policy, maintaining that its ability to perform its disputes function would be limited if all parties knew in advance the maximum possible limits of any decision.

D. *Coordination in Establishing Direct Controls Program*

While called the Economic Stabilization Administrator, Eric Johns-

90. Letter, Feinsinger to Putnam, January 11, 1952, ESA files, enclosing memorandum, Groner, *Legal Basis of the Administrator's and the Board's Duties and Responsibilities with Respect to Labor Disputes and Wage Stabilization*, January 10, 1952, ESA files. See also, testimony of Taylor, *Hearings on H.R. 3871 Before the House Subcommittee on Labor and Public Welfare*, 82d Cong., 1st Sess. 17, 18 (1951).

ton had some influence but no control over other essential factors affecting economic stabilization. Not only did industrial production and tax, credit, or fiscal programs affect the outcome of economic stabilization, the action or lack of action in these areas affected the direct price and wage programs in two ways: the less effective the other economic controls the greater the pressure on and the need for price and wage controls, yet, the less stringent these other controls, the more difficult it was on equity grounds to establish stringent price and wage controls.

This was part of Johnston's problem in attempting to establish effective price and wage controls. However, there were other direct factors which affected the level and stringency at which price and wage controls could be established. The level at which prices could be stabilized was mainly a function of the degree to which increased costs since Korea had become imbedded in the cost-price structure, the impossibility of any general roll-back, and the degree of lack of control over agricultural and imported commodity prices. While Johnston had authority to affect the *future* movements of only some of these factors, it is certain that when establishing the price program they were all given consideration. Establishing wholesale prices at the level of the freeze and allowing only pre-Korea mark-up was the most that could have been done, and, as it turned out, was more than could be done in light of given factors beyond Johnston's control.

There was greater choice in the matter of instituting a no further cost pass-through and absorption policy. The Industry Earnings Standard could have been placed on a more or less stringent basis, and here Johnston had some opportunity to mold the degree of stringency of price policy to wage and other stabilization standards.

In the development of wage policy there were similar factors which established the lower, or most stringent, limits of wage policy, but on the other hand, Johnston was less able to have a wage policy developed which stayed as close to the most stringent level as he desired. The wage distortions, like the price distortions, made a catch-up regulation necessary. With wage roll-backs even less possible than price roll-backs, Johnston sought a wage catch-up which would reasonably cover the increased cost of living that had already occurred as well as the rise which would occur by the summer months of 1951 when the so-called wage-price plateau could be held. The ten percent formula, it was calculated, would not only satisfy the catch-up requirement, but would also cover the expected increases in consumer prices so that major contracts—General Motors in particular—need not be disturbed.

Wage Regulation 6 provided that the ten percent catch-up figure be reviewed in light of the April 15, 1951, consumer price index, which would be published the end of May, and it is fairly apparent that the Wage Stabilization Board, with labor dissenting, looked upon this regulation as an all-inclusive wage policy regulation. Johnston, in the early part of February, thought in these terms as well. Such a regulation, assuming consumer prices were maintained at the June, 1951, levels, could be considered compatible with the no pass-through, cost absorption price policy.

It was at this policy level that Johnston attempted to coordinate the price and wage programs. But this was not possible. Parity, and hence agricultural prices, could not be shorn of their escalation and the labor movement stood squarely behind the integrity of outstanding contracts of wage leaders which contained escalation. In fact, labor indicated that to be on an equitable basis with the farmer who had parity they were entitled to not only wage escalation but also to an annual productivity increase. They maintained that the farmer not only receives an adjustment in his price through parity but a further automatic increase in his income through the fruits of expanded productivity. The productivity increase to the worker, they noted, had to be bargained for since the fruits of additional output did not accrue to them automatically.

Equitable as a non-escalation policy might theoretically have been for all segments of society, it could not be made to stick. As Marion Folsom expressed it, wage policy would have to allow for escalation "because so many people have gotten accustomed to the cost of living."⁹¹ The tenor of public opinion and the asserted power of labor foredoomed any policy which did not allow wage escalation. By February 27 Johnston had recognized that Regulation 6, even with a possible revision after April 15, could not, if the tripartite board was to be maintained, be viewed as a viable total wage policy, and he recommended a step-by-step approach to the development of such a wage policy.

In this setting, what conclusions can be made about the function of price-wage coordination in establishing the level and stringency of controls and about the amount of "coordinating" that the Economic Stabilization Administrator was in a position to accomplish? It is clear that there was a necessary and interdependent relationship between the level and stringency of both price and wage control, as well as between the direct controls and the application of other economic tools. Johnston attempted to establish a workable balance, but the major factors affecting the level and stringency of the price and wage controls were either given conditions

91. Hearings before WSB, January 12, 1951.

with which he had to work or were largely outside of his authority, responsibility, or power to control.

E. Staff Coordination

Throughout the period of direct price and wage controls the relationship between the OPS and the WSB were, for the most part, cordial but distant. In December, 1950, when the whole Agency (ESA, OPS, and WSB) consisted of only a handful of people, all located on one floor in Temporary E Building, there was, by necessity and some desire, an attempt by OPS and WSB staffs to discuss with one another their mutual problems. As the programs developed and as the agencies became physically separated, the staffs cooperated with one another only on specific problems of mutual concern, and these were few.

There was recognition both on the part of OPS and WSB of the general contrapuntal nature of the two programs, but most of the issues facing each agency required no specific operational coordination. While the development of the wage program required an understanding of the general movement of consumer prices and the stringency of price control, it did not require that the OPS staff help the WSB thrash out wage regulation problems. In fact, the price agency believed strongly that, while the two agencies should be cooperative, operationally they should remain as distinctly separate agencies. There was recognition in OPS of the danger that certain price-wage settlements would be suggested when the WSB considered specific dispute cases. Therefore, OPS fought against any policies or procedures which would require price action contingent on wage actions, or vice versa. The agency preferred to establish fair and equitable price policies and "allow the chips to fall where they may."⁹² The OPS was successful in maintaining their position of separate operations. Over the approximately 27 months of active controls not more than a dozen significant documents flowed between OPS and WSB.

The Office of Price Stabilization staff, from the beginning, recognized the necessity of holding as tight a price line as possible, while at the same time allowing a catch-up formula for wages. They appreciated the need of Wage Regulations 6 and 8, and while the wage increases

92. Interview with Edward F. Phelps, Jr., April 1953. See also Arnall, *Statement on Steel*, SEN. DOC. No. 118, 82d Cong., 2d Sess. 1 (1952), which was given before the Senate Committee on Labor and Public Welfare and, in part, read, ". . . once the stabilization framework has been set up, rules of equity should govern wage decisions, and a similar set of principles should be used in judging the propriety of requested price increases. To base either wage or price decisions upon the consequences in the other field would be to abandon those rules of equity in relation both to labor and to business."

brought pressure on the price ceilings OPS was establishing, the staff felt that the policies were equitable and compatible. It was the lack of a capstone to the wage policy which led OPS to claim that the WSB was not being stringent enough and was requiring the price agency to carry the major burden of control.

The Wage Stabilization Board starting off in a "catch-up mood" took the attitude that prices could never be adequately controlled. It believed it was being forced into establishing more liberal standards than necessary when faced with labor arguments pointing to agriculture parity, farm prices, Capehart pass-through, and so on. The Board felt it could not be more stringent in its policies than other aspects of the stabilization program.

As the program developed and the staffs, by necessity of work and location, became farther removed, a lack of understanding of the details and the actual stringency of the sister programs led to an attitude in both agencies that each was making the major contribution despite the failures of the other. The delegation of operating responsibility to the constituents undoubtedly contributed to the development of this mutual attitude.

The Economic Stabilization Administrators attempted to develop closer mutual interagency understanding between ESA, OPS, WSB, the Salary Stabilization Board, and the Office of Rent Stabilization through the medium of staff conferences and various reports. There was a natural resistance to these attempts as agencies' top staffs were absorbed in their own problems and felt that there were precious few specific questions which they would not rather solve themselves than invite the help of their sister agencies or the "interference" of ESA. This "live and let live" attitude between the price and wage agencies on operational issues was similar to that which existed during World War II between OPA and the NWLB.⁹³ There were, however, a few substantive issues which OPS and WSB had to work out collectively, two of the more important ones being the wage productivity increase-price warranty issue and the Alaskan fisheries question.

93. "The relations between the two major control agencies [during World War II] were not intimate in an operating sense. Nor does this appear to have been necessary. The work of each agency conditioned the work of the other. At the same time, the spheres of activity, and the special criteria, problems, and pressures were reasonably distinct. If the Board performed its stabilization task effectively, powerful support was provided for effective price stabilization. Effective price stabilization, in turn, served to reduce the pressure for general wage rate revision. But it was not necessary for the price control agency to become involved in the day-to-day administration of wage control, or for the wage control agency to be concerned with the routine conduct of the price control function." Douty, *The Development of Wage-Price Policies*, 141 (BLS Bulletin No. 1009, 1950).

One of the first problems facing the newly appointed Wage Stabilization Board in May, 1951, was a consideration of the productivity or annual improvement factor wage increase. A number of important wage contracts contained clauses providing for a yearly increase in wage rates as the employee's share of increased productivity of the plant. In the General Motors contract, for instance, it amounted to an annual increase of four cents an hour. Theoretically, real increase in productivity, by definition, reduces the direct man-hours per unit of output and thereby reduces the direct labor costs per unit of output. Therefore, the Wage Stabilization Board reasoned, if there had been a growth in productivity which the management recognized as grounds for a wage increase, this wage increase should not add to the unit cost of production and hence should not contribute an inflationary cost pressure against prices.⁹⁴ The WSB also maintained that the benefits to industrial relations, contributing to stable employment and production, which were derived from these annual increases were offsetting factors to any derived demand inflation which such increases would cause.⁹⁵

The Wage Board in June, 1951, therefore resolved that if annual improvement factors existed in contracts executed before January 25, 1951, then they would be permitted to function providing the company were willing to sign a warranty which established that the productivity wage increase would not be used for requesting a price increase or resisting a price ceiling reduction.⁹⁶

In the original discussions of this issue the WSB had suggested that the granting of the annual improvement increases be contingent upon OPS approval. The OPS, in accordance with its policy of separate price-wage operations, vigorously opposed any such arrangement. In fact, OPS challenged the very thesis which the Wage Board had put forth. OPS reasoned that even though industrial productivity generally increases at about 2.5 percent a year, there was no assurance that this advance was being made in any particular plant or company. Measurement of this productivity increase was next to impossible, and certainly OPS did not desire to try to ascertain it as a basis for approving particular wage increases. This, OPS felt, was a WSB function, although they doubted that they could perform it. However, because OPS interim regulations were on a self-determining basis and were not specific dollar-and-cent ceiling regulations, and because the Industry Earnings Standard

94. See, *e.g.*, letter, Taylor to Johnston, August 6, 1951, ESA files.

95. *Ibid.* These wage increases would, of course, contribute to purchasing power and hence the increased demand for goods and services, but without knowing the alternative uses of these funds it is difficult to argue their relative inflationary impact.

96. WSB Resolution No. 94, June 6, 1951.

could not easily be adapted to excluding wage rate increases granted on grounds of increased productivity, OPS viewed the WSB resolution as theoretically sound but administratively impossible and, in effect, a cost increasing inflationary move.

The WSB productivity-price warranty resolution remained a leak in the stabilization dike. By May, 1952, a total of 413 annual improvement price-warranty cases had been approved by WSB, with most of the increases in industries in those segments of the economy where inflationary pressures were greatest.⁹⁷

Exemplary of a jurisdictional price-wage problem requiring the Economic Stabilization Agency to make a decision for operational purposes was the Alaskan fishery question. The problem arose as to whether the WSB or the OPS should have jurisdiction, under the Defense Production Act, over contracts concerning fresh Alaska salmon entered into among fishermen or their unions. Due to various types of institutional arrangements in the trade, the "raw fish" price could be considered either a wage or a price. On the one hand there were fishermen who were employed by the canners to fish in canner-owned boats and who bargained collectively between fisherman unions and canner trade associations to establish the "fish price." However, there were also boat owners or lessees who hired a crew and compensated the men on the basis of agreed shares of the value of salmon caught and delivered to the canners. Here the "fish price" was determined by bargaining among boat owners or lessees, canners or their trade associations, and unions representing crew members and in some cases, boat owners.

To settle the problem ESA established an interagency committee composed of representatives of WSB, OPS, ESA, and Defense Fisheries Administration, which recommended unanimously that WSB should have jurisdiction over the "fish price" while OPS should have jurisdiction over the price of canned Alaska salmon. DiSalle and Feinsinger made this recommendation jointly to Putnam, who approved it on January 23, 1952.⁹⁸

New Price-Wage Line, Summer and Fall 1951

In the spring of 1951 Eric Johnston had attempted to establish a price-wage line at the summer "plateau" levels requisite to an effective and sound stabilization program. Essential to this goal, he felt, was the

97. Memoranda, Feinsinger to Putnam, *Annual Improvement Factor Cases*, May 29, June 9, June 17, and June 23, 1952, ESA files. See also letter, Arnall to Putnam, June 9, 1952, ESA files.

98. ESA General Order No. 14, *Jurisdiction over Payments and Obligations Concerning Fresh Alaska Salmon*, January 25, 1952, 17 FED. REG. 782 (1952).

carrying through of the interim price regulations with their roll-back provision, the maintenance of pre-Korea cost-price margins, the freezing of agricultural parity at January levels, the curtailing of business profits, a wage freeze as of July 1, 1951, and, finally, tighter indirect controls in taxes and credit. None of these conditions was effected and the price-wage plateau was necessarily raised to a higher level. Furthermore, the new plateau seemed less clear and distinct.

Congress weakened the provisions of Title IV of the Defense Production Act, rather than extending and strengthening them and thereby ended the possibility of putting into effect the price condition necessary to the maintenance of the stabilization plateau. In extending the Act Congress not only forbade the price roll-backs of the interim price regulations, which were just going into effect, but also passed the Capehart Amendment which raised the price stabilization level by requiring price ceilings, upon application of individual manufacturers, to reflect changes in practically all costs up to July 26, 1951. The interim regulations had allowed reflection only of material and direct labor costs and had December 31, 1950, and March 15, 1951, as cutoff dates. The amendment, which applied to each individual seller upon his own application, raised additional and most serious administrative problems.

Another 1951 amendment, called the Herlong Amendment, created a possibility of a still higher price level by forbidding the reduction of distributor's margins below their customary percentage margins in effect just prior to Korea. Thus, while distributor's operating costs do not rise in the same proportion as the cost of their merchandise, this amendment permitted the increase in all wholesale prices to be passed on to the consumer and raised further in the process.

A further hole was punctured into the effective price control authority by the Butler-Hope Amendment which forbade the use of slaughtering quotas for livestock. Since no effective technique has ever been devised for controlling the price of beef on the hoof, slaughter quotas were considered a necessary part of effective beef price control to channel the beef to legitimate packers where effective control over the slaughtered beef could be established.

These three price control amendments seriously weakened one of the conditions for achieving the price-wage line which Johnston had sought. Further, the agricultural parity freeze condition met vigorous opposition from the Department of Agriculture, never received Administration support, and died within the executive branch without ever being recommended to the Congress.

Despite these setbacks OPS continued to make some strides in tightening controls by developing tailored dollar-and-cents regulations for various commodities in such industries as metals, rubber products, and crude oil, but OPS was also faced with directives from ODM to raise prices in order to increase some vital supplies. In the machine tool industry OPS was ordered to raise prices above their standards in order to stimulate defense production and also was directed to exempt from price control certain imported and domestic strategic materials where it was believed that domestic price control tended to restrict U. S. supply.

On the wage stabilization front it was obviously quite impossible by the summer of 1951 to expect that the July 1 wage freeze condition could be put into effect. With a restriction on price roll-back, an increase in distributor margins and less of a chance to enforce meat, and hence food prices, it was inconceivable on equity grounds to expect as stringent a wage policy as a freeze. Johnston again sought, however, to get some capstone to the segmented wage policy from the Wage Board. The Board was not of a mind to be pushed to the development of a total wage policy. In fact, it rather desired to lean on Johnston where convenient, following him only in matters agreeable to it.

On June 30 the Act was extended for a month prior to final Congressional consideration, but some wage regulations without positive action would have expired on June 30. One of these regulations was Wage Regulation 8, which Johnston had issued during the Board's temporary non-existence in the spring. Having been criticized by the WSB for issuing this regulation, Johnston was adamant in maintaining that he was not going to extend Regulation 8 without a positive recommendation from the Board to this effect. The tripartite board was not in agreement as to the shape which Regulation 8 should take and not wishing to commit itself prematurely, which it felt might be implied by the recommendation for extension, the Board wanted Johnston to keep the regulation alive by extending its application for the month. Most unenthusiastically Johnston did extend Regulation 8 "to maintain the *status quo* . . . so that the Board can expedite its overall review." However, Johnston sought as a quid pro quo for his obliging act, a total wage policy. He wrote: "I request the Board to develop the wage formula recommendation as far in advance of July 31 as possible. I feel there is no more urgent and important matter before the Board than the development of such a formula to bring about stability in the wage structure during this critical national emergency."⁹⁹

99. Letter, Johnston to Taylor, June 30, 1951, ESA files.

The Board did not agree that the development of such a formula was essential, and continued its piecemeal approach. On August 2 the Board unanimously established for all workers cost-of-living wage adjustments through automatic escalator clauses, periodic reopenings of contracts or voluntary adjustments where collective bargaining was not involved. Thus, in addition to the ten percent catch-up, straight-time rates of pay were permitted to move up from January 15, 1951, but by no more than the increase in consumers' prices. By August 15 this increase amounted to two percent. The declared policy also recognized that in certain instances inequities would arise where the last wage change had been made prior to January 15, 1951, and therefore they allowed some variance, on application, for different base dates for calculation.¹⁰⁰

The Board was also developing regulations to correct intraplant inequities, wage increases to be permitted on the basis of merit, length of service, and other intraplant adjustments. Johnston was concerned with the way in which the Board was getting away from the catch-up concept. He feared it would develop a wage policy for fringes and inequities of one sort or another on a case-by-case basis which would provide no specific overall limit that could be established and maintained in the face of new cases coming before the Board. The forthcoming steel negotiations were in everyone's mind. Johnston believed that a firm wage ceiling at a level somewhat above cost-of-living increases could be held, but Chairman Taylor, while willing to discuss the issue in an atmosphere of a "competition of ideas," would not be budged. He believed that an unspecified ceiling would be less inflationary since it would not establish a goal toward which all collective bargaining would tend to drift. Furthermore, a specific ceiling would not have given the WSB the latitude it needed to arbitrate the case in the event it would be certified to them by the President. No capstone to the wage policy was formulated by the WSB.

This August, 1951, effort was the last which Johnston made to achieve a total and limited wage policy similar to that of the Little Steel formula of World War II. The Board believed that there was no real chance of maintaining such a policy. It felt that there was a vast difference in the psychological basis inherent in a limited mobilization without a no-strike pledge, and that some degree of latitude was needed in the current environment to avoid undue interference with production, morale, equity, and collective bargaining. The question with which the Board struggled was how to provide, in the period of limited mobilization, a gradual improvement of real wages while at the same time confining the

100. For example, the cotton textile wage cases in Fall River and New Bedford.

rate of improvement to limits consistent with stabilization. The Board feared limiting its policy, believing that such a limitation would have to "cover" the wage leaders and hence the policy would in effect be more inflationary than need be.

Johnston believed that it was reasonable that the wage level should be kept within bounds which would compensate for general price level changes, plus a fair share of the rise of total output. Increases beyond that limitation would generate an abnormal inflationary pressure and would make price control unnecessarily difficult. Johnston recognized the danger which an all-embracing formula reflecting this policy would have in becoming a goal rather than a ceiling. However, at the same time, he had greater fears that the complexity of individual wage regulations, while in themselves perhaps fair and equitable, together might exceed the limits of wage stabilization.¹⁰¹

If any doubts remained, the Board made its position clear in September, 1951, by issuing a statement on the relation of the Wage Stabilization Board to collective bargaining. It unanimously declared that: ". . . if the Board is to preserve the values of collective bargaining to the fullest practicable extent, it must stay out of the collective bargaining room and must not jeopardize any proposal or counterproposal during the bargaining process. The Board, therefore, *cannot and will not undertake to prescribe the permissible 'limitations' beforehand* under which the parties can or must bargain."¹⁰² The Board's statement went on to note that it had confidence that employers and unions "will accept responsibility to conduct their negotiations consistent with wage stabilization policy," but reminded them that "the important question under wage stabilization is not what the parties may agree upon but what the Board will approve."

With this type of guidance the wage negotiations in the steel industry commenced. Meanwhile the OPS was attempting to tighten its regulations to the limit allowed by the law. DiSalle told his staff that, "[o]ur objective must be to keep from increasing prices and to reduce them wherever possible. Any increase should be the exception rather than the rule, and I will not sign any regulations increasing prices past

101. Compare memorandum, Johnston to Wilson, *Present Position of Wage Stabilization Policy*, October 29, 1951, ESA files. See also ESA Report, Johnston, *Strong Dollars* 30-31 (November 30, 1951).

102. Unanimous statement of the WSB, *The Wage Stabilization Board and Collective Bargaining*, September 21, 1951, Press Release WSB-112 (emphasis added).

GCPR levels unless accompanied by the fullest kind of economic justifications."¹⁰³

Support for "as stringent controls as possible" came from the Defense Mobilization Board where ODM Director Wilson noted that the challenges to our security and our economy required that every step be taken to avoid breaching of price and wage standards. The consensus of the Board meeting was "that every possible step should be taken by the mobilization agencies to hold the line against inflation." While the production agencies, agreed with this statement, they indicated that such action should not be permitted to lead to a steel strike.¹⁰⁴ It was well recognized in ESA that the forthcoming steel dispute and price issue would be the first severe test of the Industry Earnings Standard. Some modifications to the standard were discussed informally with OPS on grounds that if no really firm agreement within government could be obtained to adhere to the Earnings Standard,¹⁰⁵ then perhaps it would be better to moderate its impact beforehand rather than have it a "victim of expediency" in its first test. But no support was obtained within government at this time for a modification of the Earnings Standard despite the fact that others outside of government were recommending a price policy requiring no cost absorption.¹⁰⁶ The Committee for Economic Development in December, 1951, issued one of its national policy statements on price and wage controls calling for a flexible adjustment system of price and wage control and allowing for an automatic escalation on costs for all sectors of the economy.¹⁰⁷

Coordination in Crisis—Steel

As Roger L. Putnam assumed the office of Economic Stabilization Administrator in December, 1951, there was a lull before the storm as the battle lines of the steel controversy took shape. It had been impossible to get a wage formula from the tripartite wage board with a specific overall limitation, and for the Administrator to have promulgated one would have caused the Wage Board to resign. Furthermore, the WSB would

103. See OPS Joint Statement on Price Policy to Accompany Price Operations Memorandum No. 13, *Hearings before the Joint Committee on Defense Production on the Defense Production Act: Progress Report No. 10*, 82d Cong., 1st Sess., 648-649 (1951).

104. Minutes, Meeting No. 20, DMB, November 28, 1951.

105. Memorandum, Johnson to Ackley and Phelps, *Possible Modification of Earnings Standard*, December 6, 1951, ESA files.

106. None of the modifying suggestions would have allowed steel to pass-through the wage increase which was eventually granted or any significant part of it.

107. Compare Committee for Economic Development, *Price and Wage Controls, A Statement on National Policy* by the Research and Policy Committee, December 2, 1951.

not prejudice any collective bargaining by making a statement regarding the upper limit of settlement.

Price-wise the facts were clear. Only a small price increase was due the industry under a Caphart application,¹⁰⁸ and the industry had tremendous absorptive capacity for cost increases under the Industry Earnings Standard. Steel industry earnings before taxes had increased from a base of \$1.2 billion in the 1947-1949 base period (adjusted to \$1.3 billion to take account of increased net worth) to \$2.5 billion in 1951. Therefore the industry could absorb cost increases of about \$1.2 billion before it could qualify for a price increase, other than Caphart, under OPS standards.¹⁰⁹ It was roughly estimated in ESA in December, 1951, that for each one cent an hour wage increase the steel industry's total labor costs would increase by about \$22.6 million a year.¹¹⁰ It appeared that even a twenty cent an hour wage increase, presumed at the time to be the outer limit to what might be expected, would cost less than one-half billion dollars with the industry having over one billion dollars of absorptive capacity under the Industry Earnings Standard.¹¹¹

The "ground rules" of price and wage controls were established in this manner and the economic facts of the industry were easily available to all parties concerned in the controversy which was brewing. The steelworkers' union had made clear their contempt for the current WSB policy standards and the steel companies had been equally forthright in their position against any cost absorption, insisting upon a complete pass-through of any wage increase that might be granted.

Faced with these facts and these positions, what was the price-wage coordinating function of the Economic Stabilization Administrator as he took office in December, 1951? His price policy he believed to be sound and equitable. His wage policy he believed to be the best that he could obtain and still maintain a tripartite wage board. In spite of pressure from OPS for Putnam, Feinsinger, and DiSalle to state jointly, clearly, and categorically the limits of price and wage standards so that the steel companies, the union, and—more important—the public would know

108. See memorandum, Kaufmann, *Estimated Effect of Cost Increases Under a Caphart Calculation for the Steel Industry*, December, 1951, ESA and OPS files.

109. OPS, *The People's Stake* 6, April, 1952. See also Arnall, *Statement on Steel*, SEN. DOC. No. 118, 82d Cong., 2d Sess. (1952).

110. Memorandum, Bold, *Effect of a Wage Increase on the Earnings Position of the Primary Iron and Steel Industry*, Office of Economic Policy, ESA, December, 1951, ESA files.

111. Also, of course, the net cost *after* taxes to the industry, due to the higher excess profits tax take, meant that in fact a wage increase would in part be paid by the taxpayer through loss of revenue, and it would have a relatively small net effect on the earnings position of the industry.

the limits within which the bargaining was taking place,¹¹² Putnam, following the WSB position, decided to remain silent on wage standards and not prejudice the bargaining one way or another. On December 14, 1951, Putnam did state clearly to the steel industry that, outside of the price increase due from the Capehart Amendment, there would be no steel price increase to pass through the wage cost increase granted in the pending negotiation.¹¹³ While this statement was not a collective ESA-OPS-WSB declaration, it went part way to present the OPS approach.

On December 17, 1951, the United Steel Workers of America announced that they were unable to reach an agreement with the industry and called a strike for January 1, 1952. The Federal Mediation and Conciliation Service on December 21, 1951, certified the dispute to the President, who referred it to WSB in their disputes capacity. Through a series of requests and postponements the strike was deferred until April 8. On March 20, 1952, WSB with the industry members dissenting, made their recommendations on settlement to the President.

In formulating their dispute settlement recommendations the public members of the Wage Stabilization Board were in the difficult position of attempting to accomplish three ends simultaneously: (1) settlement of the dispute, (2) yet within the limits of the Wage Stabilization Board and stabilization policy, and (3) with the recommendations coming from a majority of the Wage Stabilization Board. Feinsinger believed that a separate public members' recommendation would destroy the tripartite board¹¹⁴ and, hence, insisted on a majority recommendation either jointly with labor or with industry representatives, if it was impossible to achieve a unanimous decision.

A unanimous decision was impossible. The labor and industry representatives of the Board generally reflected the magnitude of the differences between the USWA and the steel companies. While there were some twenty-two different items in the contract at issue, the breadth of the gap between the parties in March can be seen in the demand of about thirty-two cents an hour from the union and an offer of approximately nine cents an hour from the industry.¹¹⁵ Unable to get the industry offer to a significantly higher level but able to get the labor demand to a lower figure, the public members, insisting on a majority recom-

112. Draft memorandum, DiSalle to Johnston, *Steel Wages and Price*, prepared by Gardner Ackley, November 13, 1951; revised and transmitted to Putnam December 1, 1951, ESA files.

113. N.Y. Times, Dec. 15, 1951, p. 1, col. 5.

114. This belief was not shared by others who had experience both on and with tripartite government wage boards.

115. Because, however, some of them were non-economic issues, it is somewhat misleading to express them on a cent-per-hour basis.

mentation rather than three separate recommendations, joined the labor members in making their recommendation to the President. The recommendation, they believed, could form the basis of settlement of the dispute, and, while not asking or obtaining the approval of the Economic Stabilization Administrator before making the recommendation public, they steadfastly assured the President that the decision was within WSB policy standards and not injurious to the stabilization effort.

The recommendations were cited in the press as amounting to about twenty-six cents an hour. Because of the staggered time interval at which the increases were to go into effect and the fact that this was a contract covering eighteen months rather than a year, this cumulative total of about twenty-six cents was misleading to the point of being incorrect.¹¹⁶ The USWA accepted the recommendations of the WSB but noted that they were far from completely satisfactory to the union members. The steel companies, previously having agreed to give the recommendations serious consideration, found them unacceptable. ODM Director Wilson, upon his return from Key West on March 24, said that the WSB recommendations "would be a serious threat to our year-old effort to stabilize the economy." Putnam, while at first showing surprise at the size of the recommendations, defended them as within wage stabilization policy limits.

Chairman Feinsinger, at the request of John Steelman, who had become Acting Defense Mobilizer on March 30 following Wilson's resignation, attempted to get the union and the companies to negotiate in New York on the basis of the WSB recommendations. The steel companies were still adamantly maintaining that they would not agree to any settlement which did not allow a full pass-through of increased labor costs, and were encouraged by offers of a price increase, reportedly around \$4 to \$5 a ton, being made from the White House. Past experience of 1950 as well as 1946 also might well have given the steel companies reason to believe they could get a price increase negotiated. The steel industry claimed that a \$12 per ton increase was required to cover the increased wage bill of the WSB recommendation. The OPS

116. The recommendation was for a general wage increase of 12.5 cents an hour effective January 1, 1952, plus further increases of 2.5 cents an hour on July 1, 1952, and January 1, 1953. Also recommended were "fringe" adjustments, including the introduction of six paid holidays, a reduction of the qualifying period for three weeks' vacation from twenty-five to fifteen years, an increase in night shift differentials, and time and a quarter for Sunday, the last recommendation not to be effective until January 1, 1953. The Board recommended that the parties include a union shop in their new contract, the specific type to be determined in the forthcoming negotiations. Rejected by the Board, *inter alia*, were the guaranteed annual wage (it was suggested that the parties jointly consider the problem), changes regarding wage inequities, working conditions, and management rights.

and Putnam maintained that the increased costs of the full WSB recommendation could be estimated at \$4.67 a ton, that the industry had an absorptive capacity under the Earnings Standard of about \$9 a ton, and hence that it should have no price increase other than almost \$3 a ton to which it was entitled under the Capehart Amendment.

On the same day that Feinsinger notified Steelman that settlement was not in sight, though some progress had been made, the President announced that he would order the Secretary of Commerce to seize the steel companies in order that continued production might be assured. Simultaneously, Congress was notified, and appropriate legislation was invited if considered necessary. The industry's request for an injunction against the seizure was denied on April 9. While this state of affairs existed and while negotiations proceeded irregularly, Putnam directed Arnall to allow the steel companies, upon their application, the \$3 per ton increase to which they were entitled under the Capehart Amendment.

After the Supreme Court held the seizure unconstitutional on June 2, the strike originally called for the first of the year began. The negotiations resumed but met an impasse, and President Truman recommended to Congress that it either grant seizure powers or authorize and direct use of the Taft-Hartley Act. The Congress responded by amending the Defense Production Act, but it declined to enable the presidential seizure and requested the President to utilize the Taft-Hartley Act. While certain of the small companies signed new contracts in June, a settlement with the major producers was not reached until July 25.

Despite the fact that the Earnings Standard was thereby pierced, Acting Mobilization Director Steelman directed OPS to grant a ceiling price increase on carbon steel of \$5.20 a ton,¹¹⁷ and, as a quid pro quo to this price increase, a wage settlement was negotiated quite similar to the March 20 WSB recommendations.¹¹⁸

117. The industry was entitled to \$2.84 of this increase under the Capehart Amendment provisions, and another \$1.66 was allowed to cover part of the labor cost increase, and an additional 70 cents was permitted for the freight increases authorized in May by the Interstate Commerce Commission.

118. A general wage increase of 12.5 cents, plus an increase of 3.5 cents to maintain appropriate internal job rate relationships effective March 1, 1952, was agreed upon. This differed only slightly from the March 20 recommendation of 12.5 cents January 1, 1952, plus 2.5 cents July 1, 1952, and January 1, 1953. The settlement also provided for 5.5 cents of fringe benefits, as compared to the 8.5 cents in the WSB recommendation, and the shift and geographic differentials, holiday pay, and vacation provisions were identical although the time and a quarter for Sunday work was dropped. The new agreement, however, covered almost a two-year period, rather than eighteen months. Furthermore, the parties agreed to a type of union membership requirements with withdrawal provision instead of a full union shop, which was suggested by the WSB.

Effects of Steel Crisis and Settlement

There were many effects of the steel crisis, strike, and settlement. Tons of steel production were irrevocably lost; the Congress extended the life of the Board but limited its disputes function to economic issues; a series of tandem wage increases spread to other metal-working industries, and a serious rent was torn in the price control structure.

One of the immediate reactions to the crisis was a cry from Congress and elsewhere that the coordinating function of ESA was not being properly carried out. Congress, in fact, amended the Defense Production Act to provide that "[i]t shall be the express duty, obligation, and function of the present Economic Stabilization Agency, or any successor agency to coordinate the relationship between prices and wages, and to stabilize prices and wages."¹¹⁹ The members of the Senate Banking and Currency Committee declared they were, ". . . not satisfied that there is sufficient guaranty in the present act that all general wage stabilization policies are subject to the approval of the Administrator, who must be in a position to coordinate stabilization policies."¹²⁰

Within the executive branch, it was ordered that some obscure solution lurking beneath the words "coordination of price and wage policy" be found. At a May meeting of the Mobilization Executive Staff, ESA was ordered to develop a staff paper on "methods of coordinating the formulation of wage and price policy." Specifically noted was that which Johnston had vainly sought, namely, ". . . a method of formulating wage policy which would result in the approval of the policy by the Administrator of ESA and the Director of ODM and within which the Wage Stabilization Board would then handle dispute cases."¹²¹

On Capitol Hill, the House Committee on Education and Labor noted that it seemed, ". . . clear to the committee that all wage policies and regulations should be carefully considered in relation to their effect on prices and coordinated with price regulations prior to their approval. In the present stabilization program that study and coordination seems clearly to be the function and responsibility of the Economic Stabilization Administrator. Obviously that correlation and coordination has not been carried out. Undoubtedly the handling of disputes by the Board has been a major reason for the failure although there have, of course, been others."¹²²

119. 66 STAT. 301, 50 U.S.C. §2103(d) (1952).

120. SEN. REP. No. 1599 at 27-28, 82d Cong., 2d Sess. (1952).

121. Minutes, Meeting No. 31, Mobilization Executive Staff, May 7, 1952.

122. H.R. REP. No. 2190 at 24-25, 82d Cong., 2d Sess. (1952).

It was not so obvious that the "correlation and coordination had not been carried out." Putnam had made sure that the Wage Stabilization Board was fully aware of the price consequences of wage decisions of various magnitudes before it made its recommendations to the President. The Chairman of the WSB on the night the WSB decision was made final was informed by Putnam that Wilson and the White House held that if a choice between avoiding a steel strike or stabilization was necessary, to stand by stabilization. The Economic Stabilization Administrator was not required or allowed to approve the WSB disputes recommendation. Such approval was considered incompatible with the disputes function. As a coordinator of the price and wage policies, what more was expected or could have been demanded of the Economic Stabilization Administrator? Putnam stated his position in these words: ". . . I could not order what this Board should recommend, and I do not think anybody should. I think a tripartite board's the best way to settle labor disputes. I could not order them, but on the other hand, I think there was complete coordination and an understanding of what the effects would be."¹²³

Immediately after the March 20 WSB steel recommendations, Putnam did, however, have some belated suggestions which he felt would help avoid Congressional emasculation of the WSB, and better align the Board as a member of the "stabilization team." He believed that OPS should present more formally to the WSB the price effects of any wage decision. When no common tripartite WSB recommendation could be achieved, he felt that the public members should be free to make a recommendation of their own and that it should be considered that of the Board.¹²⁴

There were other suggestions being discussed among ESA staff at the time which were aimed at forestalling future crises like steel. They included an amendment to Executive Order 10233 requiring the Economic Stabilization Administrator to participate in major dispute case decisions regarding the limit beyond which requested increases might be considered as unstabilizing. Also it was suggested that the Administrator establish necessary conditions for productivity wage increases requiring a quid pro quo of labor-management cooperation and restricting use of productivity increases for wage leaders as a supplementary basis for an increase on top of other regulations. Finally it was believed that the

123. *Hearings before Senate Committee on Banking and Currency on S.2594 and S.2645, Defense Production Act Amendments of 1952*, 82d Cong., 2d Sess. 1964 (1952).

124. Draft letter, Putnam to Feinsinger, April 1, 1952. The letter was never sent, but its ideas were discussed with Feinsinger.

Administrator might seek and obtain an active role in the selection of members of the Wage Stabilization Board.¹²⁵

While these suggestions given to Putnam, as well as those discussed with Feinsinger, might have been an answer to some of the arguments being raised at the time, they would not have gone to the heart of the difficulty. The real problem lay in the incongruity in and among (1) a tripartite board from which a specifically defined, limited wage policy could not be obtained, (2) assured compatibility of price and wage policy through an effective direct controls program, and (3) a tripartite board with disputes settling authority and wage stabilization responsibility. While Putnam's suggestions might have aided in getting somewhat closer compatibility of price and wage policy, it still would have fallen short of resolving the incongruity of a tripartite board with dispute functions necessarily holding itself within stabilization goals.

If, in our democracy, tripartitism is necessary for developing wage policy and settling disputes with or without a no-strike no-lockout pledge, then it appears that the cost to our society of such a system is the possibility and, in a limited mobilization, the probability of inconsistency of objectives and a resolution of the inconsistency through strikes and industry power plays challenging government authority.

Certain conditions existing in December, 1951, made a serious crisis and probably a strike inevitable in the steel industry. On the one hand a limited emergency creating the sense of limited urgency without a no-strike no-lockout pledge was coupled with the steel industry's refusal to abide by the government pricing standards and the union's challenge of the "limits" to wage policy. On the other hand the tripartite board had both dispute and stabilization responsibility, and this tripartite wage board refused to present a public members' position. Over these conditions the Economic Stabilization Administrator had little authority or control; it is most difficult to understand how one could have looked to the words—"coordination and integration of price and wage policy"—and expected an easy and peaceful resolution to the conflict.

In retrospect one can recognize the desirability of an independent recommendation in such disputes when a labor-management settlement, clearly within stabilization limits, is not possible. At the time of the steel dispute, however, the Economic Stabilization Administrator could not have insisted upon this, since he had no authority in the disputes function. It is clearly desirable for the government to insist on a public member

125. Memorandum, Malin to Caplan, *Economic Stabilizer's Influence on Wage Stabilization*, April 3, 1952, ESA files, together with draft letter prepared for Putnam in Economic Policy Office, April 3, 1952.

recommendation in disputes when the only settlement possible with a majority of the wage board transgresses stabilization limitations.

In private labor-management disputes the mediator has the prime objective of seeking a common ground upon which both management and labor can agree. Similarly in arbitration the arbitrator seeks this common ground with the prior commitment of both parties that they will abide by the decision rendered. In both instances reaching a workable solution of the conflict is the third party's objective.

Persons trained as conciliators with experience in arbitration and mediation, appointed as public members of a government tripartite wage board, must bring with them their acquired skills. But they must, at all times, recognize that in their public member capacities they are not merely arbitrating or mediating a private dispute between labor and management. The common ground for dispute settlement which they seek must not only be within the stabilization limitations, but it must simultaneously be building part of the foundation for the whole stabilization program. If public members act merely as mediators or arbitrators and do not recognize their stabilization responsibilities as public members of the government wage board, they are not fulfilling their public trust. At times, therefore, it may be necessary for them to recognize that, having failed to develop a common ground for settlement within stabilization limits among a majority of the board, they must, in performance of their public trust, submit an independent public member recommendation. This requirement puts a high premium on the statesmanship and personal qualities of the wage board chairman. It also puts great responsibilities and risks on all the public members, since not only is their public reputation at stake, but their future careers in conciliation work are put in jeopardy.

Price-Wage Problem Following Steel

Immediately following the settlement OPS was faced with the difficult problem of where and how to hold the price line since the steel settlement had pierced the Industry Earnings Standard. While prices in the soft goods sector of the economy had been receding over the year, prices and cost pressures in the hard goods, metal-working sector were pushing ceilings. Furthermore, the steel settlement and its effects on tandem wage increases in metal-working industries were not the only problem.

Wage demands in the aluminum industry in the summer of 1952, similar to the steel settlement, led the three major aluminum producers to make a bid for an increase in the price of pig aluminum 2 to 2.35 cents a pound over the eighteen cent ceiling and for a 10 to 12.5 percent increase

in the price of primary aluminum to cover the increased labor and other costs. To insure the maintenance and expansion of defense production, OPS, on the basis of maintaining pre-Korea margins, granted a price increase under the Essential Products Regulation of about one-half of the industry's request.

Also in the early summer of 1952 OPS was faced with a higher price for imported copper. In May the Chilean government rescinded the previous agreement with the United States which had provided for the receipt by the United States of ninety percent of the output from American-owned Chilean mines at a price of 27.5 cents. Although this price was three cents above the domestic ceiling of 24.5 cents, the two-price system, while difficult to maintain, was not impossible. With the termination of the agreement with Chile the imported price threatened to go as high as 36.5 cents. ESA had attempted to establish an import subsidy plan to protect the domestic ceilings, but was overruled by ODM when the DPA and the State Department objected to an import subsidy. OPS was forced to permit some pass-through of the increased foreign price, and OPS issued a regulation allowing the buyers to pass on eighty percent of any excess over the domestic ceiling price of 24.5 cents, but required the using industries to absorb the other twenty percent.

The price increases for these three basic materials—steel, aluminum, and copper—naturally caused increases in costs to manufacturers at the next stage of fabrication of the metals. Fabricators at this second stage were simultaneously being faced with increased labor costs and a higher rail freight cost resulting from a May ICC rate increase. Relief was available to the metal-working industry under the Industry Earnings Standard, but if the Standard were to be applied strictly to these industries, they would have been forced to bear the brunt of all of the unusual price increases granted in steel, copper, and aluminum. This appeared to be most inequitable; yet it was nevertheless most important from the stabilization standpoint to prevent these metal increases from developing a "pass-through" pattern to be followed for all other cost increases.

In developing an equitable "pass-through" policy ESA worked closely with OPS. It was recognized that a procedure need be so devised that adjustments for major cost increases would be allowed but not for every minor cost change, that the amount of absorption should be sufficient to evoke real resistance on the part of industry to the acceptance of increased cost, that the permitted pass-through should be sufficient to eliminate most of the costs which would otherwise be anticipated during the coming year from the Industry Earnings Standard, and, finally, that

the standard should be relatively simple to apply, easily understood, and logically defensible.

These criteria were not mutually compatible, and it was found, as so often is the case, that the simplest standard was least equitable, and that the most equitable would be an administrative nightmare. The alternatives under discussion ranged from a delayed 100 percent pass-through of metal cost increases to straight partial pass-through or a partial pass-through after initial absorption based on a recent profit rate or change from a base period rate, or, possibly, a combination of these alternatives.

The Office of Price Stabilization with ESA concurrence, decided on allowing purchasers of primary steel, aluminum, and copper products to add to their current ceiling prices the amounts by which mills producing the basic metals were allowed to increase their prices.¹²⁶ In this manner the basic metal price advances were allowed to be passed through at secondary and subsequent stages of fabrication without absorption but also without pyramiding, and other costs, including labor costs, had to be absorbed under the Industry Earnings Standard. Concurrently OPS simplified the procedure for reviewing Industry Earnings Standard relief applications.

While there were other serious repercussions from the steel settlement,¹²⁷ including loss of public respect for the direct controls program, the major one from the point of view of price-wage coordination was the loosening of the price standards and the raising of the level of the stabilization line.

Program Coordination in World War II

During World War II the Office of Economic Stabilization was established by Executive Order 9250 in 1942 after the price and wage programs were well launched. Its function in relation to OPA and NWLB closely resembled the relationship between ESA and the price and wage agencies, with the major exception that OES did not have the operational ties with the agencies; OES was far more of a judge of their conflicts than an operational manager. However, in Executive Order 9250 establishing OES, it was provided that: “. . . where the National War Labor Board of the Price Administrator shall have reason to believe that a proposed wage increase will require a change in the price ceiling of the

126. GOR No. 35, September 10, 1952, 17 FED. REG. 8179 (1952).

127. It can be maintained that the coal problem in the fall of 1952 was an indirect outgrowth of the steel settlement, insofar as standards had been loosened and the new WSB, in their coal decision, was reacting to the steel settlement heritage by “proving” that WSB standards were firm. With most coal prices being well below ceiling levels the coal problem was essentially a wage problem with little price repercussion.

commodity or service involved, such proposed increase, if approved by the National War Labor Board, shall become effective only if also approved by the Director [of Economic Stabilization]."

This Executive Order provision necessitated NWLB-OPA cooperation, and in both voluntary and dispute cases employers were required to indicate whether the wage adjustment, if approved, would result in a price relief application. If an affirmative answer were given, the employer filed a price relief application with OPA. If OPA denied the application, the Board would be notified and could act; however, if OPA found a price increase would be warranted, the wage increase could not be made effective until the Director of Economic Stabilization gave his approval.

While only about one-half of one percent of Board cases were reviewed by OES, "[v]irtually no wage adjustments . . . were denied on price grounds, and the volume of price or production cost cases was small in relation to the total number of cases."¹²⁸ Yet it has been maintained that ". . . the review function, by providing the Director of Economic Stabilization with veto power over wage actions immediately affecting price, enabled him to exercise a more direct influence on policy application than might otherwise have been the case. This influence is difficult to appraise, but it was real."¹²⁹

Despite this review function the general position between OES and the wage and price agencies regarding price-wage coordination was roughly akin to ESA's position. The operational relations between the major control agencies were not closely knit, and OES exerted its influence of coordination more by visualizing a stabilization line which it believed had to be held and then attempting to work with each agency through either policy proclamation or attempt to gain public or government support for the maintenance of the individual programs at the level and stringency desired. However, from the "hold-the-line" order on April 8, 1943, which designated the assumption by OES of a positive role in policy direction and determination, the OES encountered difficulties in its relation with the tripartite NWLB which had dispute functions. The "hold-the-line" order was a great aid in providing the OPA with greater stature and support to resist price pressure but the Chairman of the NWLB reported that "under the new [hold-the-line] order, wage disputes could no longer be arbitrated."¹³⁰

128. Douty, *supra* note 93, at 140.

129. *Ibid.*

130. TAYLOR, GOVERNMENT REGULATION OF INDUSTRIAL RELATIONS, 171-196 (1948).

Even with the sense of urgency which existed in World War II and the greater public support for a stabilization program, there existed the basic incongruity of a tripartite wage board attempting to maintain a wage stabilization program and still keep the latitude of policy required for effective arbitration of disputes. Because of closer contact with the President, the OES Director was able to gather greater support for the stabilization program than could the ESA Administrator who had to seek support through the "production minded" Office of Defense Mobilization.¹³¹ Basically, however, in both World War II and the Korea emergency periods the specific coordinating function between the price and wage agencies was limited. As much public, Congressional, and executive government support had to be found for each program, but the salient forces affecting each program were largely outside the authority of the stabilization director. The stabilization director in an emergency, acting within the basic rules to which our democratic society strictly adheres, finds himself responsible for far more than he has the authority to deliver, but he can nonetheless contribute to the stabilization effort within his limited scope of power.

IV. CONCLUSIONS

The major conclusion which emerges from this analysis is that an Economic Stabilization Administrator assigned the task of coordinating the direct price and wage control programs has been in the past, and in many respects will, in our society, always be, limited in his authority and ability of assuring the economic stabilization and price-wage coordination which his title implies. Nonetheless, it is also apparent that while the task of coordinating the price-wage program is one which can never, in our democratic society, be accomplished in a definitive manner by any administrator, the task is an important one which, in an emergency, must be assigned to an individual of great courage and skill who recognizes both the limitations and importance of his assignment.

These conclusions are predicated on the recognition that many of the determining factors affecting both the level and stringency of price and

131. When reviewing a draft of this document, Mr. DiSalle observed:

. . . the wage program and its coordination with price would only be successful if the full power of the office of the President is directly connected with the program. Economic stabilization two or three layers removed from the White House cannot be effective, and since the major problems eventually wind up there anyway, why hide the agency in an ODM or make it subservient to any other agency. I think it is possible to coordinate stabilization with production, but I don't think it would be necessary to make stabilization subservient to production. The Economic Stabilizer should be appointed by the President and be responsible to him alone. Letter, DiSalle to Kaufmann, June 17, 1953, ODM files.

wage controls—the very heart of coordination—are beyond the authority and power of an administrator, and many irrevocably established before the administrator is appointed. Some of these predetermined factors which are established in law, the Congress could be in a position to rectify in future emergencies.¹³² But other factors, such as collective bargaining, are deeply imbedded in our social and economic institutions, and it is most presumptuous to believe that they will—or should—ever be revised. Nevertheless an economic stabilization administrator, within his limited sphere, can aid in coordinating the price and wage programs and in achieving a level and equity of stabilization which could not be accomplished without his efforts.¹³³

Prices and wages will always be “coordinated” with or without formal coordination in the sense that eventually some price-wage relationships must emerge. The task of the stabilization administrator in an emergency controls program is to attempt to make certain that the levels at which they are brought into equilibrium are within the stabilization limits, are equitable to the various sectors of society, are an aid to the production program, and are workable. These objectives during the development of a price-wage program are aided or abetted by various factors. From experience with the institution of price-wage programs two facts pertinent to the coordination of the direct controls program are clear.

First, while in retrospect it is clear that many of the distortion problems both within and between the price-wage programs faced in 1951 could have been avoided if direct controls on prices and wages were immediately imposed following Korea, it was not possible to do so since the authority was not granted by the Congress until after the first wave

132. *E.g.*, rigid price-wage parallelism in selective controls.

133. Governor Arnall, when asked to comment on this document in draft form, observed:

Price-wage coordination, integration and control can, and always does, degenerate into injustice, economic mockery and discrimination in favor of the politically and economically strong and powerful unless there is a single administrator over both wages and prices with complete and absolute authority to control, coordinate and integrate both.

The 1952 steel debacle amounted to a repetition of the 1946 history of OPA days. The action taken in the steel case made “standards of equitability and fairness” applicable only to the small and the weak.

In my judgment there should be one man in complete and absolute control of prices, one man in complete and absolute control of wages, and he should be the same person. It is futile and impossible to undertake to control wages under the tripartite board arrangement while undertaking to control prices with one man in complete authority.

If ever it is necessary to resort again to economic controls there ought to be an economic czar with full power to control prices and wages. Any other solution is no solution. Letter, Arnall to Kaufmann, June 8, 1953, ODM files.

of the price rise. Furthermore it is questionable whether the public appreciated the seriousness of the conflict or the dimensions of the economic problem, and whether it would have supported a full price and wage controls program immediately after Korea.

Second, the ability of the stabilization administrator to act in 1950 was unnecessarily limited by the requirement of complete price-wage parallelism when selective controls were desirable. There are times when immediate imposition of selective controls might forestall or obviate the need for more extensive price or wage controls. Since selective wage control (or decontrol) appears to be an impossibility, to require by law that selective price control be instituted only with selective wage control is actually to require general wage control whenever selective price control is sought. In the 1950 situation this was not a serious problem, although the price-wage parallelism requirement delayed some needed price action. It would have been a most serious problem if it had been applied to the institution of controls in World War II.

Since there is a "ratchet effect" in both price and wage control in that it is generally impossible to carry out roll-backs, in order to do a more effective and equitable job of holding prices and wages in balance and of maintaining this balance at the lowest desired stabilization level, it is most necessary to have the authority to control prices and wages at the time the emergency occurs. This authority should not require an absolute price-wage parallelism in the institution of controls but should leave this alternative open. A pre-emergency base plus a differential is maintained with a difficulty the degree of which varies in direct proportion to the size of the differential and the length of the delay. Hence the administrator should have authority to impose controls from the very start of an emergency. These conclusions regarding the imposition of controls may not appear to be directly related to the problem of coordination, but they are. The more difficult the individual programs become, the less possible it is to attempt to develop any stable relationship between them.

In the development and maintenance of the direct controls program, it has been noted that there was, in fact, very little need for operational relationship between the price and wage program in either the World War II or the Korea emergency experience. The operational detachment of the two programs appears to be desirable, despite the fact that during an inflationary period effective price controls (including agricultural price controls) are not possible without effective wage controls, and vice versa. This fact must be clearly recognized not only by the price and wage agencies, but by the Congress and all sectors of the public generally in providing for the authority and organization of the program.

During the controls program the task of a coordinator of price and wage controls is to attempt to define the level and stringency of price and wage controls being sought, and he must work with each control agency to assure that their individual policies are mutually compatible and their actions consistent with their goals. This, however, does not require operational integration. The coordinator must also attempt to present the pertinent facts and seek support for both of the programs from all quarters of the executive departments, from the Congress, and from the public at large.

The major problems facing stabilization administrators in regard to the price program have been in protecting the program from weakening amendments to the law and from increases in price required by the supply objectives of the defense program. While many times serious and sometimes crippling, these price program problems do not pose the basic stabilization dilemma facing the administrator, namely, the incongruity of a tripartite wage board with both dispute and stabilization functions. From recent experience there appears to be no simple solution—especially in a period of partial mobilization—for effective coordination of a wage program with the price program if one grants the necessity of a tripartite wage board, the necessity of obtaining a firm wage policy, and of yet maintaining the continued existence of the wage board. If the wage board also has a disputes function, which is important for the board, the difficulty is far greater, since there is a basic conflict between the latitude required by a wage board in its disputes function and the difficulty which this latitude presents in the board's maintenance of a wage policy consistent with stabilization objectives.

Because of these problems, in the environment which the Economic Stabilization Administrator found himself in the Korea emergency program, there was relatively little that he could have done to forestall the steel crisis. However, closer working relations with the WSB, formal presentation by OPS to the WSB of the price problem and, above all, the willingness of the WSB chairman to present an all public member recommendation might have lessened some of the intensity of the crisis.

It appears particularly desirable that the executive order, or the enabling legislation, establishing the wage board require specifically that the public members of a tripartite wage board should render an independent recommendation in dispute or wage policy matters when it appears to them that a recommendation with at least a majority of the board within stabilization limits is not possible.

Thus during the price and wage program the coordinating function of the administrator is one of working with both programs individually

in the effort to keep them compatible, and of working both within and outside of the executive branch for the greater support of both programs. The direct controls program alone, even if without flaw, cannot withstand the inflationary pressures. An effective tax and fiscal program must be established, the credit controls must give support to direct controls, and the production controls need adjustment to prevent unnecessary disruption of the stabilization effort. The Economic Stabilization Administrator to live up to his name needs authority to influence all of these economic factors. At the very least, he needs to represent in government, and to the Congress, the direct controls concern with the development and use of these other economic tools.

Since price and wage controls are interrelated with each other and also interknit with the other economic controls and since all these controls are denying or restricting individuals from actions or rewards which they would otherwise consider their just rewards, the general success of a stabilization effort depends upon the degree of genuine support from the nation. In our democratic society the effectiveness of these controls depends upon the understanding of the public of the need for the controls and their willingness to accept them.

While public support is perhaps a result of the apparent urgency of the crisis and the degree of inconvenience and sacrifice which it entails, there is nonetheless an important place for executive leadership in explaining the situation to the public and engendering support which otherwise would not be forthcoming. Both the economic stabilization administrator and other executive leaders, including the President, have important parts to play in this regard. In the Korea emergency period it appears that on the one hand the public was "oversold" in that they expected too much from the direct controls program, and that on the other hand they were not willing to make the necessary sacrifices or support the necessary measures which would have enabled the program to come closer to fulfilling their expectations.

An important coordinating function of the economic stabilization administrator is, therefore, to define a fair and equitable stabilization program, like Johnston's April, 1951, program, which is reasonably possible of attainment, unlike Johnston's April, 1951, program, and to bring this program to the public so it can be attempted in all of its various parts. Since there are no absolute and objective criteria of fairness and equity, but since an unfair or inequitable program cannot be maintained, it is most necessary for the administrator to present such an inclusive stabilization program which is reasonably fair and equitable in all of its parts and which can obtain maximum support. If the administrator or the govern-

ment cannot get the program accepted in all its various parts as an equitable one, the belief that the inequity exists will in fact evoke the arguments and the seeking by the "affected group" of measures to rectify the inequity. The most favored group thus tends to establish for the administrator the level of stabilization control.

The coordinating functions of a price and wage control administrator are far more easily conceived and stated than achieved. Our economic system, our institutions, and our mores have been fashioned for many years in an environment which has been free of government price or wage controls. Only in serious emergency will people change their deeply rooted habits and attitudes to make such controls workable. An administrator, in coordinating price and wage control programs and in attempting to keep the programs compatible and within stabilization limits, comes directly into conflict with these established habits and attitudes. An administrator cannot, before he takes office, determine the condition of the economy, the relative levels of prices and wages, the nature of collective bargaining contracts, the political equilibrium, the basic legislation, the loyalty of the public to the program, and the many other factors which will determine his success. He must necessarily take these factors, try to influence them, and attempt to maintain a stabilization program within the limitations presented him.

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