WAGE STABILIZATION IN THEORY AND PRACTICE

4 March 1958

CONTENTS

Publication No. L58-117

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington 25, D. C.

Mr. Ewan Clague, Commissioner of Labor Statistics, Department of Labor, was born in the State of Washington. He attended the University of Washington and completed his graduate work at the University of Wisconsin where he majored in labor economics. In 1926 he entered Government service in the Bureau of Labor Statistics; later he was associated with the Metropolitan Life Insurance Company and conducted research in technological unemployment for Yale University Institute of Human Relations. For five years in the early 1930's he was professor of research and statistics at the Pennsylvania School of Social Work, University of Pennsylvania. In 1936 he returned to Government service when the Social Security program was inaugurated and was the Director of the Bureau of Employment Security of the Social Security Board until 1946 when he returned to the Department of Labor, and with the exception of 1954-55 when he served as Special Assistant to the Secretary of Labor, he has been Commissioner of Labor Statistics. This is his first lecture at the College.

WAGE STABILIZATION IN THEORY AND PRACTICE

4 March 1958

CAPTAIN LAUTHRUP: General Mundy, Admiral Clark: So far in economic stabilization we have dealt mainly with the indirect controls as seen by representatives of the Federal Reserve System, bankers, businessmen, and politicians. Today we move into the area of direct controls.

The particular aspect of that with which the speaker will deal is "Wage Stabilization in Theory and Practice." I am well aware that wage stabilization is a fact that you know very well. I feel that you have been stabilized for quite a few years. But there are other factions in the country to which this applies, which are certainly of greater interest.

Our speaker this morning is Mr. Ewan Clague. He is the Commissioner of the Bureau of Labor Statistics in the Department of Labor. He has been connected with the Department of Labor since 1926. He did have somewhat of a sabbatical leave when he was a professor up in Pennsylvania University for five years during the thirties. He has held his present job as Commissioner since 1946 and, in that capacity, he has been directly concerned with this problem of wage stabilization. It is a responsibility of his office, and he probably has the final say-so.

Mr. Clague is not new to the College. Although he has not been presented in this auditorium before, he has come over here several times for seminars.

So it is with a great deal of pleasure that I welcome Mr. Clague back and present him to this year's class.

MR. CLAGUE: General Mundy, Admiral Clark, and Members of the Class: I should explain to you that my job is that of a statistician and an economist. Our Bureau does prepare the statistics which are used as the basis of wage controls during a wartime period or other emergency. We also prepare the price statistics, and the cost of living index, so-called, which is a guide for price controls. And then we produce some other data, such as the nature of collective bargaining contracts and other such information, which may be used in the settlement of wage disputes. In fact, in this whole subject of wages and prices and productivity and collective bargaining and labor management relationships we basically are the fact-finding agency.

During World War II, and also during the Korean outbreak, we served as the statistical fact-finding agency for the Wage Stabilization Board, and of course also for the Office of Price Stabilization.

I brought along a few charts with me today to highlight some of the points I am going to make concerning the way in which these facts serve to illuminate the problems to which I am going to direct your attention today and also serve the administrative agencies, those who decide what will happen in wage stabilization and price control, as a basis for their decisions.

Let me make one more point before I start out. I am bound to touch upon some other aspects of wage stabilization, but I shall make just an occasional foray off into those fields only for the purpose of outlining the problems of wage stabilization itself. My topic is confined to wage stabilization.

The first basic economic problem that comes up in connection with any attempt to deal with wages is the fact that wages have two aspects. In one respect they are a wage rate, in which they are a labor cost to the employer, or at least a determining factor in labor cost. On the other side of the coin they are income to the worker and constitute his personal income which expresses itself in demand throughout the economy.

At the beginning of World War II, the economic situation was one in which we were operating far below capacity, as you know. In 1939, throughout 1940, and even during 1941, we had a volume of idle capacity of plant and equipment which was ready to be put to use. We had something like 8 million or so unemployed who were available also for jobs. In that kind of situation it is not surprising that the first result of any kind of wartime or near-wartime activity is simply to put idle capital and idle labor to work. And the last thing in the world that anybody wants to do in that stage is to interfere with the quickest possible private enterprise expansion of the economy.

That was not quite true in the case of Korea, although there, too, we happened to have been just coming out of a minor business recession, and, once more, we had the idle equipment, on the management side, and the workers available for manning it.

So that the first thing that happens in the economy, is that the people go back to work and thereby expand the labor force. Here I present chart 1 (page 5) to show what was happening in 1941, for example. This is the rate of unemployment, showing unemployment as a percent of the labor force. You will notice that, even at the end of 1940, when we were in a preparatory stage, we had 14 percent of the labor force unemployed. Note the gradual absorption that occurred during this one year. I am showing this by months in the chart. The unemployment rate had gone down to 7 percent, or had been cut in half, by the end of the year 1941. I haven't got 1942 on the chart, but you can see some of the rates in recent years, running at 2 percent in early 1953, for example, or 3 percent during 1956. It was higher in 1954, which was a recession year. And 1949 illustrates an average rate of 6 percent unemployment. That rate, by the way, continued into the spring months of 1950.

So again we have an illustration of the fact that at the inception of an emergency you may find that the first thing that needs to be done is simply to get the idle capital and labor to work. Wage stabilization or problems of control don't occur to people's minds.

I have another chart (chart 2, page 6) to show the rise in employment. This is a picture of the employees in nonagricultural establishments, that is, in enterprises of industry, commerce, and Government, with agriculture left out. That is a major factor not presented here. You will see that from 1939 onward manufacturing jumped from 10 million in 1939 to 18 million in 1943. This is the inverse of unemployment. After absorbing the unemployed the expansion of employment drew on the nonworking part of the labor force--women, for example, or youngsters who normally would have been in school, but who then went to work. You will note that some of the industry groups don't grow so fast. I don't need to go into details, but note especially that construction rose heavily, due to the building of military barracks, and other war construction.

So, the second thing that happens is the drawing of new and additional people into the labor force, expanding it in order to get the needed production.

This brings up the first economic dilemma that occurs. The wage rate may not be changed--the rate for a given occupation or job--very much. Those of you who are in this field must be familiar with the problems and policies of dispute settlements and wage stabilization during World War II. This is a bulletin (indicating) of the Bureau of Labor

Statistics which summarizes, by a number of authors, the experience that we had with these problems of wage stabilization and dispute settlements and all the related problems. Harry Douty, who has written a chapter, is the Chief of our Wage Division in the Bureau at the present time. He was also active as a statistician and researcher for the Wage Stabilization Board, not only during World War II but also during Korea, when he was a division chief with us. He calls attention to the fact that, in the first two or three years of the wartime period--1940, 1941, 1942--wage rates, as such, did not increase to any considerable extent. They were not rising spectacularly. But total earnings going to labor expanded very rapidly.

And here I want to call your attention again to what I called the two sides of the coin. As people go back to work more money flows into their pockets. Even if we had wages completely stabilized, you can readily see that, if there are 10 million people at work instead of 8 million, we are going to have a great deal of additional purchasing power under way. So the first thing that happens is a gradual swelling of the wage payrolls, the salary payrolls--I am including everybody--the personal income payrolls of the community.

How are you going to deal with that problem, which, at the moment, is not a factor of wage increases at all but a factor of economic income expansion, which of course, now begins to have its effect as consumers start to buy goods which they expect to be able to get? Furthermore, this is topped by an additional factor. Hours of work may need to be increased. Certainly, if a machine has broken down you've got to have people work overtime, and, generally, under our normal rules--in fact it is even in the law--time and one-half is paid for overtime. Now, 48 hours, therefore, is not 48 hours' pay instead of 40 hours; it is 52 hours' pay instead of 40 hours. That becomes another factor of expansion of income.

So, what happens is a very greatly expanded rise in the volume of consumer purchasing power, long before wage stabilization becomes a keen issue. This is shown by this chart (chart 3, page 7) in which I have shown the average hourly earnings for 1939. This line (indicating) shows the average hourly earnings. This next line shows the gross earnings (indicating) including the overtime. You will see how the overtime is fattening it up. This top line shows the weekly earnings (indicating). This is the pay envelope. You see how much higher that is. It rose to 200 (1939=100) by early 1945, when the war had not yet ended.

CHART 1

UNEMPLOYMENT AS A PERCENT OF THE LABOR FORCE

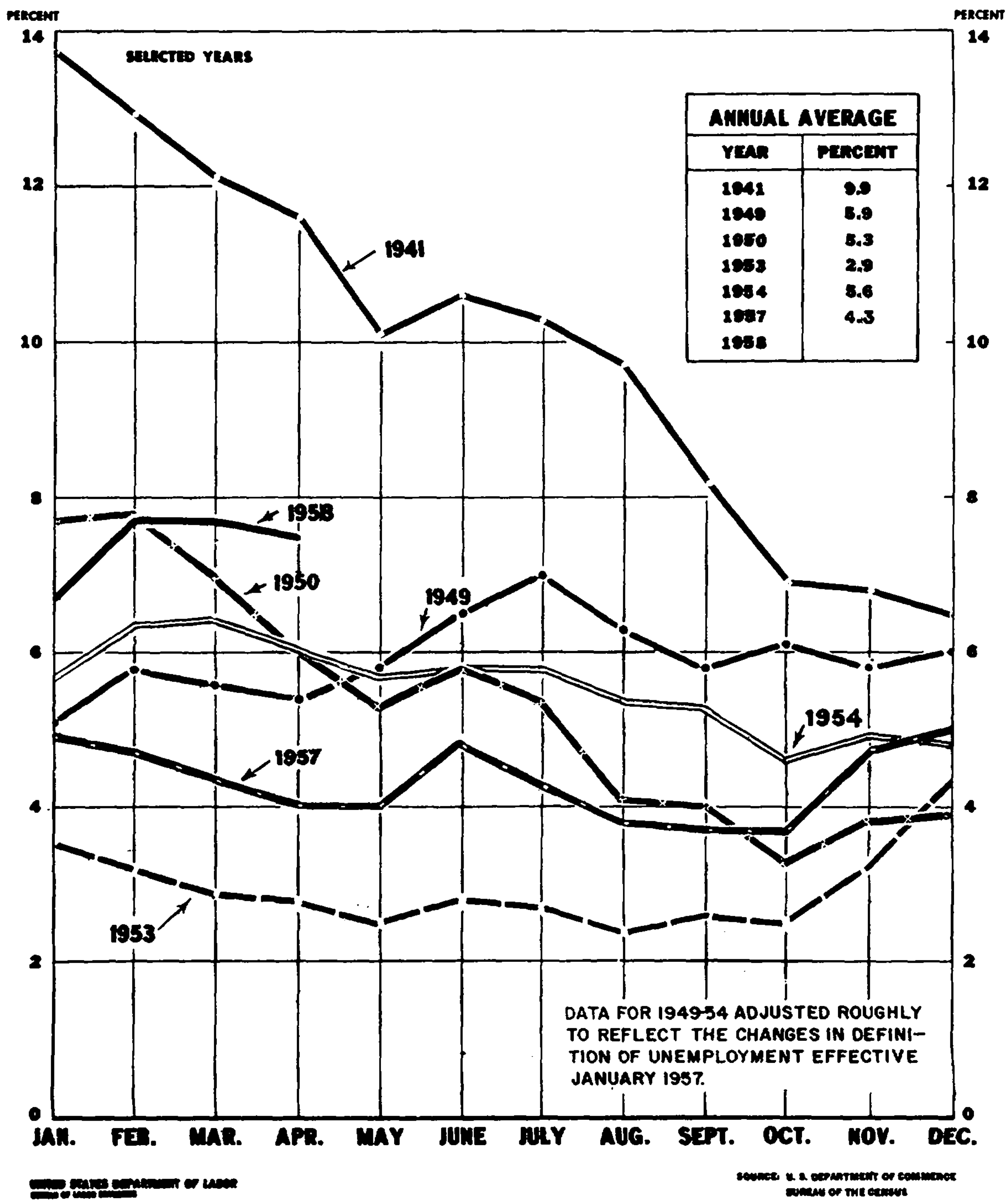


CHART 2

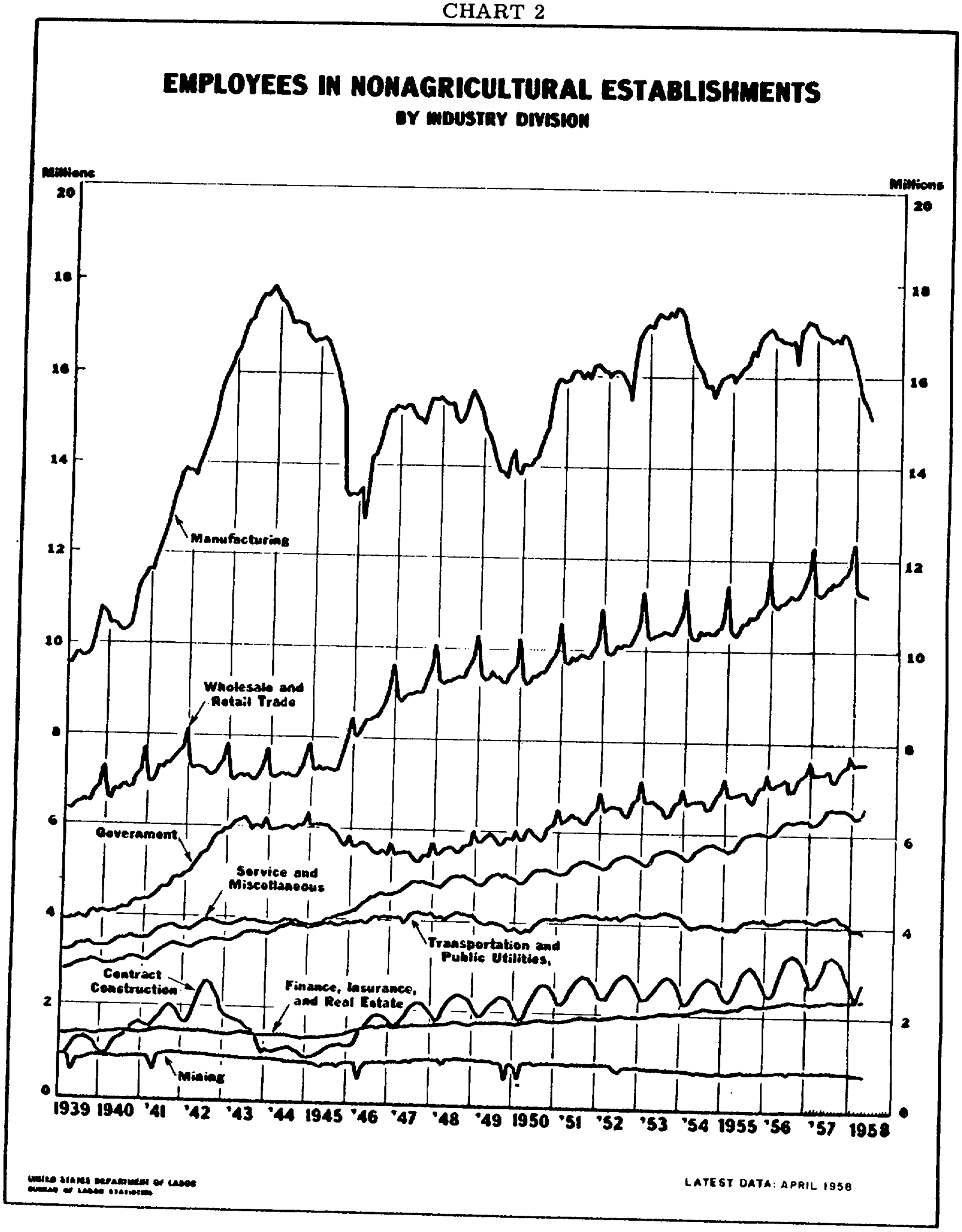
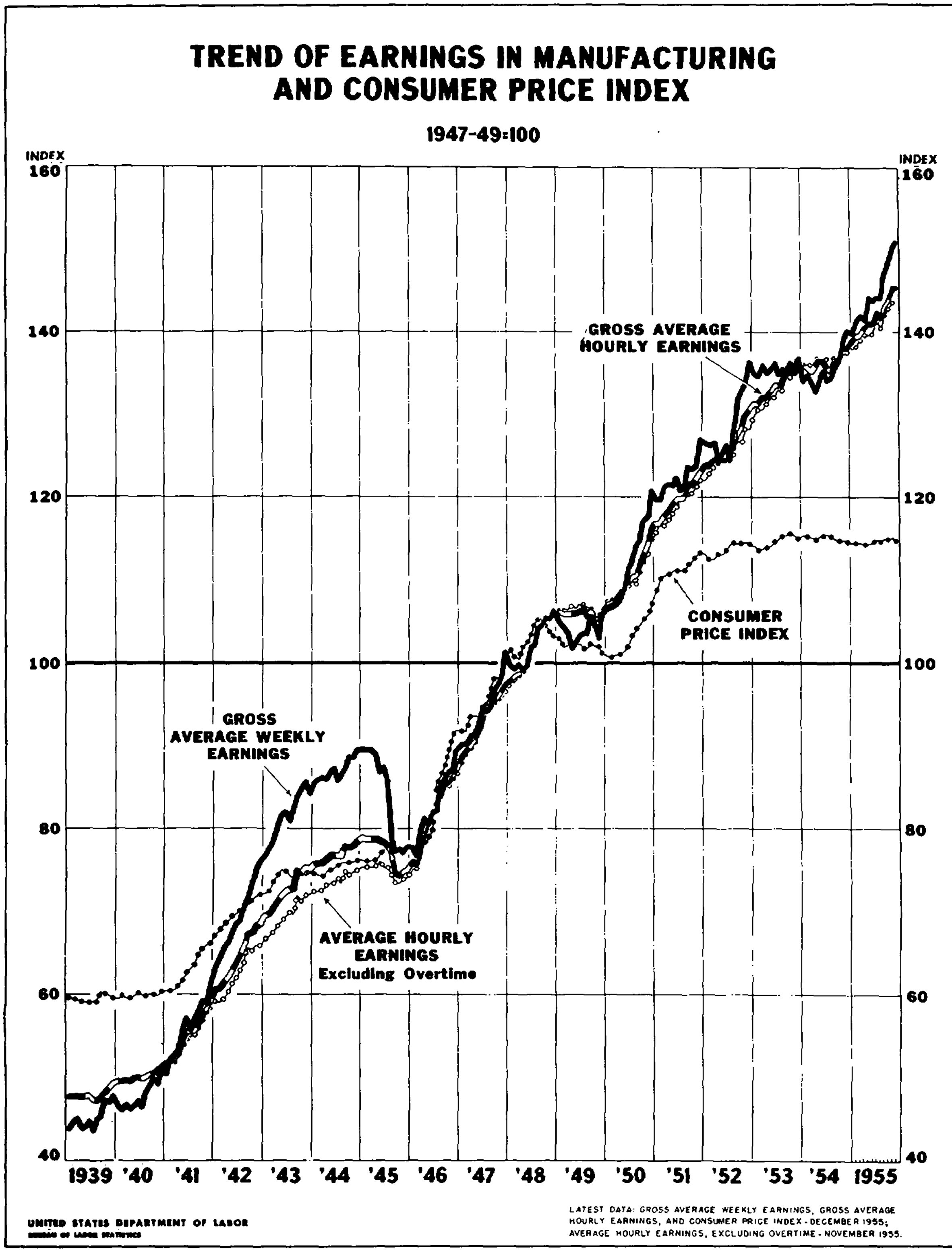

EMPLOYEES IN NONAGRICULTURAL ESTABLISHMENTS
BY INDUSTRY DIVISION
Millions
Millions
20
18
16
14
12
10
8
6
4
2
0
Manufacturing
Wholesale and Retail Trade
Government
Service and Miscellaneous
Transportation and Public Utilities,
Contract Construction
Finance, Insurance, and Real Estate
Mining
1939
1940
'41
'42
'43
'44
1945
'46
'47
'48
'49
1950
'51
'52
'53
'54
1955
'56
'57
1958
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
LATEST DATA: APRIL 1958

CHART 3


TREND OF EARNINGS IN MANUFACTURING
AND CONSUMER PRICE INDEX
1947-49=100
INDEX
160
140
120
100
80
60
40
INDEX
160
140
120
100
80
60
40
GROSS AVERAGE
HOURLY EARNINGS
CONSUMER
PRICE INDEX
GROSS
AVERAGE WEEKLY
EARNINGS
AVERAGE HOURLY
EARNINGS
Excluding Overtime
1939 '40 '41 '42 '43 '44 '45 '46 '47 '48 '49 '50 '51 '52 '53 '54 1955
UNITED STATES DEPARTMENT OF LABOR
LATEST DATA: GROSS AVERAGE WEEKLY EARNINGS, GROSS AVERAGE
HOURLY EARNINGS, AND CONSUMER PRICE INDEX - DECEMBER 1955;
AVERAGE HOURLY EARNINGS, EXCLUDING OVERTIME - NOVEMBER 1955.

The chart dramatizes the fact that the pressures start coming, not first on wages but on prices, and the result is that price control becomes the first item that gives the country concern. That is the way in which the war economy really begins to give signals that a spiral is about to get under way.

I am not going to deal with the problems that are involved in mopping up this purchasing power. I shall simply indicate the kind of thing that, of course, everybody thinks of right away. One is increased taxes. In other words, the Government picks off some of that increased income and takes it in the form of taxes. Another thought, of course, is war bonds. We can divert this purchasing power into war bonds and thereby neutralize it. The surplus income is paid to the Government and the Government buys the war supplies that are necessary, so the purchasing power does not find its way into civilian channels. Of course, as you know, we did sell an enormous volume of war bonds on a purely voluntary basis during the war. We suffered the consequences of that at the end of the war when we had the inflation of 1946-48. That diverted purchasing power was then convertible into current buying power, by cashing the war bonds. This took effect in 1946 to 1948, and the cost-of-living index responded. That is shown in this chart (chart 3, page 7). Here is the consumer price index at the end of the war. You can see how quickly it jumped once the purchasing power of consumers was allowed to exercise its effect.

In the meantime, during the war period, we applied rationing and price controls. That wasn't done in the early days of the war, prices began rising then they leveled off as controls became effective. The index of consumer prices does not go on up. We try to hold prices down, but we have a difficult time doing that and the situation gets worse as the years progress. We have this dilemma of the excess purchasing power trying to find an outlet, and we try to neutralize it in one way or another and so prevent its expressing itself in prices.

That is the underlying economic problem that leads eventually to wage stabilization. It is not long before the Nation has to face the fact that increasing purchasing power is bringing a rise in prices. As the prices start up the workers become restive and want to know why their wages don't buy more. Then there is an effort to figure out how to arrange for their compensation in the light of the rising cost of living. Almost the first thing that is decided is that we had better raise the wages as much as the consumer prices have risen. By that time the Wage Stabilization Board is on its way.

I will mention one other point in this connection. Would there be any way in which we could avoid this upward pressure of the weekly income? It is hard to see how we can avoid it as we expand the labor force. We certainly can't do anything about the fact that an extra person is brought into the labor force--a wife, or a son, or a daughter--and starts to work and draws pay. There is no way in which we can conceivably avoid the expansion that occurs in that way.

But is there any way in which we could avoid the weekly growth of the wages for the same person? Well, cutting out overtime pay would eliminate a little of it. Instead of time and one-half, let's say we pay straight time. That might be one way of holding wage income down. But remember that trying to get a worker to work additional hours and paying him straight time for all those hours, when he has been accustomed all his life to get extra pay, is not easy.

In Britain this is one angle which they tried in their stabilization policy in 1940, when they were in a desperate condition. They had to face the issue, and wondered what they would do in order to get more output. Their first thought was that they would expand the hours, but would not expand the weekly pay. This would give them a reduction in the hourly rates, if they carried it through rigorously. But it certainly did not inflate the weekly pay too much, and it did make a contribution, so to speak, by having people work more hours in order to meet the needs of the nation. However, although I believe that was discussed in this country, it never really received any serious attention. The focus of wage stabilization was not on the weekly earnings but on the hourly rates. Therefore, these other wage factors flowed free and we directed our attention to mopping up, in some form or other, the higher purchasing power.

Now, let me take the next step. First of all I stress again the point that we were trying to get more labor in the economy, and, of course, we needed to redistribute the manpower we had. Again let me refer to chart 2, page 6. You can see that some types of industries, like manufacturing, had to expand their labor supply very rapidly. In wholesale and retail trade, let's say, we actually were discouraging people, hoping there would be fewer who would work in that line. In fact, during the four war years we had practically no gain at all in employment in distribution--retail trade.

The Government, itself of course, has to expand its civilian employment. This chart (page 6) doesn't even touch on the military expansion. And, of course, construction employment expanded in the very early stages. Later it declined rapidly when we decided we had to stop contruction of everything except necessary military activities, in order to have manpower for other purposes.

Anyhow, the first great continuing problem that hits the country as soon as we've gotten fully employed is the redistribution of manpower. This becomes a major problem which directly affects wage policy. Wages in the private economy are an incentive. Consequently, we face the question of how to use wages to get the manpower redistributed. Here I must call your attention to the difficulty that you find in a wartime situation even more than in peacetime.

First of all, you in the military immediately proceed to pick up most of the highly flexible and movable new labor force that we have, namely, all the young men. Generally speaking, it is the young men in our economy who will move. A young man is willing to leave the old hometown and go 3,000 miles out to the west coast to take a job. He is on the make and is eager to start a career. In our normal peacetime situation he is the movable, flexible, and readily adaptable part our labor force. But the military proceeds to pick most of those young men up. So we are driven back, then, to the older people who are now available for redistribution. But older people are very thoughtful about themselves. They may have confidence in their own abilities, but the fact is that they are deeply rooted. Redistribution therefore becomes rather difficult. Let me cite some of the factors of inertia.

One is job security. I have a job; I have developed my career to a certain extent in my firm, in my industry. I know this industry well. Now you are trying to shift me away to another place and another occupation. I had a very dramatic personal experience in this in my own family. I came from the State of Washington. My father was a farmer out there, an early homesteader. I had a brother who was working in the lumberyard and was also a farmer. When World War II broke out there was a great need of people who knew something about lumber. I was on the Social Security Board at that time, administering the unemployment insurance system. One of my friends in Portland was talking about the need to get some people and I told him about my brother. He sent me word, "Please send him down to Portland." My brother lived about 300 miles up the Columbia River. "Send him down to Portland to see me," my friend wrote, "because we surely could use a man who knows about lumber." I wrote to my brother and said "Go on down and see So-and-So in Portland. He will give you a job and you will contribute to the war effort." Nothing happened, I wrote another letter to him, but still nothing happened. I was out on the west coast in the later years of the war visiting my mother, who was still living then. I said to her "You know, I can't understand it. I had a wonderful opportunity for brother down there in Portland. What in the world is the matter? Why didn't he move?" My mother said to me, "Don't you realize that he has lived in this town and in this community, except for one short period, all of his life? He is rooted here just as firmly as a tree that is growing out in our yard. You couldn't possibly have moved him. You ought to have known that." I woke up then to the realization of how rooted a person can become in his native environment, so to speak, and how difficult it is to move him.

I could go on and cite some other examples that are more generalized than my personal illustration.

The next factor is seniority. A person has seniority in a firm and he doesn't want to give that up. He's got the right to a pension and to other benefits. For example, at that time, during the war, while I was in the Social Security Board, a man called me up. He was a machinist working down here at the Washington Navy Yard. He called my attention to the fact that he would have to serve five years in the Government in order to get into our Civil Service retirement system, and he doubted that the war would last that long. In the meantime he was losing his coverage in social security, in the old age insurance system, which he would get in the business world. He called me, the Director of that Bureau, to tell me that he was going to leave that Washington Navy Yard job and go back to private industry where he could protect his social security rights. He was about 61, as I recall, when he talked to me. I couldn't give him permission to go. As a matter of fact, at that time he didn't have to have Government permission to change jobs. I guess he resigned. I tried to call his attention to some of the wartime duties and to the fact that the war might last longer than he thought, and some other hopeful suggestions. But the net result was, I believe, that he finally did quit and went back to private industry. This again illustrates that an older person can't lose sight of what his future is going to be.

Home ownership is a factor. People are living in a community and don't want to leave it. I don't need to elaborate on that.

All these factors have to be overcome in order to get efficient war manpower. That is why we must deal with the key problem in wage stabilization, namely, the need to raise the wages in the places and the industries where we want to get more workers. It makes good, sound, economic sense. It happens in peacetime in private industry all the time. In other words, in the shipyards they set a good, fat wage rate, and that encourages people to drift out of the other occupations, because they can move to a new, higher-income status. In fact, we almost have to do this, in order to attract them. War industries are likely to be new firms. Even if it is an old firm, it sets up a new branch. It may be out in the country somewhere, far removed from where people are normally working; or the shipyard will be located in one of the port cities and they must find some way to attract workers from inland states.

So you find that, in the wartime period, the next thing that happens is the setting of higher wage rates in war-expanding industries in order to attract people into those industries.

But again this brings still another problem--the problem of rising income and rising purchasing power. Let's say a young lady is working in a ten-cent store. She leaves the ten-cent store and goes to work as a welder in a shipyard, and her wage is tripled. Now, that drives up both her hourly and her weekly earnings, even though there has been no change in the rate of pay for any job. The shift drives up the average hourly earnings of the whole economy, because she has moved from a low-paying occupation to a high-paying occupation. She is now serving the war effort; but the old economic pressure still continues. More income is now flowing to consumers, and inflation threatens. Yet we must deal with wages as a factor to induce people to move into the new industry, and, if those differentials aren't made pretty high, we can't overcome the inertias that I have mentioned. The decisions made by the arbitrators and the policymakers usually result in raising the wages a great deal in the wartime industries.

Later on, as the war deepens, all these things accumulate and create pressures that are hard to control. That drives us to the so-called alternatives. Here are some of the alternatives that are usually applied by the wage stabilization organization. Plant closing--you are all familiar with that. Officials order a certain type of nonwar activity to close down. That's all; the plants have to be closed. That throws people out of work. The hope is that they will take jobs in a war plant. This is something that is naturally approached very gingerly, as you might imagine. I am not going to get into that aspect of it.

Maintaining the civilian economy and supplying civilian needs means, generally speaking, that the administrative agencies pick around the corners, at the edges. But, nevertheless they do close plants and shut down supplies. Then we get some unemployed, who then become available for transfer and placement.

Another operation that occurs is a draft on an employer in the community, by which he is requested to share his workers. This happens particularly with skilled workers. Perhaps there are not enough of them to go around. This plant has so many and this other plant hasn't got quite enough, so the administrative agency comes in looking around to see if an employer can spare a couple of machinists, or draftsmen, or some other skill. A kind of voluntary, but nevertheless a somewhat ordered, shifting occurs.

In this case sometimes unions can be quite helpful, because they are interested in the welfare of their members. They are also interested in retaining the loyalty of their members. In some cases, as in building, for example, when it is necessary for workers to move around from one part of the country to another--plumbers, metalworkers, etc.--the union will operate as an enforcement agency, selecting some of its members and telling them to go to an area where they are needed. It becomes in a way a type of compulsion, but the workers are supplied by their own voluntary agency and to some extent by indirection.

Another scheme is to apply employment service clearance; that is, to try to arrange things so that no employer can hire workers independently at the gate. Of course we have unemployment insurance now, so, at least if they want to draw benefits, this brings workers into the employment office. Sometimes, during the war, they didn't apply at the office and they didn't care about the benefits. They preferred to be off resting or to be hunting another job on their own and did not pass through that reemployment machinery. However, employers generally try to keep track of every ex-employee who is out of work and to offer them a job instead of benefits. When workers come in they are ready with a half-dozen jobs to offer them. So the attempt to provide clearance through a governmental agency is not in order to shut out private employers from hiring and exercising their best judgment, but in order to make sure the Government, itself, in some way or other, keeps track of all available labor and does what it can to direct it.

Of course the objective, then, of the employment service is to operate in such a way as to put these people in places where they will be most needed.

The payment of travel costs is another illustration of efforts made to get workers. People say they can't afford to move to Seattle, Washington, but, if their moving expenses and the expenses of moving their families are paid, plus a settling-in cost, then they can perhaps be induced to move. There will be an extra cost, but it is something that doesn't become a part of the wage rate. Perhaps the worker will accept a relatively small wage increase for that shift, provided all the other costs are met. That is a way of overcoming the resistance to transfer.

Finally, I might mention status, and all kinds of awards and honors, and things of that sort. In these situations, when you are substituting some of these other things for straight, cold-blooded, economic incentive, you have to think of almost anything that will appeal to the person and that might be helpful in getting him to perform high priority work.

Let me take up the next topic, which is wage policies. What are some of the wage problems? How does the administrative agency operate its wage policies as it moves along? What problems does it encounter? The first one is the problem, as I indicated, of cost-of-living escalation. The cost of living is almost certain to rise no matter how we handle it. It is likely to go up to some extent, and therefore there is pressure to adjust wages to it. To make matters worse, there are many collective-bargaining contracts now in force, contracts that regulate wages in the peacetime economy by changes in the consumer price index, up or down. In wartime it will hardly ever go down, so it's only a one-way street. But the effect of this is, as the Nation enters the wartime period, that the labor and management groups, who have been getting along for years, with no troubles at all, may now come into conflict. An escalator clause contains a definite provision that every year or so--usually the old contracts have this--a readjustment of wages will be made if the cost of living rises too much. So the workers now expect this to continue. When Korea began this was one of the first things the Wage Stabilization Board had to consider, because in that outbreak we already had the General Motors type contract, in which a continuing escalation had just been worked out with the United Automobile Workers. As a matter of fact the escalation had two factors in it. It not only had the ups and downs for the consumer price index, which would mostly be up, but, secondly, it had a productivity factor, an annual increase which was written in for five years ahead, from May 1950.

So, here was a peaceful relationship, in which presumably the economy was absolutely protected against shutdowns, labor disputes, or any such break. The Wage Stabilization Board had to wrestle with this. What could it do? Throw the factor out? If they throw it out, they will create a labor-management problem right away. So the simple solution of this first problem is to leave that contract alone; let it operate. But if they do that, what are they going to do with the rest of the labor force that is not under such contracts? Well, these workers will get under it if they can, and they will likely be asking for an equivalent wage increase. That is what happened in Korea. They did get adjustments for the consumer price index, and in general the rule that was followed was that wages during the Korean period would be raised across the board, at least by that much. I am talking about the hourly rate. It was raised during that period to the equivalent rise in the cost of living, as measured by the price index.

In actual fact, of course, they never did adopt the productivity factor. That was interesting. I went down and testified myself at one time before the Wage Stabilization Board. They asked me to present productivity figures indicating whether or not they should adopt the theory of the peacetime rates of productivity increase in the economy, which runs roughly 2. 5 or 3 percent per year. They wanted to determine whether that should be accepted as a normal wage stabilization operation. The Board ruled, no; and I think appropriately so, because we weren't getting that kind of productivity during the war. We now find out that the wartime gain was probably not more than 1 percent per year. So they made the decision that they would not adopt that provision. They allowed all existing contracts to operate, but they would not allow anybody else to come in under an automatic escalator.

The next factor is inequities. People are caught at a disadvantage, the private wage economy being what it is. Workers come forward and say they need wage increases because their wages are actually substandard. They say they are getting wages even below the national minimum set by the Fair Labor Standards Act of the Federal Government, that they are getting only 65 cents an hour. Or they point out some other parts of the country where the same occupation in the same industry is worth much more. Then begins the problem of the upward pressure of the people who are behind. They present their case and the Board finds itself with an enormous volume of problems. How do they settle where the wage rate should be? What are some of the inequities that ought to be straightened out? Which differentials ought to be maintained, in which case they must tell some workers that their wages should not be moved up?

There was a very good illustration of this during World War II. The Secretary of Labor had a visitor at one time on the subject of a salary stabilization issue. If you want to recognize how complicated this problem is, I can illustrate it by telling you who came in to see the Secretary. It was Stan Musial, who was with the St. Louis team at that time, the Cardinals. It seems that the Salary Stabilization Board had drawn a certain rule, that a person could not get an increase in salary of more than a certain percent. Musial had just signed up for a salary increase that was more than that percentage. I don't remember now what his new salary was to be. At any rate, the Board ruled that he couldn't have that. He came in to plead his case on the subject of equity. His argument was, "I've got only a few years as a ballplayer. We are all obsolete by the time we are 40. If I don't make my real income now, I'm lost. Why should I be held down in this way? My differential is set. My boss is perfectly willing to pay me this amount, and here your governmental board has taken it away from me." I don't remember how they settled that case. I think they drew a new rule, as a matter of fact. I recall that they considered a rule that the salaries of the members of the whole team couldn't rise more than a certain percent; so that, if the employer gave more to one, he would have to give less to another. It meant that the boss had to chose among his ballplayers the ones who were to get the greatest increases.

One other factor I might mention is the dirty jobs. Of course, in peacetime there is always some poor derelict willing to take them, but, when times are good, they don't want them. What do you do about foundries? I think they wrestled with foundries in World War I, in World War II, and in Korea. And, if we ever have another trouble, they are going to be wrestling with foundries. It's dirty work and comparatively low pay. It's not too highly skilled, and it is now getting more mechanized. One of the blessings of our American economy is that we are mechanizing that now. But, when you are faced with the fact that you can't get foundry workers, that you can't get steel, and you can't get battleships, then you've got to get somebody in the foundries; and nobody wants to go. It even means sometimes shifting workers who perhaps have worked for higher wages with another industry, let's say, steel. How are you going to get them over there in the foundry? That problem never was completely solved. They wrestled with it for long periods of time.

Another problem is brackets and classifications. You can put the most rigid rules in operation, and have the finest stabilization under way. How are you going to prevent an employer from promoting a man? Say that he loses somebody over here and says, "I'm going to move this man up to that spot." So he promotes this man. How are you going to regulate that, or control it? The answer is, it's just almost impossible. How can you go in and say, "I've reviewed this fellow, and he isn't qualified?" There are, roughly, 60 million people working in the United States, and you can see how difficult it is to keep the employer from voluntarily giving a man this increase. I will refer to that briefly again when I come to interrelationships of these different administrative agencies.

So far I have been treating wage stabilization as though it was something strictly by itself, operated by itself, by an independent agency. But, of course, sooner or later, as the wage increases go on, there will be price increases necessary and then you will be over in price stabilization. .

At any rate, the problem isn't that the Government is safely arbitrating between labor and management. The Government faces an employer who is eager to make the wage increases, who is trying to make them, who would like to make more of them if he could get better men, or have his people satisfied and not lose them. And really it's the Government against the world, so to speak. That again makes wage stabilization exceedingly difficult to administer.

Then, finally, there are fringes. This is one of the things we got into, particularly in Korea. I mean that wage incentives take the form of pensions, of longer range rights, of granting seniority that will protect the worker in the longer future. In other words, workers are offered these things instead of a wage increase. This kind of thing grew very rapidly during the Korean period, because it promised to save immediate costs. By the way, there is a lot to be said for it. It saves the immediate cost, and therefore stops the current pressures; but of course it comes out later on in the form of real costs which the employer will have to pay in the postwar period.

I have two more points which I will summarize. They are important points. One is, How do you administer this whole business? What about the coordinated relationships? I spoke about the fact that one of these economic factors impinges on another. I should emphasize the fact that, somehow or other, you've got to have an integrated policy. In the United States, on the whole, we have tended to split these different elements into different operations. Wage stabilization is treated independently of price stabilization and independently of dispute settlement. I said "dispute settlement," because sometimes we have a very critical situation in coal, or steel, or some other industry, which has a dispute that comes up and has to be settled. Very frequently a little bit of wage negotiation will help to settle that dispute. Then we open up a lot of other problems. How do we relate these?

Our theory was, and we proceeded pretty well with it in World War II and in Korea, when we stuck to it pretty closely, that dispute settlement was for the Federal Mediation and Conciliation Service, for the National Labor Relations Board, or for special arbitration boards. It was argued that wages and prices were all fixed and couldn't be used to settle a dispute, that disputes had to be settled within the confines of existing wages and prices. But the wage-price relationship involved in disputes. If an employer gives a wage increase in a certain situation, to equalize wages or to correct inequities, he may try to get a price increase only to find that he's stuck with the existing prices; he can't get a price increase just because he has been awarding a lot of wage increases. The thought is that he shouldn't have been awarding a lot of these wage increases.

That sounds good theory, except that he finally shuts down, because he is not making any money. Then we haven't gained much. He says, "I didn't want the wage increases, but the Wage Stabilization Board ordered them. I'm saying to you that I've got to get 10 cents more on this peacetime article I am producing, because I can't do business otherwise.

So you do have to bring these two together. At the end of World War II we combined them all in what amounted to an economic stabilization agency. In the Korean situation also we created an economic stabilization agency. I think that in the long run it will almost be inevitable. Nevertheless, I think our country on the whole has been somewhat of the opinion that, there is a certain strength in keeping these factors in isolated channels and in not putting them all together, perhaps we can then handle them a little better than if we forced them all into one agency in which we got too much coordination and compromise.

Finally, let me say a word about compulsion and then I'll close. There is always the argument that one of the best ways to regulate manpower would be to have directed labor. Early in World War II Great Britain, when it was under the gun, had a system of compulsion. They could order workers sent from one place to the other, and could apply an ordinary compulsive directive on the labor force. If they said a man had to go to a foundry, he had to go to a foundry. If they wanted to shift a man from his east country town to the west coast, they shifted him from his town to the west coast.

Generally speaking, this doctrine sounds very persuasive, and I can assure you that, in most every discussion that occurs in this country in civilian agencies, and perhaps in yours as well, there is some attention paid to this question. But, on the whole, most of us come out with the feeling that we have to handle this very gingerly, and that, for the most part, what we have to count on is a continuation of voluntarism throughout the great bulk of the war mechanism. I think it is said that in Britain, all during the four years of war, something like 30,000 different individuals were actually ordered to go to certain places to go to work. This was an insignificant fraction of the whole population, of the whole labor force; so it didn't play much of a part. Of course, that's not quite the way to view it. The fact that they had the compulsory authority meant that a good many people went voluntarily because it was easier to go that way. In other words, it did give those in the labor service in Britain a power which meant that their persuasive talents were a little stronger. The fact that they exercised only this amount of compulsion is a good indication of the fact that they recognized that assigning people by compulsion is usually not a very effective way to do it.

On the whole, in a democracy such as we have, in a labor force in which it has been the custom for years to operate on pure voluntarism, it is too much to expect people in wartime to suddenly become subservient to the powers of a dictatorial government. That requires pretty much of a shift of thinking, and it is difficult to bring about. Compulsion will be established and maintained only on the fringes of the problem. We introduced a little bit of compulsion, as I indicated. We limited peoples' choices. We told the person, "You're out of work here; you can have a choice of these three other places. We'd rather you went to this one. You can go here or there. But you can't take a job anywhere else. You won't get unemployment insurance, either, if you don't take it." In other words, there was a narrowing of choice. But this is still not compulsion. If a man has his choice of at least two alternatives, you can't really say that he has been ordered to do something.

Therefore, I think I would say in substance that compulsory controls of the kind that do anything more than apply to the fringes of the problem are probably not a useful device to consider as a regular policy. It may be most useful to meet a temporary situation, as when the British had to clean up London. They applied temporary compulsion of that sort to assemble and recruit the workers in the community.

To make the economic system as a whole operate effectively, what we really have to do is wrestle with these problems that I have sketched out for you, to devise ways and means of mopping up consumer purchasing power, to prevent its taking effect on prices, and to hold the line as well as one can; to wrestle with these problems of human beings. Because that's the best way to make our economic system work at its best.

Thank you.

CAPTAIN LAUTRUP: Mr. Clague is ready for your questions.

QUESTION: I would like you to explain if you can, sir, why the consumer prices remain the same, although the volume sales have decreased considerably.

MR. CLAGUE: When?

STUDENT: For the past quarter.

MR. CLAGUE: You mean right now? You are not talking about the wartime period?

STUDENT: No.

MR. CLAGUE: Yes, they are still pointed up, as shown on the chart. That is due, as I explained on TV the other day--after I got through with my press conference, which I have every month on the Consumer Price Index, some of the TV companies wanted me to talk about it further--primarily to this freeze in Florida and the rains in Texas, and the weather situation generally. It was primarily in food, as shown on this chart (chart 2). Here is the Consumer Price Index again. This black line is the food price index. That movement was set in motion in the last few months. I am afraid that is going to continue for a while.

That has nothing to do with unemployment, with the number of unemployed, or with the falling sales in clothing stores, or anything like that. As a matter of fact, clothing was down very much in the January sales; house furnishings were down; on automobiles you can get bigger discounts than you ever got before. But food is fattening up. Fruits, vegetables, and in fact all of the 82 foods in our index, except one, eggs, went up last month. Eggs went down. So, if you want to save money, eat eggs, at least temporarily.

But let me say that, in general, our consumer price index does not reflect very accurately, or very soon, the general business situation.

In 1949, you will see, it did decline. Here it is (chart 3). When you have a long and somewhat deep recession it will respond, because prices will fall, eventually. But you will see that in 1953-54, at the end of the Korean War, we experienced no effect at all. The decline didn't last long enough and didn't go deep enough to seriously undermine retail prices.

QUESTION: Sir, continuing in the same vein, and looking at your second chart, in the black line, on all items, I presume that is the average. That shows that for quite some years food prices have been at least 50 percent higher than average. We are putting up billions of dollars each year to keep prices where they are, and that looks like they are away out of reason. The only reason why food prices should be higher than that, even though parity is lower than 90 percent, supposedly, would be because of the added cost of food processing. But I don't think that would have gone up enough to make all that difference. It looks like Benson is correct.

MR. CLAGUE: Well, first of all, food prices were very low. I have shown this chart on a 1939 base, because we were talking about prewar, and I was trying to show the wartime development. This base means that 1939 equals 100. Food prices in 1939 were very badly depressed. They were away below average. So, if they were very low then, it does make them look high now. I should have brought you my other chart. On the 1947-49 base--one of the favorite devices I have is to show the farm prices on 1947-49 and also on 1939--food prices are lower on the chart. That's what the farmer is now complaining about. He's used to the purchasing power he has had in recent years.

I am very proud of my profession as a statistician. I don't want to devaluate it in any way. But I would like to remind you that the word "chart" comes from the same root as "cartoon." The point I am trying to make is that a chart is a work of art, which is designed to bring out visually, as it can do, something that would take a lot of time to explain, and then which wouldn't be very clear, anyhow. So most of us statisticians have to work with and want to work with charts. But a chart depends on the honesty and integrity of its producer. Like a cartoon, it can truly pick up the elements he is trying to get across, and it can be a magnificent method of communication. But it can also be a complete distortion, because it may not get to the heart of the matter.

I am glad to carry your question a step further, if you like. You raised the question about the cost of processing. I have another chart, which I don't have here, but which takes the food processing figures and does break them into three parts. There is the cost of the raw material when it first hits the market--that is, hogs in Kansas City, wheat in Minneapolis, and so on. Secondly, there is the processor's price. That would mean the price of corn flakes at Battle Creek, the price of meat at the packers, and so on. That's the processor's price. Then there is the retailer's price. There are those three curves. The top one would be the retail price. Next would be the processor's price. That would be something like this (indicating). The raw materials price would be something like this (indicating). Why is the gap widening? By the way, in former periods, as in the recession years of 1949 and 1950, we find that raw material prices go highest in the boom and drop furthest in the recession; and then rise fastest again in the wartime period. So the raw material prices fluctuate widely. They are above sometimes and below sometimes. The processor's prices are usually in between. They don't fall quite as fast and they don't rise quite as fast. The finished product is the most sluggish in price. The interesting part is that since 1951, when we put on some controls, at the time of Korea, these three sets of prices have the same pattern, but the interesting point is that the pattern is widening.

Why is that? Incidentally, we in the Bureau of Labor Statistics collect all the prices, including the raw material prices, so there is nothing incomparable with our price collection. One explanation is the packaging that is occurring now. In the old days tomatoes were brought to market in bushel baskets; we put our fingers through them, found the good ones, and left the rest. Nowadays they come in a cellophane package. You can't feel them through the cellophane. They are preserved. They keep them in the deep freeze. So, we as consumers are getting a far better item, in a way, and yet they are just the same tomatoes, and they have no more calories than they had before. But they cost more.

The other factor that is present is, of course, transportation cost and all the other costs of the processing. Then finally, there is the retailer's margin, on top of the shippers, the truckers, the railroads, and all the other factors involved in getting the goods to the consumer. So it looks as though there is a steadily widening margin between what the farmer gets and what the housewife pays.

One last word: The recent rise in prices has nothing to do with Secretary of Agriculture Benson. He might be right or wrong. His support prices are on wheat, corn, tobacco, cotton, and peanuts, but the prices that have caused us the trouble recently are the fruits and vegetables, on which there is no control at all. This is due to a loss of supplies. People have to eat. You've got to eat or you won't do anything else for very long. Consequently, even the unemployed and the people on benefits are going to put their first money on food. Therefore, if food supplies are short, the price is going to go up. A reporter said to me in a recent press conference, "How do you account for it? There's a lot of unemployed and a lot of other people worried about their future income, and some of them working part time." I said, "Yes, but they've got to eat first." They've got to economize somewhere else. Where do they economize? On the durables, that is, autos, appliances, furniture--something that they can put off. They are not buying cars, they are not buying houses, some of them are not going to buy an overcoat this year. If the car doesn't break down they can drive the old one for a while longer. You watch the economy month by month by month and you will see that the area in which the consumer is not expanding his purchases is in the durables, where he can put off his purchases. In the meantime, he must buy food, and this price index will go up as long as there is a shortage of food supplies.

QUESTION: I was interested in the chart on the employees in non-agricultural establishments. On your wholesale and retail trade people, I assume the pulses are probably the Christmas trade. In the Government side of it, is that the reflection of budget cycle in which we are all more or less captive?

MR. CLAGUE: No. That's the Post Office, hiring my sons and yours to deliver mail. This is the Christmas season (indicating). Secretary Somerfield seems to be dampening that bulge down a little. If he gets mechanized enough maybe he won't have to have all the extra postmen. I think it is almost unavoidable, though. There is more mail at Christmas than at any other time.

QUESTION: The Wall Street Journal last week had an interesting analysis of the consumer price index. It pointed out, among other things, that the retail prices used had a 10-month lag of the prosperity. This raises the question as to whether the wholesale prices are better or more useful. If they are more recent, why can't they be used?

MR. CLAGUE: Wholesale prices are more useful for analyzing the business situation, yes, indeed. They certainly are, because the retail price index is sluggish, as you indicated. In the consumer's market basket, we have all the representative items--we don't have every item--that the consumer buys. We have about 300 items in the Consumer Price Index. The average family buys about 2,000 goods and services. But the

300 stand for the 2,000. For example, there are the services of various kinds--doctor services, hospital services, streetcar fares, and things of that sort. They are not commodities at all. Here is the line showing the rise of the services. You can see it on the chart. Here's food; here's apparel--that's clothing, shoes, ties, overcoats, and so on. Here's transportation, which is a mixture of streetcar fares, railroad fares, bus fares, and private automobiles. Look at this line. That reflects the discounts on automobiles. Discounts are holding that line down. Streetcar fares keep on going up. They lag very much indeed, as you know. A commission has to pass on a fare increase. They are now talking about going to 25 cents here in Washington. Well, that issue can go on for a year or two, with hearings and so on. But when the fares go up they are likely to stay there. They never come down. So you get a slow upward movement in public transportation.

Here is a typical group of consumer items. Streetcar fares are here. Here is a group of services--doctor bills, hospital bills, beauty parlor services, haircuts, and so on. Those things go steadily on up. They seldom go down. A doctor doesn't raise his fees very often, but, when he raises them he's likely to leave them there. So we don't get any fluctuation. That's why these lag. You will notice how this line has lagged below the average. Look at the way the commodities go up and look at the way the services lag, and rents. Through rent control they never have caught up yet. We still have some rent control.

QUESTION: I am curious to know if you will be willing to predict what labor will do if and when your consumer cost curve heads downward, and labor wages being tied to that, they will have to get a new gimmick. Won't they?

MR. CLAGUE: First of all, you talk about labor in the abstract. That's all of us--70 million people, some union, some nonunion, some unskilled, some skilled, and so on. It's the broad, general mass of working people.

Mostly, labor solves its own problems in its own particular industry, in its own firm. Now, that means that, with particular unions in particular industries, you can get all kinds of bargains in one way or another.

I might comment on my hearing recently before the House Civil Service Committee. They were talking about Government salaries--civilian salaries, not yours--but is the same general idea. They were talking primarily about the Consumer Price Index and its recent rise. It has gone up about 6 percent in the last two years. Then they got into a discussion as to what our price index shows and how we take account of the fact that people need more money to buy more things. After all, why should we stay living the way we did in 1939? What kind of automobile do we price today?

I brought out the fact that we tried not to get the rising standard of living in our price index. This is an index that shows the rise in prices of a fixed market basket. If you are going to buy a Cadillac instead of a Ford, for example, that would not be shown in the index. There are lots of reasons why your cost of living goes up. If you have another baby in the family your cost of living will go up, but the price index won't; because we are only showing the cost of a fixed market basket and the effect of price changes on the cost of living.

So I was explaining this. The Congressmen asked: "How do you arrange for people having an improved standard of living? A man ought to have a car now; maybe in 1939 he didn't." They were feeling that in some way the consumer price index ought to show the rising standard of living. But I explained that the index does not show the rising standard of living.

However, in practically all industries in the country, private industries, the wages always rise more than the cost of living, as measured by the Consumer Price Index. The chart (chart 3, page 7) shows the index compared with weekly earnings in manufacturing. Wages have gone up 3.5 times. They were $24 a week here (1939) and they were $84.00 a week here (1957). That's because those workers are sharing in the productivity of the country. They don't bargain exclusively on this index. If you stay on this index for a time your salaries will fall behind the general average.

I can use myself as an illustration. Back in 1939 I was the bureau director in this Government. I was getting $8,000 a year. Right here, in October 1956, I got a raise to $16,000. It's just double and that's exactly what the price index has done. In other words, after 18 or 20 years I caught up with the cost of living. And the last rise in the index has put me behind again. I have no productivity increase at all. Here is the productivity increase (indicating). Look at that gap. This is the rise in the standard of living of the average worker in manufacturing industries. There are some 13 million of those people. There's another 4 million salaried workers that are not in here, but they have shared in that gain too. Or, take building contruction workers, farm labor, domestic servants, etc. Nearly everybody has achieved some productivity gains except the Government worker. We have no share in productivity.

QUESTION: If our wartime controls were warranted in the light of the evident imbalance between production and purchasing power, in your judgment, sir, was it warranted for us to remove the controls at the end of the war, when we were well aware of the fact that production and purchasing power were very much out of balance?

MR. CLAGUE: Books have been written on that subject, and people are still debating it and fighting about it. In Britain they didn't remove them. They felt they didn't dare, because of their international exchange situation. When we did remove the controls, you see what happened. Here's the index (at the chart). It jumped 25 percent in a period of two years, 1946-48. I spoke above about all this excess purchasing power being tied up in war bonds. I don't want to leave the impression that everybody liquidated his war bonds. There was some liquidation. For example, my wife is a doctor; she needed an office, so in 1945 we sold all our war bonds and bought a house out in Arlington, Virginia, and fixed it up as a medical office. We were doing exactly the thing that brought about the inflation. We took something that was in the hands of the Government and neutralized for purchasing power, and converted it into current purchasing power. But the more important difference was that, instead 10 to 20 percent of our salaries being taken out for war bonds, this money immediately became available for current use. Therefore, this raises the question: How could we have continued to neutralize that?

Let's take account of what was actually done. The first thing that gave up the ghost after World War II was the Wage Stabilization Board. They had all the problems I mentioned above, and some that we haven't discussed. Since the war was over, they decided that their job was done. So they resigned. But the Government said, "Wait a minute, now. We can't let things go. We'll keep price control. If we keep price control the businessmen can't give a lot of wage increases, because they won't be able to pay. So price control was maintained for about six or eight months. But the pressure got stronger and stronger. I don't need to remind some of you who were living in the summer of 1946 that we were off again and on again. Certain prices were controlled, and then they weren't; and then they were controlled again. Finally, the Government gave up and controls were nearly all eliminated. We couldn't keep the wage control effectively, by trying to work indirectly through price control.

After Korea, we had very much the same issues, and, when peace was achieved, both wage and price controls were dropped at once. There's a lot of argument in favor of doing this. Some of these controls get worse and worse the longer they are operated. Controls are never too easy at best, and there's a relaxation of popular opinion that makes it difficult to keep them going in peacetime. Canada did not relax. They controlled prices and wages in the postwar situation somewhat better than we did. Britain did also, but they had been under the guns and so the population was more willing to stand for it.

I think my answer to you is that, politically, and with the popular feeling, it is practically impossible to keep controls going very long, unless we have some continued emergency. The Russians have done very well keeping it up for 12 years. Even in that kind of an economy, they have to wrestle with the same problems. The Russian consumer tries desperately to exercise his power of getting some civilian goods, but the Russian leaders have managed to keep him alarmed about war. And of course the Russians had a simpler way of mopping up purchasing power. They just cancelled the bonds and savings of the people. We couldn't do that.

QUESTION: Last year the Administration resisted any wage raises for both the Government employee and the military. Would it be possible that the chart would have to show a quantitative implication of the statement made, that they wanted to resist the inflationary pressure? I realize there would have been an example set. Could it have been measured, also?

MR. CLAGUE: By "measured" you mean, could we have told how much inflation could have been brought about by us in the Government?

STUDENT: Assuming it was not in itself going into a cost spiral, was it in itself insignificant or was it an example of inflation?

MR. CLAGUE: Oh, significant. It wouldn't have made a dent on the whole. Talking about an example, they are making an example of the fellow on the bottom of the pile.

CAPTAIN LAUTRUP: I think we will call a halt at that point, Mr. Clague. Thank you for your fine presentation. I am not sure whether you have proved by your statistics whether we are better off or worse off, but I think we feel better about it.

(13 Aug 1958--4, 100)O/mms:msr