

WAGE STABILIZATION IN A DEFENSE ECONOMY

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For the second time in a decade, our country has found it necessary to allocate a large part of its material and human resources to the manufacture and operation of armament. What, if anything, should be done by the government to deal with the economic problems and maladjustments brought about by such a program? This was the subject of the great economic debate of 1951 in Congress when the Defense Production Act was up for renewal. Congress decided that, as far as direct controls are concerned, a rather loose regulation of prices and wages would suffice. Subsequent lags in an increasingly costly armament program, business recession in a number of consumer goods industries, and continued increases in the cost of living contribute to considerable dissatisfaction over the answer.

The debate has not been concluded. The control program will be reexamined in 1952 as the economic consequences of a defense program become more apparent. Already there is a general and growing awareness of the fact that the manufacture of armament creates consumer purchasing power not matched by consumer goods. Increased taxes, more savings, and a balanced budget are consequently urged in the interest of monetary stability. In many ways this so-called inflationary gap can be more readily understood and dealt with than can the scarcity problems which are created by a defense program. Supply and demand relationships, as well as the parallel wage and price relationships, are distorted when a huge armament program is undertaken. Some goods and some services suddenly become relatively more valuable.

When it became apparent in 1950 that a major defense program was unavoidable, it was immediately evident that the supply of certain metals and of certain manufacturing facilities would not be sufficient to meet all of the increased demand for them for both civilian and defense purposes. In the absence of controls, the scramble for scarce supplies and for scarce manufacturing facilities not only pushed up

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prices but resulted in the amassing of unusually heavy inventories designed for consumer use. Steel which might have been used to make tanks went into inventories to support future roller-skate manufacture. One consequence was heavy high-cost inventories of materials held for consumer goods manufacture. The cost of defense material was also boosted until government appropriations, which were ample for defense purposes when made, would not carry the program at all. Costs of government were thereby increased to an alarming extent.

Since there was not enough of some materials to go around, and since there was no disposition to curtail consumer standards of living, it was concluded that the best policy was to eliminate the scarcities. A gigantic program of plant expansion was undertaken. This, it was reasoned, would ultimately make it possible to have both "guns and butter." In typical fashion, another "miracle of production" was visualized as the way out. But a program of this kind takes a long time to effectuate. In the meantime it adds to the demand for scarce raw materials and for scarce manpower. There was an intensification of the scramble for scarce materials—and for materials which it was anticipated would be scarce.

Plants and industries contemplating an increased demand for their products, as well as those planning a great expansion in their productive facilities, were concerned not only with assuring the necessary raw materials. They also had to have sufficient manpower to produce the increases of output which were in prospect. Especially in "defense plants," there were many wage increases. In some instances, managements voluntarily gave wage increases even though their agreements with labor unions provided firm commitments on wages for some time to come. They thereby sought to secure for themselves a preferred position in a tight manpower situation. Other companies, not directly affected by the defense program, raised their wages as a defensive measure in order to prevent a loss of employees needed by them to keep up the civilian production. But a very large number of wage earners—perhaps as many as 40%—received no wage increases at all in 1950 even though the cost of living was then moving steadily higher. Wage relationships previously established between plants and between industries were badly distorted.

Direct controls over prices and wages were urged by some immediately after the start of hostilities in Korea. Such views were vigorously opposed on the ground that the problem of "inflation" must be dealt with by fiscal and monetary devices. That is the typical approach to the general problem of inflation. Our present problem, however, is much more specific—it relates not only to inflationary

pressures in general but to such pressures operating in a defense economy in which particular material scarcities and particular manpower scarcities have unusually important significance. Perhaps our sights have been improperly focused upon "inflation" in general. Our task could probably be more precisely and more helpfully conceived in terms of how to deal with the economic consequences of a defense program.

In retrospect, it seems possible that an early program of direct controls might have minimized the extent of the scrambling of price and wage relationships which occurred, especially in 1950. Controls earlier promulgated might even have prevented the recession in many consumer goods industries which, beginning about the middle of 1951, followed the speculative piling up of high-cost inventories. In marked contrast to the defense industries, anticipated scarcities in most consumer goods did not come about. So, at the close of 1951 our defense economy was characterized by a sizzling boom in the defense industries but by a recession in many consumer goods industries.

Whether or not the country would have, at an earlier date, "taken" direct wage and price controls strong enough to prevent the serious distortions cannot now be ascertained. At any event, price relationships and wage relationships were badly scrambled by the time the so-called price and wage freeze order was promulgated in January 1951 by Mr. Eric Johnston, then the Economic Stabilization Administrator.

The purpose of the freeze order has been widely misunderstood. That order suddenly stopped disorderly movements of prices and wages which were aggravating both the basic inflationary pressures—by increasing the cost of armament—and the problem of allocating resources quickly for the defense program. That was, however, only the negative aspect of the freeze order. On the positive side, it provided an opportunity to work out orderly and less speculative movements of prices and of wages.

In a peacetime economy, prices determine the allocation of scarce goods—the preferred claimant is the one who can and will pay the highest price. In a defense economy it is determined, not on the basis of free market forces, that armament needs will be met entirely irrespective of cost. So speculative bidding for scarce material can be disruptive to the defense program and to the national budget. On the other hand, even in a defense economy, some price increases are necessary to induce the expansion of productive facilities needed to overcome the scarcities. Similarly, some wage increases are often needed in expanding industries to assure sufficient manpower and in

other industries to eliminate grossly inequitable wage relationships which retard the attainment of full production.

Against the general background just sketched out, the problem of wage stabilization can best be understood. When the economic freeze order was issued in January 1951, wage relationships were badly awry. During the preceeding year organized employees had received varying increases depending upon when their labor agreements expired. Small increases of from 2% to 3% were given early in the year but the "cost" of settlements steadily increased until, by the end of the year, the 10% general wage increase was becoming common. Even larger adjustments were made under some voluntary reopenings of wage agreements. In contrast, large numbers of employees, especially so-called white collar workers and unorganized employees, had received no wage increases at all in 1950 despite the rise in living costs.

A rigid freeze of these distorted relationships would not only have been capricious and inequitable but would have seriously interfered with employee morale and with the maximum production of needed goods. If this judgment is correct, an arbitrary freeze would have aggravated inflation to the extent of production lost because of employee dissatisfaction stemming from just complaints. The task of the Wage Stabilization Board, at least to begin with, involved the substitution of orderly wage movements for disorderly ones. The first phase of this work involved the approval of certain wage adjustments deemed necessary to unscramble the distortions which had been created in the post-Korea speculation. To attain this objective, three major kinds of wage adjustments were approved by the Board through issuance of General Regulation No. 6. They were:

1. *The 10% catch-up allowance.* Groups of employees which had not received so much as a total 10% general wage increase since January 15, 1950, could be "made up" to that figure without specific or prior approval. This was to permit wage laggards to catch up with the increasing cost-of-living and with the earnings of employees whose wages were in the vanguard of the upward wage movement started by the defense program. Only if a larger wage adjustment was sought by an employer, operating with or without a union, would it be necessary to secure the approval of the Wage Stabilization Board. Every case specifically considered by the Board thus involved an employer request to pay wages in excess of the 10% limit. And, of course, every case approved by the Board brought wages in excess of the same limit.

Despite these considerations, the 10% limitation was widely looked upon as a "ceiling." Every Board approval of a request to

increase wages in a specific case was commonly evaluated as a "piercing of the ceiling." Perhaps the reason for this incongruity lies in the distortion of wage relationship already referred to. The 10% "limitation" was considered to be "tough" for those employees whose wages led the upward movement. They were "entitled" to no further general adjustments. On the other hand, the same rule doubtless seemed generous indeed to those numerous employers whose workers had received no wage increases at all since January 1950. The idea that wage increases even greater than 10% might be available under the stabilization program did not enter their minds. At any event, the extent of misunderstanding about the 10% limit as actually promulgated was a notable aspect of the effort to introduce a wage stabilization program in 1951.

2. *Base-date abnormality.* The so-called 10% catch-up allowance was devised on these two assumptions: (a) wage-rate relationships between plants and industries were generally on a stabilized basis in January 1950; and (b) if increases up to a total of 10% over January 1950 were permitted, the maladjustments created by the post-Korean changes in wage-rate relationships would be largely eliminated. These assumptions were, in large measure, supported by the facts. But there were some exceptions which had to be provided for. In some industries and in some plants, the wage-rates paid in January 1950 were abnormal because of unusual local circumstances. The shipbuilding industry, for example, was not like most industries in early 1950 because it had previously gone through a severe contraction of business. This was reflected in its relatively low wage-rates as compared with other heavy industries. A 10% wage increase over rates paid in January 1950 would continue a wage relationship which reflected depressed conditions. The shipbuilding industry requested a 15% make-up allowance in 1951 in order to establish a stabilized relationship between its wage-rates and those of other related industries. This request, made at a time when the industry's orders started to move upward, was approved by the Wage Stabilization Board because of the base date abnormality just referred to. That is, the use of the generally applicable base date for shipbuilding wage-rates would not provide a stabilized relationship with other industries. In other words, the larger wage increase was called for in order to insure that the industry would have the manpower necessary to meet the demands of the defense program upon it. There were relatively few cases involving "base-date abnormality" but they were important ones.

3. *Tandem allowances.* Wage adjustments could not be limited to 10%, over those prevailing on January 15, 1950, in still another type of situation. There were numerous cases where, just prior to the freeze, wage increases of say 15% had been legally given to employees in one department of a company but not to those in another department. Usually, the production workers had gotten the wage increase and the white-collar workers had not. Or the employees of one company, which had the position of a wage-leader in an area or an industry, benefited by a 12½% wage increase while those of another company, the wage-follower, were "caught by the freeze." Immediately following the freeze, managements who were "caught" with this problem became fearful lest the consequent loss of manpower or of employee morale would impair the efficiency of their operations. They insisted upon the essentiality of wage adjustments to reinstitute established wage relationships.

It was then provided, under wage stabilization rules, that where wages for two groups of employees had long moved together in tandem fashion, and where such a long-established relationship had been disturbed by the wage freeze, wage increases totaling more than 10% since January 15, 1950, could be given to the extent necessary to reinstitute the stabilized relationships. Unlike the "base-date abnormality," the "tandem allowances" provided for a very large number of wage increases. If one emphasized solely the need to restrict purchasing power, those increases could not be readily justified. But there would be a heavy cost in so limiting purchasing power. Labor turnover, lower production, and less efficient operations would have resulted. In addition, the perpetuation of basic inequities would have impaired everyone's confidence in the economic control program.

Because of the great disordering of wage-rate relationships subsequent to the Korean incident, then, a significant volume of wage increases had to be contemplated as necessary to get the wage stabilization program under way. Even so, the increases which became approvable under the wage stabilization program were unquestionably less than would have been made under a continuance of the speculative movement that had previously prevailed. Nor is it illogical to expect that, in the absence of controls, the distortion of wage relationships would have become more pronounced. Indeed, the wages made permissible under the stabilization program served to straighten out some of the distortions created earlier. The general 10% allowance over the January 15, 1950, base, for example, was in the direction of keeping real wages of unorganized workers and of white-collar employees in reasonable relationship with organized employees. The tandem al-

lowances were to avoid perpetuation of artificial and inequitable relationships resulting from the sudden freeze which prevented a normal working out of wage movements already well under way at the time of the freeze. In a few cases, such as shipbuilding, a catch-up allowance of more than 10% was necessary because of unusual conditions in an industry prevailing as of the general base date of January 15, 1950.

PRESERVING BASIC WAGE-DETERMINING FACTORS

The above three basic wage regulations looked backward. Their main purpose was to unravel a tangled web of wage relationships that was brought about, in the absence of controls, subsequent to the Korean incident. Only after attention to the straightening-out process was it possible to consider policies to govern further changes in wages in response to changing economic conditions.

In evaluating this second phase of the wage stabilization program, there is a disposition in some quarters to look upon wages solely as purchasing power. Increased wages do provide more purchasing power and wage increases do contribute to inflationary pressures. This factor is important but it is not all-important. Wages are more than purchasing power. They have other functions to perform. Wages affect the flow of manpower and provide incentives having much to do with the levels of production and of productivity which are attained. Devising wage stabilization rules is thus no simple undertaking. Various needs have to be balanced. This was specifically recognized by Congress in the Defense Production Act. Congress there provided for a program of wage stabilization which would not merely seek to minimize inflationary pressures but would also not interfere with defense production or with stable industrial relations and would preserve collective bargaining. The last mentioned consideration has not been fully perceived or understood.

When wages are to be determined in conformance with rules making up a national stabilization program, there is a fundamental interference with collective bargaining. Under collective bargaining as operated in the United States there is only one way to determine wages—by an agreement between a management and a union. These parties have a right, which is also a responsibility, to devise for themselves those terms of employment at which they will work together. Under such a system, and despite its many shortcomings, most of us believe that workers and management are more free, and more productive, than when employment terms are established by the government.

So deep is our conviction about the need for agreement between labor and management that the right to strike is readily approved in principle and, with grumbling and sometimes apprehension, even supported despite inconvenient interruptions of production. The strike is a vital part of the agreement-making process because it is the ultimate means for inducing disputants to modify extreme positions to the extent necessary to bring about a meeting of minds. If the strike were eliminated, some other means for resolving the underlying conflict about employment terms would have to be invented. Since the strike has its own particular conflict characteristics, to many it doubtless seems anomalous to appraise the strike fundamentally as a method for resolving conflict. That is because collective bargaining is a complex institution.

An attempt is presently being made to stabilize wages even though the right to strike is retained by employees. This one fact stands out as the most significant factor in the current wage stabilization equation. It should be noted that the conditions for effectuating wage stabilization are now quite different than those which prevailed during World War II. A reasonably effective no-strike no-lockout policy was then operative.

Two different sets of criteria for determining wages are presently in use. On the one hand is the criterion of what wages are necessary to avoid or to terminate a strike. On the other hand is the criterion of what is permissible under wage stabilization rules. There is incongruity in this situation. Employees who believe strongly that they are equitably entitled to more than is obtainable under wage stabilization rules may resort to the strike action to achieve their goals. Because of the pressure of strike—or the threat of strike—an employer may feel impelled to agree to a larger wage increase than is allowable under the rules. It is entirely understandable why a company may not be enthusiastic about taking a strike to support a wage stabilization policy. After all, the company is rather on its own in avoiding a strike or terminating one. To be sure, any agreement as to wages is subject to approval of the Wage Stabilization Board. But a veto of the agreement creates a serious possibility that industrial relations will be unstabilized.

There can be no doubt at all about the unusual difficulty of developing and of effectuating a national wage stabilization program at the same time that the right to strike is retained by employees. The dilemma becomes more difficult to resolve in the absence of a "strong" stabilization program in other economic areas. Even so, it does not follow that we should now proceed to enact legislation for a no-strike

policy in order to support the wage stabilization endeavor. As already noted, in collective bargaining the strike is the ultimate method for resolving a dispute over the terms of employment. Elimination of the strike method would require the substitution of another method which would, in all likelihood, have to be some form of arbitration. Without a voluntary no-strike no-lockout agreement, the substitute method would have to be some form of compulsory arbitration. World War II experience shows that an all-embracing no-strike policy, even when voluntarily adopted by labor, results in the establishment of a board or agency having a rather all-inclusive jurisdiction. Any matter determinable by strike becomes subject to board decision. In other words, the power of the board to decide is as broad as the power of a union and a management to agree. We seek an adequate defense of our democratic institutions. It would be incongruous to jettison an important one—collective bargaining—at the very outset of the defense endeavor and to substitute a method for determining wages more compatible to the ideology we find obnoxious.

Under these circumstances, the tripartite composition of the Wage Stabilization Board is of paramount importance. Out of the deliberations of the representatives of the labor, industry and public interests should ideally come a wage stabilization program not only acceptable to labor and management but with a proper protection of the public interest. At times like the present, the public interest in the terms of employment is greater than in less troublesome periods and should receive greater recognition in the wage-determining process. Yet it would be a drastic scuttling of collective bargaining values to deny all participation to representatives of labor and of management. That would be the result of having a wage stabilization board composed entirely of public representatives. A board of that composition could function, moreover, only if there were no right to strike. Yet the absence of labor participation would, in itself, create pressures for striking against imposed decisions.

There is the possibility that a wage stabilization program created and administered by a tripartite board would have such status that this very process would, in view of the emergency needs of the country, be accepted as a substitute for the strike. Should this come about, there would be an implicit but limited no-strike policy. That would be tantamount to a voluntary relinquishment of the use of economic power to determine wages and a voluntary acceptance of the wage stabilization rules. The ideal goal has just been spelled out although such an objective is not likely to be perfectly achieved. Perhaps a reasonable approximation, which will suffice, could be developed. At any event,

building up a wage stabilization program while the right to strike is retained should be looked upon as a significant challenge to democratic processes. The degree of success of the economic control program upon which we have embarked depends, in no small measure, upon how that challenge is met.

In these terms, of prime importance is the soundness of the stabilization rules set up to govern future wage changes in response to the changing economic factors which accompany a defense program. Such rules must not only meet the needs of the general public for protection against the threat of inflation, but they must also commend themselves both to employees and to employers as workable and equitable. These general specifications are rigorous indeed. So is the task of working out the specific details. The complexities are magnified by the necessity of integrating wage stabilization into an overall control program in which relatively equal restraints are imposed upon the various economic segments of the economy. This involves the so-called equality of sacrifice principle. Each segment takes the position that the principle has been overlooked in the controls applicable to it.

CONTROL RULES FOR THE FUTURE

The details of a wage stabilization program must be worked out against the general setting just referred to. In devising those details, one must recognize that any wage stabilization program introduces controls only over the basic wage-rate schedule—the schedule of hourly wages and of incentive rates in a plant. If production increases under a piece-work schedule, so will hourly earnings. Hourly wage-rates cannot be adjusted upward or downward depending upon the number of hours worked in a week or in a year. The general availability of overtime to employees, however, may sometimes result in a relatively “tight” control over hourly earnings as was the case during World War II. But, fundamentally, wage stabilization rules concern wage-rates and not earnings or take-home pay.

As a matter of fact, in a defense economy, the total national wage bill tends to rise much faster than increases in basic wage-rate schedules. Longer hours are worked, sometimes at premium rates. More people are employed. Because expanded production is needed there, a larger proportion of all employees secure employment in “defense plants” where wage-rates are relatively high. Within the individual company more “merit increases” and “promotions” are given as manpower becomes more scarce. These factors, and others like them, insure an increasing national wage bill in a defense economy. They add to the

gap between civilian purchasing power and civilian goods. Nor can stabilization rules meet that problem, because wage controls are determinable principally as respects wage-rates.

Wage-Rates and the Cost-of-Living. Creation of a sound wage stabilization program thus entails primary attention to wage-rates. First of all, regulations must be promulgated to deal with the general level of wage-rates. Central to the determination of such regulations is a consideration of tying in changes of wage-rates with changes in the cost-of-living as reflected by indices of consumer goods prices. Increases in living costs depreciate the value of the wages received for an hour of labor. Such a factor is of general influence. Rapid increases in living costs can, thus, result in a reduced standard of living for all employees unless overtime, upgrading, etc., provide compensating earnings to keep the weekly wage on a par with increasing living costs. Traveling that route means requesting harder work and more responsibilities of wage earners to maintain their attained standards of living.

In the present defense economy, and because of circumstances already noted, the tripartite Wage Stabilization Board unanimously decided, through issuance of its Revised General Regulation No. 8, that, as a general proposition, wage-rate increases proportionate to increases in the cost-of-living should be approvable. Severe criticisms have been directed against this policy. It has been called a device of "built-in inflation." Some wage increases, which are to be permitted to match cost-of-living increases, will doubtless result in higher prices and in a consequent upward movement in the cost-of-living. There is a danger of such an "inflation spiral." On the other hand, it cannot possibly be assumed that the upward movement of prices would be stopped merely by a more rigid wage policy in the absence of much more rigid restrictions on the prices of farm products and of manufactured goods. There would be, moreover, little survival possibility of a wage stabilization program conceived with virtual certainty that, under it, the employees' standards of living would steadily depreciate. Such an "austerity program" for labor would, moreover, not be equitable in relation to the existing policies governing prices of farm products and of manufactured goods. The "equality of sacrifice" principle is difficult to effectuate but nonetheless important.

It has been urged, further, that the linking of wage-rates with changes in the cost-of-living is no stabilization program at all. Such a position is without merit. There cannot be the slightest doubt that wage-rate increases greater than the increases in living costs would be

the result of collective bargaining, including the right to strike, in many defense industries. The larger wage increase would not result in a loss of sales or in any loss of employment. In other words, the economic power of unions in such industries is high. The economic power of the manufacturer in the sale of his products is likewise high.

A critical test of the stabilization program will be over the willingness of employees substantially to restrict general wage-rate increases to such an amount as will maintain real wage-rates. This would mean, in essence, that the general wage-rate level would provide for no improvement in real hourly wage-rates during the defense emergency period. On the ground that other groups in the economy have secured "a better break" than this, the wage stabilization program has been challenged by labor union representatives as being "too tough" and as a deviation from the principle of "equality of sacrifice." In this connection, however, one cannot lose sight of the fact that many wage earners, unorganized or having a lesser economic power, may not be able to keep their wage-rates in line with increased costs-of-living. This means that, in a defense period, there may not be an "equality of sacrifice" among those in a particular segment of the economy. Much the same kind of disparity exists in the pricing of farm products or of manufactured goods since demand for each product does not increase evenly.

As far as wages are concerned, the reluctance of organized labor to accept a rigid "cost-of-living formula," has resulted in a focusing of attention upon the so-called productivity factor. If wage-rates, and earnings, increase at a time when productivity increases proportionately, the result is not inflationary. This is easily perceived under a piece-rate system of wage payment where the size of the pay check depends upon the output. Productivity can also increase when employees are paid by the hour. In such cases, the "productivity factor" is taken into account when wages are being negotiated for a new labor agreement. A wage increase truly based upon productivity will not increase costs and should not necessitate any price adjustment. There are strong reasons for developing a productivity factor allowance in the wage stabilization program, particularly if the understandable desire of particular employees to improve their living standards can, in reality, be met without an increase of inflationary pressures. In this area, it seems to me, lies the greatest opportunity for ploughing new ground in the current wage stabilization endeavor.

Inter-Plant Wage Relationships. Even though a "cost-of-living" formula secures general acceptance as the basic wage stabilization rule,

there are many cases, usually involving small companies, in which additional wage increases must be provided if the needs of the defense program are to be met. The most important situation in this category is the so-called "inter-plant inequity."

Claims relating to this "inequity" account for by far the largest number of cases which must be handled by any wage stabilization agency. The pressure for these wage adjustments arises out of the observed economic tendency for the wage levels of different companies in the same labor market area to narrow as manpower becomes tighter. A company impelled to pay low wages during a period of relatively stiff competition, seeks to improve its relative wage position in the labor market area when it is able to do so and when employees are more difficult to acquire or to retain. The case typically arises as a request of a small-size or medium-size employer in an area to raise wages "more nearly up to the level of" a designated large company in the same community. Usually there is a complaint from the smaller manufacturer that he is losing employees to the larger neighbor. And, "is it the policy of the government to discriminate against small employers?" Provision has to be made to permit some upward movement in the schedules of the lowest wage companies not only to avoid "discrimination" but to permit the production facilities of all companies to be fully utilized. Otherwise, the lowest wage concerns would not be able to man their production facilities.

A rule for the sound control of inter-plant wage movements is extremely difficult to formulate and to administer. To begin with, there are some historical differences in the wages paid by various concerns in the same labor market which cannot be disturbed without unstabilizing consequences. They have been termed "stabilized differentials." It is necessary to distinguish between them and the inter-plant differences which are affected by the changed economic conditions brought about by the defense program. During World War II, the essence of the inter-plant wage inequity rule which evolved was: wages which are more than 10% below the average wage paid in the community for a certain job may be increased to a point approximately 10% below the average. But the manpower problem was then quite different than under the present defense economy. Present rules properly provide for the exercise of considerably more judgment in dealing with inter-plant inequity cases.

Intra-Plant Wage Relationships. Wages have a direct effect upon employee morale and upon productivity. In this particular, probably the most important matter concerns the question of whether

or not, within the same plant, the wages paid various employees are proportionate to the skill, effort and responsibility required in the performance of the jobs. Experience during World War II showed convincingly that most of the so-called wild-cat strikes which occur in an emergency period stem from alleged intra-plant wage-rate inequities. Employees cannot understand why they should be required to do a harder job for less money than their fellows "in the next department." A considerable progress has been made in recent years in developing internally "balanced wage-rate structures" in American industry. But, for many reasons, maladjustments come about. Any wage stabilization program must include provision for their correction unless a serious hindrance to full production is to be induced.

SUMMARY AND CONCLUSION

In stabilizing wages in the defense economy which now prevails, the first task was to "wind up" the disorderly movement which typified the immediate post-Korean period. This task was undertaken by the allowance of general wage-rate increases totaling 10% since January 15, 1950, by the base-date abnormality provision, and by the so-called tandem regulation. This was the "looking backward" phase. Then came the "looking ahead" phase of determining the basis for future adjustments of wage rates in response to changing economic conditions brought about by the defense program. The basic ingredients of this part of the wage stabilization program are allowances for wage adjustments to compensate for increases in the cost-of-living, to eliminate so-called inter-plant inequities, and to eliminate so-called intra-plant inequities.

Although the three control rules "for the future" as just emphasized constitute the basic framework, it is not suggested that they are all that is needed. Rules must also be evolved to place limits upon other wage adjustments which are commonly made. They include wage increases for increased productivity, the various collateral wage issues, *i.e.*, "fringe items" like paid vacations, holiday pay and the like, as well as pension and health provisions. In general, the tendency in constituting wage stabilization rules is to allow "laggards" to catch up to widely established area and industry practices.

Even this cursory examination of some of the problems involved in developing a wage stabilization program in the defense economy indicates the complexity of the undertaking. There is a disposition in some quarters to believe that mere firmness or inflexibility is all that is needed to stabilize wages. Were that the case, the problem would,

indeed, be an easy one. The answer is just not so simple. Toughness and inflexibility are not likely to serve as satisfactory substitutes for intelligence.

As long as labor's right to strike is preserved and as long as management is to be free in the operation of its plant, a wage stabilization policy must at least be acquiesced in by organized labor and by management. Any wage stabilization program, moreover, must be flexible if the matter of fair treatment to employees, organized and unorganized, is looked upon as important. The "fair treatment" criterion cannot be entirely brushed aside in our kind of a democracy. Provision must be made for those wage adjustments which, in the absence of a directed labor force, must be depended upon to help in allocating manpower resources so as to meet defense production requirements. Further, wage controls should not impede the production of goods—especially those needed for the national defense.

There are thus limits to the kind of wage controls which can be applied in a democracy such as ours. For, there may be an oppressively heavy "cost tag" attached to very strict controls under which the terms of employment are imposed by the government. Loss of the very democratic principles we are seeking to defend would be a poor start toward the defense of freedom. In a defense economy—short of extensive hostilities—wage stabilization clearly involves a careful balancing of values so that inflationary forces may be minimized without the abandonment of other vital objectives.