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

Part I

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I. INTRODUCTION

There were explicit directives and implicit assumptions in the direct controls authority provisions of the Defense Production Act of 1950¹ for the wedding of price and wage controls. This was established through the simple expedient of providing an independent Economic Stabilization Agency to administer and enforce both price and wage controls. Congress directed that there be "connubial bliss" partially through requiring that price and wage controls be instituted concurrently and partially through the recognition and declaration that the price and wage programs must be compatible for a fair and equitable stabilization program. The task of the Economic Stabilization Administrator was to effect this compatibility.

There must be a clearer understanding of what the problem of price-wage coordination is and, perhaps more importantly, what the problem is not. The factors affecting and determining the course of the two interrelated programs, and the degree to which these affecting factors can and need be influenced by administrative action, must be understood. Furthermore, it must then be possible to delineate the areas in which the price and wage programs interrelate in order to define more accurately that which is being called a problem—*i.e.*, those parts or aspects of the program which can and need be integrated and made more compatible, in policy or action, so that there can be more nearly an achievement of the goal of equitable economic stabilization.

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1. 64 STAT. 798 (1950); 50 U.S.C. §2061 (Supp. 1952). All section references herein will be to this Act unless otherwise indicated.

The problem of price and wage program coordination, therefore, can be stated as one of establishing and maintaining price and wage programs for an emergency which are mutually compatible, jointly contribute to the objectives of stabilization, and do not obstruct the production and resource-allocation program for defense.

While the size, type, and source of the inflationary pressures in an emergency may vary, these same objectives are sought. With the variation in the intensity of emergency inflationary pressure, the timing and type of economic controls need be adjusted.

In World War II the diversion of productive resources from normal peacetime objectives to those of rapidly building up defenses forced the economy of the United States into a disequilibrium. There was an expansion of production and employment and a diversion of resources into nonconsumable products. Purchasing power was expanded, and at the same time there was a decrease, either absolutely or proportionately, in the goods and services which this purchasing power could buy. While this inflationary gap (the difference between the generated disposable personal income and the goods and services available for consumption at current prices) was decreased, it was not possible to close it through taxes and savings. However, even if this inflationary gap could be closed, and this certainly has been attempted through tax, fiscal, monetary, and credit means, the problem would not be solved. Liquid assets in various forms or savings from past periods back up the newly enlarged purchasing power and can be applied to bid for the restricted materials, goods, and services. This makes the economy even more unstable as anticipated price increases and anticipated shortages tempt purchasers to scramble for goods, utilizing accumulated savings from the past. Thus, there can be a strong psychological inflationary pull before the *actual* expenditures from the enlarged defense program are felt. This occurred in 1950.

If the use of direct price and wage controls in serious emergency circumstances should be foregone, prices and wages would rise to ever higher "equilibrium" points, the costs of the defense effort would rise, defense production would be hampered, and the burden of the defense effort would fall upon those unable to raise their prices or wages or income in relation to the inflationary spiral. Some segments of the economy would benefit handsomely, at the expense of others, while making no added contribution to the defense effort.

This, in most abbreviated form, is the rationale of direct price and wage control in a defense or war economy. While there was neither a full war economy nor a full defense economy in 1950-1953, price and wage controls were used, and an attempt was made to adapt them to the

types of inflationary pressures which the cold war brought forth. The government looked to the direct price and wage controls, in addition to the other so-called indirect controls, as a means to halt or slow the inflationary spiral. While the inflationary pressures in 1950-1953 differed from those in World War II, many of the same control techniques were employed, and there was an attempt to devise the most appropriate strategy for their effective use to achieve stabilization objectives.

Basically, the objective of a direct price and wage program in an emergency is to maintain the most stable relationship possible among prices, as well as between prices and wages, assuring that the burdens of the defense program will not fall inequitably on any segment of the population and that distortions in prices and wages will not interfere with production objectives.

Specifically, the objectives of an emergency price program are to (a) maintain price levels and relationships for more stable costs to consumers and industries, (b) assure purchasers of future price stability, (c) maintain fair and equitable prices so as not to discourage or otherwise distort the defense production program, and (d) protect the pattern of trade, both domestic and foreign, from unstabilizing disturbances. The objectives of an emergency wage program are to (a) stabilize wages so as to curtail increasing production costs, as well as to limit increasing purchasing power and thereby restrain the demands for the fewer goods and services available, (b) assure uninterrupted production free from labor disputes and encourage increased productivity, and (c) aid in the better utilization of civilian manpower for production goals, including the stabilization of employment and the prevention of manpower raiding.

It is quite obvious that all of these price and wage program objectives are not mutually compatible. Even within either the price or wage programs the objectives are not wholly harmonious. Any wage increase, for example, unless wholly offset by increasing productivity and declining unit costs, is a cost increase and also an expansion of purchasing power. Only in the most dire national disaster can wage stabilization be reasonably expected to be a wage freeze. Under any other circumstances such a freeze would certainly interfere with the other wage program objectives of production and increased productivity. Hence, the wage program objectives are necessarily directed more toward restricting the full effect of labor's bargaining power than in prohibiting any wage and purchasing power increase.

Similarly, in the price program, previous cost-price relationships cannot be maintained with unchanging price levels in the face of rising labor costs, increased imported material costs, or higher unit costs due to pro-

duction limitation orders. Likewise, this program cannot be attuned to a price freeze but rather needs to be one of maintaining as stable a price level as possible without unduly affecting reasonable profit margins.

The question to which this study is directed concerns the compatibility of objectives of the price and wage programs and the degree to which they can be coordinated. After recognizing the general proposition that in a price-wage spiral the former cannot effectively and fairly be restrained generally without similarly restraining wages, this question arises: What are some of the areas of incompatibility between a price and wage program which must be coordinated by an Economic Stabilization Administrator? Perhaps most significant are such friction points as:

(1) The timing of controls. Is it necessary to impose (or withdraw) wage controls in all areas where price regulations are imposed (or removed)? If labor is under a long term contract in an industry in which price control is needed, need wage stabilization be imposed simultaneously with the imposition of a price ceiling? If price control is no longer necessary in an industry, should wage stabilization regulations be lifted simultaneously regardless of the effect on other industries?

(2) The degree of intensity of control. Granting that equity between the major segments of the economy is desired, what are the "fair and equitable" price and wage levels? More specifically, if cost-of-living wage increases are approvable in wage stabilization, should these wage costs be passed on in higher prices or should they be absorbed and, if so, to what degree? How does one equate the standards required for "hardship" wage relief to those regarding "hardship" financial positions for an industry seeking a price increase? When does a wage (or price) increase, granted to settle a supply or production problem in an important defense industry, become generally incompatible with price (or wage) programs?

Since these problems are the grist for the economic stabilizer's mill in attempting to coordinate and keep comparable the price and wage programs, it is most significant to understand the major factors affecting these questions as well as the power and authority which he has in influencing their resolution. It is perhaps all too obvious to note that a stabilization administrator in our economic, political, and social environment is not unfettered by institutional factors in resolving these problems.

First, of course, are the legislative and legal requirements of a control authority act which may simplify or intensify the administrator's problem. The statute may require the concurrent institution of price and wage controls in an industry or an area of the economy or forbid selective

controls, thus eliminating a series of price-wage questions but raising others. On the other hand, the act may require special treatment for one area of the economy (*e.g.*, agricultural prices) and thereby impose other problems in determining fairness of price and wage regulations. Where different levels of stringency are established, equity requires the treatment of all segments of the economy on a "most favored nation" basis, thus tending to relax the intensity of controls to the level of the least stringent. Furthermore, a lack of legislative authority outside of direct price and wage control can force some price and wage control decisions which otherwise might not be necessary. For example, subsidy authority for high-cost production or for imports and quota control of beef slaughtering, which in themselves are not price control powers, hold the key to effective price control in particular areas.

Secondly, there must be recognition of administrative limitations which may be specifically prescribed in the enabling act or by executive order. Tripartitism, which appears to have become the accepted administrative form of wage stabilization, imposes perhaps the most severe administrative restriction on an economic stabilizer's freedom of decision in coordinating price-wage questions. A tripartite wage board, with or without dispute-settling functions, requires some freedom of decision. This has necessarily included latitude to approve wage increases which are "unstabilizing" to the price program if the board deems it necessary.

A tripartite board is not the only administratively restrictive factor. The "get going" time inherent in the establishment of a controls program, in terms of obtaining personnel and space, limits certain price-wage decisions as does the mere fact of the immensity and unwieldy structure of a general price and wage control agency. Most decisions or standards can only be revised upward; controls cannot easily be put on or taken off; and the coordinating of programs must necessarily be done in a rough-cut manner.

Thirdly, institutional economic factors limit some coordinating decisions. The dissimilarity of industry and union organization circumscribes the resolution of some issues. General Motors, for example, manufactures products ranging from aircraft motors to refrigerators and automobiles. On the other hand, the United Automobile Workers, while perhaps representing the greatest number of GM employees, is far from the sole bargaining agent at GM and does not limit its organization to auto workers alone. Heterogeneity of industrial, agricultural, and union organization forces the conciliation of price and wage programs to be of a less precise nature than might theoretically be desired. This

institutional unlikeness interlocks wage and price decisions in one area with wage and price problems elsewhere and thereby limits the amount of freedom of decision or integrating and coordinating activity which might otherwise be desirable.

Fourthly, the balance of power between the political representatives of the major economic groups prescribes or limits the area of activity of a stabilization administrator. In part, this is merely an extension of the first point since the balance of political forces shapes the enabling legislation. But beyond this, an administrator must recognize that certain alternatives for aligning the price and wage programs are politically just not viable.

Fifthly, the most basic of all the limiting factors is the general sense of national support for the direct controls program. The attitude of all groups toward the need for the direct controls basically determines the general atmosphere and hence the loyalty of groups to the program requirements. In time of full war this loyalty differs from times of peace or cold war. A direct controls program requires individuals and groups to restrain themselves or be restrained short of goals or objectives which they might otherwise attain. The worker's wages are limited to something less than his employer is willing to pay him; the retail store or business establishment is limited from charging that which its customers are willing to pay; all economic groups are burdened with forms, red-tape, and regulations; freedom of decision and action is limited. These costs represent sacrifices. If the public does not agree with the need for them, if the military action or the necessity for the defense program is not firmly understood, if the knowledge or fear of the alternatives to regulation is not a real factor, then the restrictions of either the price or the wage programs will be either sabotaged or become meaningless from lack of active support. The emergency and the controls program must have some real meaning to a major industry for it to absorb increased costs or for a union to accept a wage settlement consistent with stabilization but which is less than it believes it deserves.

What then is the economic stabilization administrator's role in coordinating the price and wage programs if the factors affecting coordination are so largely predetermined? Does he have and can he perform any coordinating function? If so, what is that role and how can it best be performed? After reviewing the history of the price-wage coordination during 1950-1953 and making some comparisons with World War II, some answers to these questions can be framed.

II. PRICE AND WAGE COORDINATION WHILE INSTITUTING CONTROLS—1950-1951

A. *Coordination Provisions of the Defense Production Act of 1950*

The provisions of the Defense Production Act of 1950 which were most pertinent to the questions of coordination of the price and wage programs were those dealing with the organizational structure for direct controls (Section 403), the parallelism requirement of price and wage controls (Section 402(b)), and the legislative criteria for the control of prices and wages (Section 402(c) (d)).

Organizational Structure

In 1950 Congress gave little attention to the coordinating role of the Economic Stabilization Administrator over his constituent agencies. Not until 1952, after the steel settlement, did this become a real issue. In establishing a single independent agency with jurisdiction over price and wage control, Congress was less concerned with the effect which this would have on close coordination of price-wage policy than it was with the administrative advantages of efficiency.² An independent agency was desired since it would represent only a temporary venture rather than a permanent system of controls and would attract better personnel. The Senate Committee report on S.3936 did note that an "independent agency would assure proper coordination of the various aspects of this vast program" which delegation to various agencies could not guarantee.³ The House bill did not contain a comparable provision nor did the Conference Committee report give any further indication of legislative intent on this issue.⁴ The final provision of the Act (Section 403), establishing an independent agency, gave greater emphasis to *when* such an agency should be established than to the coordination it should attempt to achieve.⁵

Parallelism of Price and Wage Control Action

The issues concerning the timing of controls—whether there could be selective price and wage regulations and the parallelism of price-wage

2. Compare *Hearings Before The Senate Committee On Banking And Currency On S. 3936*, 81st Cong., 2d Sess. 115 (1950).

3. SEN. REP. NO. 2251, 81st Cong., 2d Sess. 38 (1950).

4. CONFERENCE COMMITTEE REPORT NO. 3042, 81st Cong., 2d Sess. 34 (1950).

5. Defense Production Act of 1950, Section 403, provides in part: "At such time as the President determines that it is necessary to impose price and wage controls generally over a substantial part of the national economy, he will administer such controls and rationing . . . through a new independent agency for such a purpose. Such agency may utilize the services, information, and facilities of other agencies and departments of Government, but such agency shall not delegate enforcement of any of the controls to be administered under this section to any other agency or department."

actions—were major points of Congressional debate in August 1950, and legislative intent was quite clear. The bills reported out of the Senate and House Committees both provided a three-step procedure for the institution of price and wage restrictions: first, a system of voluntary controls; second, a system of selective price and wage regulations, and third, a system of general price and wage controls. These bills, as introduced by Senator Maybank and Congressman Spence, allowed considerable flexibility in the institution of controls, but administrative discretion was severely limited during enactment.

In its report on the original bill, the Senate Committee noted that “the degree of wage control required must in a general way parallel the degree of price control imposed upon the economy. At the very minimum, there must be sufficient wage control to protect established price control, and to deal equitably with those establishments whose operations are subject to price control. Broad price control, particularly when it is sufficiently widespread to require application at the retail level, calls for broad wage control. Price and wage control must go together in the interest of equity to both employer and employee.”⁶ While the Senate Committee felt that wage controls might well be necessary to protect price controls, it nonetheless did not believe that the former need be instituted automatically when selective price ceilings were established. The Committee report noted that the bill “*authorizes* the President to impose selective wage control *following* the imposition of selective price control” but that the “President *shall* impose wage controls where wage increases would require increases in established price ceilings that would impose undue burden on sellers operating under established price ceilings.”

Furthermore, the Committee noted that “while the general parallelism of price and wage controls has been prescribed, it is not the intention of the Committee that price and wage controls should be thought of as co-extensive in all cases. There will be occasions when one needs to be applied without the other.”⁸ The Committee recommended certain exemptions from price control, such as newspapers and motion pictures, without parallel exemption for wages in the same industries.

The emphasis on selective controls was also evident in a separate statement appended to Senate Report 2250 made by Senators Fulbright, Douglas, and Flanders, who declared that direct price and wage regulations and rationing treat the symptoms of inflation rather than the disease itself. Emphasizing that the primary need for combating inflation should

6. SEN. REP. No. 2250, 81st Cong., 2d Sess. 30 (1950).

7. *Id.* at 30. (emphasis added).

8. *Ibid.*

be the coordinated use of proper monetary, credit, and fiscal policies, these Senators supported an amendment which would have restrained the President from imposing general price and wage controls until the Bureau of Labor Statistics Consumer Price Index rose 6 percent above the level of June 15, 1950. In the interim, they felt that the President should have the power to impose selective controls but that he should use this authority only where an exceptional rise in prices threatened to interfere with the national defense or threatened to disrupt other programs for controlling inflation.

On the floor of both the House and the Senate, selective price and wage control—the second step in the original bills—met opposition, particularly from Congressman Kunkel and Senators Taft and Bricker. It was argued that selective restrictions would be unworkable and discriminated against the employee whose wages might be totally controlled but who must purchase some goods which were not.⁹ If regulation is needed, it was contended, “we must regulate the whole thing.”¹⁰ “The whole productive system and price system of our economy throughout the country is so intricate, so involved, and so interconnected that immediately price control is put on one commodity or one segment of the economy, immediately it is necessary to put it on some other [making it] impractical and impossible . . . to administer selective price controls.”¹¹

Although the House and Senate amendments, in effect, prohibited any flexibility in the intermediate step of selective price and wage controls, the compromise provision of the bill (Section 402(b)) as it came out of the Conference Committee was not quite as restrictive. It specified that if voluntary programs and agreements were found by the President to be ineffective, he *was authorized to issue selective price ceilings but was required concurrently to issue regulations stabilizing wages*. Such selective action could be taken when the President found, with respect to any individual material or service, that the price had risen or threatened to rise unreasonably above prices prevailing on May 24–June 24, 1950; that the increase would materially affect the cost of living or national defense; and that such ceilings were needed to effectuate the purposes of the Act, were practical and feasible, and would be fair and equitable. It was further provided that when price ceilings had been established on materials and services comprising a substantial part of all sales at retail, the President was *required* to impose ceilings on prices and services generally

9. See remarks of Congressman Kunkel, 96 CONG. REC. 12117 (1950). See also the proceedings when the Kunkel Amendment was passed. *Id.* at 12219.

10. Senator Taft. 96 CONG. REC. 12269 (1950).

11. Senator Bricker. 96 CONG. REC. 12893 (1950).

and to establish general wage stabilization. Furthermore, when selective controls were established, the President was prohibited from increasing wages in that industry which would require an increase in price ceilings or impose hardship or inequities on sellers operating under the price ceilings.

Price and Wage Criteria

The legislative history of Section 402 indicates that Congress was concerned more with the timing of the institution of price and wage controls than with their stringency and relative levels. Most price and wage control criteria prescribed by the Act were extremely vague and gave the President wide authority and discretion. However, there were specific requirements limiting price regulations for agricultural commodities, which when taken with the general mandate of fairness and equity did, in fact, limit the President to far less stringent controls than might otherwise have been desired.

The declaration of general purposes in Title IV—price and wage stabilization—provided little guidance for the administrator. It called for preserving the value of the national currency; assuring that defense appropriations were not dissipated; stabilizing the costs of living for consumers and the costs of production for farmers and businessmen; eliminating and preventing speculation; and protecting consumers and wage earners, investors, and persons living on fixed or limited incomes from undue impairment of their living standards. Congress declared that price and wage stabilization was also to prevent economic disturbances, labor disputes, or other interferences with effective mobilization and to assist in maintaining a reasonable balance between purchasing power and the supply of consumer goods and services.

There were more specific criteria but even then quite vague. Congress directed the President, when establishing price ceilings, to give *due consideration* to the May 24-June 24, 1950, period. This interval was recognized by Congress as the most recent period unaffected by the economic consequences of the Korean War. The President was merely advised to give proper weight to the production objectives of the Act and such relevant factors as he might determine to be of general applicability, including speculative fluctuations, general increases or decreases in cost of production, distribution, transportation, and fluctuations in profits subsequent to June 24, 1950. Furthermore, the Act required that price ceilings must be "generally fair and equitable."¹² Congress was most re-

12. Defense Production Act of 1950, §402(c).

luctant to grant price and wage authority not limited by definite standards but also recognized the dangers of placing too many restrictions on the exercise of such authority. The Senate Committee considered many formulae of an automatic character but in each instance wisely concluded that more general criteria and a wider delegation of authority was preferred.¹³

Wage stabilization, Congress decided, was needed not only to restrain rising wage costs but to limit purchasing power and the pressures resulting from increased demand. Congress specifically used the term "stabilizing wages" rather than the words "freeze" or "ceilings" since it wished to control rates of pay rather than income. There was also recognition that rigid wage stabilization would create gross inequities and defeat the purpose of the Act. The Senate Committee, for example, specifically approved the desirability of flexibility by observing the need for incentive wage increases.¹⁴

Section 402(d) of the Act provided that no wage, salary, or other compensation could be stabilized at less than that paid during the May 24-June 24, 1950, period. The only other wage legislative mandate was that no wage regulation should be issued inconsistent with the provisions of the Fair Labor Standards Act, the Labor Management Relations Act, or any other law of the United States or any state.

Not so vague were the criteria for agricultural price ceilings. Basically, it was required that such prices could not be established below either (a) the parity price, (b) the highest price received by producers during the May 24-June 24, 1950, period, or (c) a price determined by the Secretary of Agriculture in the event that the commodity was not actively marketed during the May-June period. In addition, specific restrictions were established for tobacco and fluid milk, essentially limiting price ceilings to no lower than a special parity level. Furthermore, Section 402(d)(3) prescribed other legal minima on agricultural commodity prices by requiring that no ceilings on goods processed substantially from agricultural commodities be set at levels which would reflect to the farmer less than a parity or a May 24-June 24, 1950, price and that these ceilings allow for a fair processing margin.

In this manner Congress established a moving floor on agricultural price ceilings that severely limited control over rising food prices.¹⁵ The

13. SEN. REP. No. 2250, 81st Cong., 2d Sess. 34 (1950).

14. *Id.* at 31.

15. This "moving floor" also had an escalation device *within* its own mechanism since about one-third of the commodities in the prices-paid index of the parity formula were themselves subject to parity. Hence with their price rise, the prices-paid index and the parity index rose. With parity index rising, the legal ceiling for these commodities rose, allowing these commodities to reach new heights and thus start the cycle again.

fact that food prices accounted at that time for approximately one third of the weight of the BLS Consumer Price Index and were only under limited price control naturally affected the stringency of wage stabilization regulations. But the effect on wage stabilization policy was greater than the increased food bill to workers. By tying agricultural price control to parity, the concept of automatic escalation was written into law and was quickly used by the labor unions as an argument that *at the very least* the maintenance of real earnings was an essential criterion of equitable wage stabilization policy.

There was, however, even further protection for the farmer in the Act's agricultural price provisions. The President was directed to adjust price ceilings, never less than parity, to "make appropriate allowances for substantial reduction in merchantable crop yields, unusual increases in costs of production, and other factors which result from hazards occurring in connection with the production and marketing of such agricultural commodities."¹⁶

B. *Structure of Coordination as Established*

The first Economic Stabilization Administrator was not appointed until October 7, 1950, but the framework and some of the limitations on the coordinating function were established in the provisions of the Act and by Executive Order before the Administrator's arrival. On September 9, 1950, the day after he signed the Defense Production Act, the President issued Executive Order 10161,¹⁷ delegating authority given him under the Act. This created the Economic Stabilization Agency and assigned to the Administrator the task of "preserving and maintaining the stabilization of the economy." Specifically, as a portion of his responsibilities, the Administrator was authorized to "plan and develop both short and long-range price and wage stabilization policies and measures and create the necessary organization for their administration" and to "establish price ceilings and stabilize wages and salaries where necessary."

Despite what appears to have been a Congressional intent of creating a single agency handling both prices and wages, the President visualized the ESA as an agency which, while coordinating stabilization programs with other mobilization agencies and giving direction to price and wage programs, would nevertheless delegate most, if not all, of its operating functions. The President, by Executive Order 10161, established a Director of Price Stabilization in ESA (although he did not establish an Office of Price Stabilization) to be appointed by the President and

16. Defense Production Act of 1950, §402(d)(3).

17. 15 FED. REG. 6105 (1950).

perform such functions as determined by the Economic Stabilization Administrator. Similarly, the President established a nine-man tripartite Wage Stabilization Board appointed by the President with the task of "making recommendations to the Administrator regarding the planning and development of wage stabilization policy" and such other functions as "determined by the Administrator after consultation with the Board."

There appear to have been various influences in the Executive Office which contributed to the creation of this organizational structure. It resembled closely, of course, the final World War II relationship between the Office of Economic Stabilization and OPA and NWLB. In addition it is reported that both Dr. John R. Steelman and David Stowe of the White House staff emphasized the need of a tripartite wage board as a necessary device for securing labor and industry cooperation.¹⁸ They are also reported to have stressed the importance of delegating to the Board a wide measure of discretion, within broad policy lines established by the Administrator, and to have cautioned that if the Administrator did not accept the Board's recommendations it would lose support and become impotent.¹⁹ Another influential force on the organizational structure established by the Executive Order undoubtedly came from several OPA officials who had been advising Chairman Symington of the NSRB on price control matters.²⁰ In fact, some of the wording of the Executive Order is almost identical to a memorandum that this group presented to Symington on September 7, 1950, outlining recommended action on economic stabilization. These men looked upon the Economic Stabilization Administrator as symbolizing in the public mind the Government's responsibility for stabilization and as having appropriate over-all functions; but they recommended that a price director be appointed to operate under the Administrator's general guidance.

By the time Alan Valentine took office in October, the organizational lines within which the coordinating function would have to operate were fairly well cast. A tripartite wage board alone required substantial delegation of authority for its operation. The fact that wage board members and the Director of Price Stabilization were to be Presidential appointees

18. Marvin H. Bernstein, *Administrative History of the Economic Stabilization Agency Under Administrator Alan Valentine: September 9, 1950-January 19, 1951*, 9 (manuscript, ODM files, 1951).

19. This timidity is reflected in Executive Order 10161, which authorizes the Economic Stabilization Administrator to establish the additional function of the Director of Price Stabilization but to establish the additional functions of the WSB only "after consultation with the Board."

20. This group included James F. Brownlee, Henry H. Hart, Jr., Donald H. Wallace, David Ginsburg, David Cavers, Stephen Ailes, and Dean McNeil.

confirmed by the Senate meant that these individuals, rather than being administrative hirelings, would be public figures having independent stature outside of the authority delegated to the Economic Stabilization Administrator. The fact that, until December 1952, the White House chose members of the Board without the Administrator's prior consent substantiated their independence.

Valentine chose to resist what appears to have been the organizational pattern established by Executive Order 10161 and throughout his term as Administrator insisted on a tightly held ESA control over price and wage action as well as policy. In this he was unsuccessful. When Eric Johnston succeeded Valentine, he recognized the necessity for broader delegation.

Valentine conceived of the Economic Stabilization Agency as a tightly integrated, unitary organization both on the national and regional levels. He conceived of regional offices as "little ESAs" with "little Valentines" reporting directly to him and having price and wage authority, including enforcement, information, and other operations. On the organizational question Valentine had greater problems with the Wage Board, in pressing his position, than he had with the Director of Price Stabilization (his differences with the latter took another form). Valentine regarded the Board strictly in the literal terms of the Executive Order as a group which "shall make recommendations to the Administrator." He feared, for example, that the WSB was considering itself too much of an operating body when in December it recommended that its membership be increased from nine to eighteen in order to function more effectively. As late as the beginning of January he was struggling with the question: "To what extent should the actual administration be done by individuals appointed by and directly responsible to the Administrator or to what extent should these individuals be responsible and controlled by the tripartite board?"²¹

With good reason, Valentine was attempting the near impossible of holding a tripartite board in close rein as an advisory group. He feared that once a delegation of authority was given, either as to policy or operation, he would never again have sufficient control over the wage program to keep it within his concepts of economic stabilization and compatible with the price program. His fears were far from academic. The United Labor Policy Committee (organized to represent the joint position of the AFL, CIO, and the International Association of Machinists in the

21. Letter, Valentine to Senator Maybank, Jan. 3, 1951, ESA files.

mobilization effort), smarting under the administrative requirement of an advisory WSB with administrative review of policy, wrote the President in December, 1950:

Wage stabilization is subject to needlessly cumbersome machinery. As now provided, wage policy must first be recommended by a Board representative of labor, industry and the public. The recommendations of this Board are then subject to the arbitrary decisions of a single individual. This makes expeditious and just action impossible.

Review by a single top administrator, chosen for his general administrative experience rather than specific competence in the wage field, adds nothing to the process of wage stabilization excepting uncertainty, procrastination, and arbitrariness. Wage stabilization procedures should be revised so that the wage stabilization board is given the status and authority to make decisions on matters within its jurisdiction.²²

In January, when hearings were called by the WSB to aid it in planning wage policy, Harry C. Bates, a labor representative of the Board, asserted that "the workers of this country will never agree for one man to exercise influence over 40 million people with power to set wages and prices. I don't want it, . . . [but] that you have . . . today." Lambert Miller, testifying for the National Association of Manufacturers, in response to Bates, noted that while the Administrator could "tip over" WSB determinations, he believed that the Administrator would be "almost bound to accept . . . any fair and equitable policy that is developed." To this statement Emil Rieve, a labor member of the Board, said "whatever it is, we are not depending upon any one individual to set the wages of workers."²³

Although Valentine, on January 2, 1951, issued a general order delegating to the Director of Price Stabilization all the functions with respect to price stabilization which were delegated to him by Executive Order 10161 "subject to such general supervision, direction, and control as the Administrator deems expedient,"²⁴ he never granted similar functions to the WSB. Not until January 24, 1951, when Johnston redelegated the price authority, was the WSB granted power with identical language.²⁵

22. United Labor Policy Committee statement to President, Dec. 20, 1950. Also given in testimony by A. J. Hayes before WSB Hearings, Jan. 11, 1951.

23. Hearings before WSB, Jan. 10, 1951.

24. ESA General Order No. 1, Jan. 2, 1951, 16 FED. REG. 100 (1951).

25. ESA General Order Nos. 2 and 3, Jan. 24, 1951, 16 FED. REG. 738-739 (1951).

Thus, the important limitations on the coordinating function of the Economic Stabilization Administrator were firmly established prior to his appointment. The law, in its strict parallelism requirements and its loose agricultural price control provisions, and the Executive Order with its establishment of a tripartite board imposed severe restrictions on the degree of administrative coordination. But there were, in addition, other serious limitations.

C. *Economic Environment and Attitudes to Controls,*
June 1950-January 1951

In the first half of 1950 our economy was making rapid strides in recovering from the 1949 dip. From January to June industrial production had risen sharply to the highest post-war level. Unemployment had declined from over seven to about five percent of the total civilian labor force, and corporate profits before taxes in the second quarter of 1950 were at the annual rate of \$37.4 billion—about \$10 billion over the 1949 average. Wages were rising, and prices were recovering from the 1949 declines.

With little slack in the economy, the inflationary pressures unleashed by the advent of the Korean war took immediate effect. Unlike 1939 and 1940, little industrial equipment was not in service, and only about one sixth of our labor force was unemployed. Even more important, there were the recent memories of price rises and shortages of World War II. Consumers and businessmen remembered having been caught short, having to replace inventories at higher prices, doing without washing machines and automobiles for the duration, and not seeing prices decline to 1939 levels after the war was over. Businessmen and consumers rushed to buy.

Industrial production advanced 10 percent in the last half of 1950 but could not keep up with increased demands. Business expenditures for plant and equipment rose 25 percent between June and December, while business inventories increased from \$54 to \$62 billion. The buying wave was made possible by sharply rising incomes and profits, large liquid assets, and a willingness to borrow. Consumer credit outstanding by the end of 1950 was at the all time high of \$20 billion—compared to the level of \$17 billion in May, 1950. Similarly, commercial bank loans rose to record heights, and the rate of bank deposit turnover increased significantly.

In July, 1950, the Council of Economic Advisers summed up their appraisal by noting that "we are faced with an over-all economic situation which is essentially strong although threatened by considerable general inflationary pressure, coupled with intense and rising pressures in limited

areas."²⁶ The Council was most concerned with the inflationary impact in areas of the economy where increased military expenditures would be particularly felt. Shortages in steel and steel scrap, copper, aluminum, zinc, lumber, and rubber concerned them. The Council was conservative, and the members were probably better economists than social psychologists. While the impact of the defense program did have effect in the areas they mentioned, the *anticipated* impact of the program by businessmen and consumers created, by far, the greatest pressures. When prices started to rise, these anticipations heightened, demands increased, prices rose, and the cost of goods and services climbed.

Prices, as usual, were still a function of supply and demand, yet were primarily governed by the demand factor, which in turn appears to have been largely correlated with military reverses and successes. Immediately after the outbreak of war in Korea, prices jumped sharply in July and August. Imported raw materials rose 10.2 and 14.7 percent, respectively, in these two months while the Wholesale Price Index rose 2.8 and 2.1 percent and the Consumers Price Index increased 1.1 and 0.8 percent.²⁷ With the military successes in Korea toward the end of the summer and the Inchon Landing, price increases lessened as fears of full scale war subsided somewhat. In fact, in October, 1950, a slight plateau of prices was temporarily established, and the spot market price index actually declined.

This leveling off of inflationary pressures was important to the thinking being done regarding the institution of price controls. With

26. Midyear Economic Report of the President 9 (1950).
 27. Monthly Price Changes June 1950-March 1951
 Percent Change from Previous Month*

		Spot Market Index**				
		<i>Import Commodities</i>	<i>Domestic Commodities</i>	<i>Wholesale Price Index</i>	<i>Consumer Price Index</i>	
1950	June	2.2	2.0	.06	0.5	
	July	10.2	7.4	2.8	1.1	
	August	14.7	5.2	2.1	0.8	
	September	6.4	7.1	1.8	0.7	
	October	-0.6	-2.3	0.6	0.6	
	November	6.9	5.3	1.5	0.5	
	December	1.9	4.5	2.6	1.3	
	1951	January	10.9	5.7	2.6	1.6
		February	2.8	1.2	1.3	1.2
		March	-5.4	3.9	.0	0.4

Percent Increase:

June 1950-				
Sept. 1950	34.5	21.0	6.9	2.6
June 1950-				
Feb. 1951	66.0	39.3	16.3	8.0

* Computed from BLS price indexes.

** Mid-month quotations used.

continued military successes and a relatively small defense program, why should not Valentine, who had just taken office, assume that the inflationary buying spree was over; that only the indirect controls should be applied; and that selective price and wage controls (and certainly general direct controls) should be withheld until it was proved that the indirect means were not sufficiently effective? While concern for the problem was heightened by October, the predominant thought among economists, both within and without of government, was to utilize fiscal, credit, and monetary authority with the belief that only selective controls in some particular areas of the economy might be necessary.²⁸

With the Chinese intervention and military reverses in November, demands became whipped into a new frenzy, and prices started another rapid rise during December and January. By the time the general controls were imposed at the end of January, prices of imported raw materials had risen 66 percent, wholesale prices 16.3 percent, and retail prices 8.0 percent over June, 1950, levels. Not only had they risen spectacularly, but they had, by the end of January, 1951, advanced unevenly with most of the increase in wholesale prices yet to be felt as a push against costs and prices at the retail level.²⁹

Wage movements, although stickier, moved upward at a rapid pace in the last half of 1950. During the first half of 1950, wage rates started rising from the 1949 plateau. Before Korea they were generally moderate with emphasis on fringe and small wage adjustments. The most important development was the General Motors' settlement in May of a five-year contract with automatic cost-of-living adjustment (1 cent increase for each 1.4 point increase in CPI), annual productivity increase of 4 cents, and greatly improved pension and social insurance benefits. The pattern of wage increases in the first half of the year was between 5 and 7 cents an hour.³⁰

Starting in August and September, a veritable landslide of rapid and sizeable increases occurred. September settlements in the automotive industry were around 10 cents, while in October a pattern of about 12 cents was established by the aircraft, rubber, electrical, and aluminum workers, with more workers covered by automatic cost of living and

28. Compare "Economists' Statement on Anti-Inflationary Measures," signed by some 400 economists and submitted to the Joint Committee on The Economic Report, November 30, 1950. (Printed in *General Credit Control, Debt Management, and Economic Mobilization* (Materials prepared for the Joint Committee on the Economic Report by the staff, released January 29, 1951.))

29. See table, *supra* note 27. It will be noted that most of the price rise on imports, and almost half of the wholesale price rise, occurred prior to the enactment of the Defense Production Act in September, 1950.

30. Daily Labor Reporter, Bureau of National Affairs, Jan. 4, 1951.

annual improvement clauses. Although wage rates and hourly earnings increased swiftly in the last half of 1950, they rose less rapidly than did prices. But their actual and prospective increase boosted general demand and pressure on costs. In the midst of these price and wage movements, the Economic Stabilization Administrator began developing coordinated controls.

Government Attitude and Action, Fall 1950

Immediately after being appointed in October, 1950, Valentine strove valiantly to assemble a staff although he was not convinced that a full-scale price and wage control program would be required. He believed that if indirect controls were used vigorously enough, "we may be able to avoid the greater complexity and difficulty of over-all price and wage control, or at least hold these down to workable proportions."³¹

Within the government, greatest pressures for the institution of price control came from the military. In October, Secretary Marshall noted that cost increases since the previous March represented a 9 percent (\$1.5 billion) loss in equipment and that the stockpile objective would cost another \$500 million. While Secretary Sawyer believed general price and wage controls should be invoked, Harriman urged greater reliance on indirect controls, believing direct controls would be only of limited value if indirect controls did not first take their "bite." Valentine's position was close to Harriman's, and they both reflected the general position of the Committee for Economic Development.³²

The Economic Adviser to Valentine, G. Griffith Johnson, has noted that "the real policy position in the fall of 1950 was whether the problem was sufficiently serious or of sufficient prospective duration to justify resort to direct controls." With the leveling off of prices in October, he said, "the prospective problem as then assessed, in view of the slow development and limited size of the future military impact, appeared to be within magnitudes which could be handled by other [than direct price and wage control] measures."³³

There was at this time, however, serious consideration given to the use of direct controls, but some rather peculiar interpretations of the Act regarding the use of selective regulations were in vogue. Symington, then Chairman of the NSRB, incorrectly assumed in October that the Act did not make wage controls mandatory if price restrictions were put

31. U.S. News and World Report, Oct. 20, 1950, p. 29.

32. See Minutes, Meetings Nos. 10 and 11, NSRB, Sept. 29, 1950, and Oct. 20, 1950.

33. Johnson, *Reflections on a Year of Price Controls*, 42 AMER. ECON. REV. 289, 290 (1952).

into effect.³⁴ Furthermore, Valentine in retrospect had said that he interpreted the Act in October, 1950, to mean that there could be no price-wage freeze until a substantial portion of the economy had been brought under selective control. He has further noted that the President agreed with him. However, the Act required that there be a general freeze *if* a substantial part of all sales at retail affecting the cost of living were under control. Selective controls were not first required by the Act.³⁵

There was no unanimity of opinion in government regarding the institution of regulations even two weeks after the Chinese intervention. On December 13 at an Interagency Controls Coordinating Committee meeting, Keyserling, representing the Council of Economic Advisers, recommended more stringent limitations on credit and housing and stated that "we should move on price and wage controls as rapidly as possible." Keyserling was favoring, at that time, selective controls while Clark, another member of the Council, supported general controls. At this meeting Commerce and NPA were backing general price and wage controls as soon as possible, while the Munitions Board and the Federal Reserve Board favored starting with selective controls. HHFA, Agriculture, and Labor noted public pressure but feared action prior to ability to administer controls, and State, Interior, Treasury, and GSA were without a formulated position.³⁶ In short, there was great hesitancy in government to recommend an across-the-board freeze in prices and wages, with most agencies holding opinions favoring selective intervention.

Despite the lack of general agreement either on the use of selective or general price or wage controls, Valentine proceeded as rapidly as he felt he could, utilizing the voluntary approach to stem the inflationary tide. While spending much of his time recruiting a staff, he tried to gain public support by issuing voluntary standards which would give the business and labor world some notion of what was expected of them, and simultaneously pleading, requesting, and threatening groups to cooperate with these standards.

Coordination of price and wage policy during December, 1950, consisted essentially of getting an organization in both areas, announcing price and attempting to announce wage standards, and complying with the law regarding concurrent action when issuing selective controls.

The Wage Stabilization Board was sworn in on November 28, 1950, and had before it a request from Valentine to Cyrus Ching, its Chairman,

34. Compare Minutes, Meeting No. 11, NSRB, Oct. 20, 1950.

35. See letter, Valentine to Ross Shearer, ESA files.

36. Minutes, Meeting No. 9, Interagency Controls Coordinating Committee, Dec. 13, 1950.

dated November 20, asking for an outline of a voluntary program for wage stabilization. On December 18, Valentine made public a statement from the Wage Stabilization Board which, instead of outlining a voluntary wage stabilization program, merely described the place of wage policy in the general task of preventing inflation. It called for an 18-step attack against inflation, maintaining that direct controls by themselves "will conceal and defer its effects, while permitting a pressure of hidden spending power to build up." Thus, it suggested five measures to increase the volume of essential production, another five measures to minimize the volume of money and credit in circulation, and eight other measures to control specific areas of the economy, *one* of which was "stabilization of wages, salaries and other compensation." Wage and salary control have a definite and essential part to play, it claimed, and the WSB "will do all in its power to perform its stabilization functions."³⁷

This statement approached the question asked of them by Valentine but went no further. While a useful declaration, which might better have been developed as an ESA rather than a WSB declaration, it was certainly of no use in establishing guides to wage negotiations. It gave neither management nor labor any idea of the wage policy principles or the levels of wage rates which the government might expect of them.

On the following day, December 19, specific and relatively severe pricing standards for business and industry were issued by ESA requesting nation wide compliance "so as to avoid the necessity of further mandatory controls."³⁸ Any price increases after December 1, 1950, the announcement read, would be "subject to action by the Agency at the earliest feasible time" if they exceeded the stated criteria. These were:

1. A manufacturer could not raise prices if his net dollar profits before taxes were equal to or in excess of before-tax profits in 1946-1949 period, except if,
2. An individual product or service was not profitable, price could be increased but by no more than (a) the amount necessary to make it profitable or (b) the amount of the increase in direct wages and materials going into the product, whichever was lower.
3. A wholesaler or retailer could not increase gross margins above those of June, 1950, if he was in the position described in paragraph one, and furthermore he could not raise prices on the basis of higher replacement or marketing costs but

37. Press Release, ESA-GPR-16, Dec. 18, 1950.

38. Press Release, ESA-GPR-21, Dec. 19, 1950.

was required to add only his margin to inventory costs actually paid.

The Agency concurrently served notice that any official action *henceforth* would make use of a base period not later than December 1, 1950; certain basic materials would be rolled back in price to allow maintenance of December 1 levels at later stages of manufacture; and, therefore, no seller would derive any advantage from exceeding the standards. A comparable stop-gap standard for wage stabilization at that time might have prohibited wage increases exceeding the percentage increase of the consumers price index from a pre-Korea date to December 1, 1950, with some exception for hardship. Such a standard was not forthcoming. However, it was far more necessary, at the time, to get price criteria established than wage criteria since prices were far more volatile.

The ESA in the first weeks of December was attempting to hold the December 1 price line by voluntary agreements in the basic industrial raw materials of the economy as well as preparing to move in with mandatory controls at that level—and at the next stages of manufacturing if necessary. General control over prices and wages might later be necessary, but starting with a voluntary program appeared more reasonable and was the method that had been employed in 1940-1941.

Steel and Automobile Actions

In November ESA sidestepped meeting the steel price and wage increase head-on. Informal discussions were held with Mr. Fairless and other industry leaders directed toward the goal of voluntarily limiting the price increase which was being proposed with the wage settlement. Valentine, Ching, and Johnson believed that these might be effective, and furthermore, they believed that their position at that time was not favorable to win a fight with the steel industry. At the conclusion of their discussions and after a price increase averaging \$5 a ton, ESA officials believed they had achieved a victory in that the price increase had been made more modest. The steel industry said that the price rise covered only the increase in wages granted and not the material and other cost increases incurred since the start of the Korean War³⁹ and that a voluntary agreement with ESA was reached to hold steel prices at this level. This was considered a victory by ESA in spite of the fact that it also

39. When estimating the price increase due the steel industry under the Capehart Amendment in late 1951, there was evidence that the November, 1950, price increase averaged more than the announced \$5.00 a ton and that it was more than sufficient to cover wage and other cost increases prior to December 1, 1950.

represented a pass-through of cost regardless of earnings and was, therefore, not consistent with the price standards established a few weeks later.

Not so easily handled was the automobile price increase in December. In late fall of 1950 the automobile industry was preparing to price the new 1951 models. With the exception of the year 1946, the industry as a whole had been operating at immensely profitable levels in the post war years, averaging in 1947-1949 a return of 48.3 percent on net worth before taxes and 27.5 percent after taxes. In the third quarter of 1950, profits were at a far higher level—72 percent of net worth before taxes and 34.4 percent after taxes.⁴⁰ The major companies had maintained prices during the year and were facing increased wage and material costs with the additional prospect of having production decreased substantially. This cut back was expected at that time to be in the magnitude of 30 to 60 percent.

In October, Henry Ford II wrote Valentine that the Ford Motor Company was introducing its first 1951 model (the Mercury) without an increase in the suggested list price, stating that "we want to be sure that we are doing our part in holding the line against inflation." He added, however, "how long we can hold this line, we don't know."⁴¹ In the first week of December, both Ford and General Motors announced price increases of from five to seven percent on their new models. On December 7, Valentine requested Ford and General Motors to suspend all announced price increases pending a meeting in Washington on December 13 of the whole industry. This they refused to do.

ESA had no desire to start its mandatory controls with a fabricated product like autos, while the raw material and labor costs going into the product were still uncontrolled. Although considerable stability was being achieved in December through voluntary agreements in many basic materials, there was little success in holding the December 1st price line in various important elements of automobile costs such as textiles or rubber. While the big three automobile producers, accounting for about 90 percent of total output, were operating at very profitable levels, the other eight companies were not so fortunate, and two of these were actually operating at a loss. In addition, there was the prospective cut back of production.

ESA was on the spot. The automobile industry, perhaps the most representative to the public as "American industry," was flagrantly challenging the stabilization effort of holding a December 1 line and forcing

40. Compiled from SEC data. This excludes Ford Motor Company which does not publish financial statements. There is reason to believe, however, that the Ford profits were most favorable too.

41. Letter, Henry Ford II to Valentine, Oct. 24, 1950, ESA files.

the ESA to action. The industry not only represented \$10 billion of retail sales but by reason of its size was a leader in formulating wage and price policy; hence the incident had a widespread psychological impact on the business world. Furthermore, autos, next to bread, represented the largest single element of cost in the Consumer Price Index, representing 2.5 percent of the index and about 5 percent of the part subject to control by ESA.

The ten major automobile companies meeting with ESA in Washington on December 13 refused to forego price increases and maintain the December 1 level until there was time to examine the situation. Therefore, Valentine requested Ching, in compliance with Section 402(b)(3) of the Act, to have the Wage Board prepare a proposed automobile wage regulation and directed his staff to develop Ceiling Price Regulation 1. Despite the fact that Ford rescinded its price increases on December 17, CPR 1 was issued on December 18, fixing ceiling prices of new passenger automobiles at the December 1 level for a period until March 1, 1951. In the price order Valentine noted that the parallelism requirement of Section 402(b)(3) was being complied with and wages would be stabilized as soon as possible.⁴²

The arguments and the rationale of the industry, the unions, and the Wage Board in the process of establishing the price and wage auto regulations were indicative of the pressing stabilization problems and helped formulate the price-wage policy pattern. Most of these positions were given at a hearing held by the WSB on December 20 to consider wages in the industry. In issuing invitations to the hearing, Ching said, "the calling of this meeting must not be construed in any manner to assume action as a result of the [December 13] meeting. . . . [However] we cannot avoid the conclusion that some kind of controls either voluntary or compulsory are in the realm of possibility."⁴³

The labor position, expressed through Walter Reuther and others, was that no long-range wage policy should be recommended by the WSB until every union was heard, and no restrictive policy similar to the Little Steel formula should even be considered. Reuther specifically noted that no greater stability could be achieved than that already provided for under the GM 5-year escalator and improvement factor contract and that any attempts to tamper with the contract would frustrate the aims of the Act, destroy incentive, cause unrest, create labor-management strife, and certainly would not achieve the goal of maximum production.

42. CPR No. 1, Dec. 18, 1950, 15 FED. REG. 9061 (1950).

43. Telegram issued by Ching to major automobile manufacturers and leaders of unions in their plants, Dec. 14, 1950.

Management in the automobile industry, represented primarily by Ford (Theodore O. Yntema and John F. Bugas), maintained that a formula for stabilization was needed since the alternative was arbitrary *ad hoc* action with price and wage adjustments resulting in distortions, inequities, and lack of production. They considered the voluntary pricing standards unfair since those who had cooperated with the government had been penalized while those who had raised prices before December 1 had been condoned, and furthermore, they contended that the standard was unfairly restrictive. Yntema, who was to become a close advisor to Eric Johnston the following month, presented a formula for prices and wages. The present cost-of-living contract with annual improvement factor, he asserted, offered the basis of maximum production and industrial peace. To go with this wage contract, price adjustments should be permitted to cover (1) cost increases in wages, salaries, materials, and services since the May 24-June 24, 1950, base, (2) a major part, perhaps 75 percent, of increased costs resulting from government forced reductions in production volume below 65 percent of production rate in the first half of 1950, (3) design cost changes both upward and downward, and (4) relief for hardship cases. He stoutly maintained, however, that no formula was possible without a roll-back of excessive price increases already made, without bringing food and farm commodity prices under control, without increasing tax payments to a pay-as-we-go basis, and without effective credit control.

The future development of wage-price policy followed closely most of the major elements of the formula Yntema outlined, both as to wages and prices. Was it because the formula was attuned to the tempo of the time and also represented the amount of sacrifice that responsible unions and management would go along with?

On December 22, Valentine adopted the automotive industry findings and recommendations of the WSB and issued Wage Stabilization Regulation No. 1, which froze the current collective bargaining agreements in the new passenger car industry and the established wage and salary schedules until March 1, 1951. Except for compliance with the parallelism requirement of the law, the order was largely unnecessary. The WSB found that there were no contemplated general wage or salary changes for those covered by this regulation, and the principal collective bargaining agreements provided for no increases until mid-March. Furthermore, the necessity of issuing an order was a cause for embarrassment. The Board was not ready to issue a general wage policy and took pains to explain that the regulation had no implications regarding the eventual approval or disapproval of established wage programs and prac-

tices, including both cost-of-living and productivity. The Board explained that "the formulation and development of a wage stabilization policy in the new passenger car industry, in related industries, and in industry generally, require careful study and review. . . . A single industry or a portion thereof cannot serve as the broad base upon which wage stabilization precedents are founded. The implications of such precedents to other industries, employers and employees must be thoroughly explored. . . ."44

No further mandatory price or wage actions were taken in December, but informal meetings continued at a rapid pace. Leading producers in the oil, steel, copper, lead, zinc, metal scrap, meatpacking, sulphur, and aluminum industries were called to Washington to discuss means of voluntary cooperation. In addition, some 230 major business firms⁴⁵ were sent telegrams requesting their cooperation in combating inflation and asking them to notify ESA at least seven days prior to making a price increase on any standard product or product line with annual sales over \$500,000.

Public Attitude

In response to the President's speech on December 16, proclaiming a state of national emergency and emphasizing the necessity of cooperation with the stabilization effort, an avalanche of mail was received at the White House from many walks of life, asking for the immediate imposition of controls to protect consumers, fixed income groups, and small businesses. While there undoubtedly was general public support for mandatory price and wage controls "for the other guy, to protect me," business communities in most sectors were cooperating only niggardly with the voluntary program, as evidenced by the continued and rapid price advances in December and January. The attitude of labor was no better. These views regarding the function of direct controls in the emergency environment of the time are well demonstrated by testimony presented at hearings before the WSB on January 10 and 11, 1951.

The National Association of Manufacturers' evaluation of the need of controls was expressed by Ira Mosher: "It is management's fundamental position that competitive enterprise works best and most efficiently in the absence of controls. . . . The main reliance in the fight against inflation should be in the direction of appropriate fiscal and credit measures, supplemented by allocation and priority controls, where necessary, rather than price and wage controls. . . . However, if prices are to be controlled, then obviously all of the elements that enter into cost should

44. WSR No. 1, Dec. 22, 1950, 15 FED. REG. 9326 (1950).

45. Selected by criteria of sales volume. The largest 500 firms were first listed, and then certain industries with which ESA had direct contact (*e.g.*, automobile and steel) were excluded.

also be controlled. Accordingly, we reluctantly come to the conclusion that wage stabilization is a necessary concomitant to price control . . . [L]abor policy should not be accompanied by a demand for no strike pledge from labor and for a no lock-out pledge from management. . . . Both labor and management can be assumed to act *with full appreciation of the responsibility that the emergency imposes* on them, unless actual experience demonstrates otherwise."⁴⁶

Also from the business world, Marion Folsom, Chairman of the Board of Trustees of the Committee for Economic Development, emphasized that efforts to increase civilian production along with the strictest measures in the way of taxes, savings, and credit should be the policy rather than over-all price and wage control which "is not going to enable anybody to buy more because it will not result in any increase in production." Fred Lazarus, of the CED and Federated Department Stores, supported Folsom and added: "I do not believe it can be stressed too often as to how different the present condition is as against World War II when everybody believed that these other things [price and wage controls] were so necessary. . . . The burden of proof, I believe, ought to be on the necessity of the imposition of controls."⁴⁷

Organized labor took up the theme that increased production and not "restrictive controls" were needed. To them stabilization meant stabilization of production, and that meant increasing productivity and better labor-management relations. Labor believed that wage stabilization should supplement but not supplant the collective bargaining process. Their attitude toward the stringency of wage regulations was in large part influenced by the lack of control which the government had over prices and profits. Labor's rationale was that first, prices had to be controlled and then, wages could be stabilized; but since prices could not be controlled, wage stabilization should be loose or nonexistent. The United Labor Policy Committee maintained that wage stabilization must allow for higher costs of living, correction of inequities,⁴⁸ and improvement factor increases. It also stressed that all current contractual agreements should be honored regardless of provisions for wage increases. In short, wage

46. Testimony of Ira Mosher, NAM, WSB Hearings, Jan. 10, 1951 (emphasis added).

47. Testimony of Fred Lazarus, WSB Hearings, Jan. 11, 1951.

48. Some of the inequities particularly referred to included: inequities because of time with reference to contract expiration dates, catch up with the "pattern," and depressed industries; inequities which were related to the growth of companies in which wages had not caught up with its prosperity; industries newly organized; inter-plant and inter-area inequities; wage rate changes arising from promotions, reclassification, merit increases, adjustments of rate structures, or other intraplant practices; and increases resulting from health, welfare, retirement, and other benefit plans. Statement to President Truman, Dec. 20, 1950; reissued for WSB Hearings, Jan. 1951.

stabilization to the ULPC meant governmental approval of current contracts and all "reasonable" demands.⁴⁹

Neither management nor labor was willing to accept the meaning of the Presidential proclamation of a state of emergency and make sacrifices by limiting economic gains otherwise obtainable. Management and labor were concerned with the approximate one percent average monthly rise in retail prices and labor costs and the two percent average monthly rise in wholesale prices—but not to the degree of changing their advocacy of strictly peace time procedures. The fact that it was quite obvious that tax, credit, and monetary measures were not being made sufficiently effective, that the stringent actions in indirect controls, while desirable, would not be forthcoming, and that public confidence in future stabilization of prices and wages was shattered did not affect the attitudes expressed. Their rationale seemed to be that this was not a war and direct controls were therefore too harsh—in spite of the wage-price spiral which was whirling about them. With this sentiment a no-strike, no-lockout policy freely accepted by labor and management was obviously not to be expected.

Coordination of price-wage policies implies that both are, to a degree, malleable. If they are rigid and predetermined by law, basic attitudes, and the resultant of administrative organization, coordination becomes a meaningless rationale, with the coordinator attempting to prove to the public that all is stable and equitable as he rides Roman-style astride his two "horses." In 1950 the degree of flexibility of price and wage policies was severely restricted by our society as they expressed a lack of concern for the defense and economic problems of the day.

49. As usual, there was little doubt left as to where John L. Lewis stood regarding the imposition of controls. He said:

It obviously is impossible to freeze wages with any degree of even claimed equity as long as the price structure is, in a governmental sense, uncontrollable. And obviously, now you have a price structure which is less controllable in every practical and academic sense than even the price structure which was sought to be controlled by the government during World War II.

. . . [T]he suggestion of freezing wages in this country on the theory that prices will be frozen concurrently is impractical, cannot be done in any satisfactory sense, and should not now be undertaken. . . . Of course, if it comes to the time that grave and immediate peril affects our country, there is no American who in such a time would not yield obedience to any order, however improper, which seems to be necessitated by immediate considerations, and do what he can, regardless of the applicability. But that time obviously isn't here. Officially we are not at war with China, and in the general sense of the word the Korean situation is not a part of our longtime planning or the problem that confronts your Board. Testimony of John L. Lewis, WSB Hearings, Jan. 10, 1951.

D. *The Price-Wage Freeze*

During December and January, the knowledge that prices were not being controlled and the fear that prices could not be stabilized sent buyers into the market to stock up. They were met by sellers who confirmed their fears. On top of the price rises motivated by these fears and reactions were those motivated by the belief that price ceilings were inevitable and coming soon. This prompted sellers to disregard the voluntary standards and establish a higher price—one with which they could live under a forthcoming freeze.

To DiSalle the picture was "so clear, the story so convincing, that we cannot pause another moment. We cannot delay. . . . Each day's delay means increasing prices and increasing inflationary pressures. Each day's delay means greater drain on the resources of government and growing hardship for the individual."⁵⁰ The Council of Economic Advisers in mid-January advised the President that "it is more important to put the brakes upon inflation than to get a perfect system of controls."⁵¹

Valentine and most of his consultants seriously questioned the feasibility of general controls, and they specifically doubted the ability of an inadequate staff to cope with the monstrous problems which they would raise. Valentine feared that the freeze would cause "a line from the Temporary E Building of our office up to the Capitol and around a few blocks waiting"⁵² for something to be done about inequities.⁵³ DiSalle's proposal for a 30-day freeze added fuel to the inflationary fire as it leaked to the press that such a plan was under consideration. Valentine was forced to hold a press conference, with DiSalle present, on January 10, explaining that he had rejected the 30-day freeze proposal after discussions with Wilson and DiSalle and that the Agency was proceeding with selective controls.

By mid-January most officials recognized that a freeze was required. Timing was the only real remaining issue. Valentine was in substantial agreement with DiSalle although forced to proclaim to the public that a freeze was not being planned in an attempt to slow the price increases which were being made in anticipation of a freeze order.

The major problems in the timing of the order were: (1) how to stay as true as possible to the policy of holding the December 1, 1950,

50. Memorandum, DiSalle to Johnston, *In Support of Recommendation for Immediate General Price Control*, Jan. 22, 1951, ESA files.

51. Memorandum, CEA to President Truman, Jan. 12, 1951.

52. *Interview with Alan Valentine*, U.S. News and World Report, Jan. 12, 1951, p. 26.

53. See Bernstein, *supra* note 18, at 34-35.

line so as not to put at a disadvantage those who had cooperated with the government, and (2) the dilemma that the longer the action was delayed the greater the disparity among prices would be, while if roll-back action was to be taken for some commodities, more time was required to determine the level at which they should be established. The highest price in the December 19-January 25 period was chosen, after some hectic discussion, as the best solution to the divergent objectives.

Although the freeze of prices and wages on January 26 was by definition "coordinated" action, it was primarily directed at establishing some stability in the runaway *price* movement. In fact, the requirement of the Act that action be taken in wages concurrently with that in prices was one of the factors which influenced Valentine to delay a general price control move. He had not, as yet, obtained any wage policy from the Wage Stabilization Board, and he saw the requirement of freezing wages with prices, which would immediately require a decision on escalator clauses. Furthermore, Valentine recognized the difficulties of attempting to prohibit such provisions but also believed that if controls were frozen "with escalator clauses, then you really aren't controlling inflation at all, so far as all those aspects of our economy where there are no escalator clauses. . . ." ⁵⁴

While this problem, under any circumstance, could not be avoided, Valentine viewed it as a reason against an immediate freeze. Actually, hesitation because of the escalator clause increased the magnitude of the problem. However, it appears that this is just the effect which the requirement for concurrent action had.

E. *The Institution of Price and Wage Controls in World War II*

The Defense Production Act enacted in September, 1950, in the midst of rapidly rising prices and wages, implied and directed price-wage coordination by requiring parallel action and establishing an Economic Stabilization Agency. Full, yet restrictively prescribed, authority was granted over prices and wages although it was not really used until the general freeze in January, 1951. The legal authority was created, but the support from organized labor and industry was largely lacking.

The institution of price and wage controls in World War II was strikingly different. The movement of prices and wages in 1939-1941, the legal framework of control, the approach to and relationship between price and wage stabilization, made the attitude of affected groups vary

54. *Interview with Alan Valentine*, U. S. News and World Report, Jan. 12, 1951, p. 25.

sharply. During the two years from 1939-1941 the problem was quite different, the approach was different, the results were fairly comparable.

Price and Wage Movements—1931-1941

Unlike the rapid upward movement of prices and wages in the eight months following Korea, prices and wages remained relatively stable for a year and a half after the outbreak of war in Europe in August, 1939. During these eighteen months, the wholesale price index advanced only 7.5 percent and the consumer price index 2.2 percent. Wage rates rose only 4.7 percent although gross hourly earnings advanced 9.8 percent with the increase in production.⁵⁵ Not until February, 1941, when many industries were approaching capacity operations and unemployment was greatly reduced, did prices and wages start rising sharply as increased output only partially offset increased demand. By the fall of 1941, more than two years after the outbreak of war, the price-wage pressures became more serious as production of consumer goods began to decline while military output and purchasing power advanced rapidly.

The rapid price-wage spiral did not occur immediately upon the outbreak of war and while the pressure on prices came primarily from increased demand, rather than rising costs, there was not the buying hysteria which we witnessed in 1950. While direct labor costs per unit of output increased in the early 1939-41 period, they were offset by sharp reduction in unit overhead which accompanied the expansion of productive capacity. Prices and wages did not start their sharp upward climb until mid-1941.⁵⁶

55. See Douty, *Trends in Factory Wages, 1939-1943*, 56 MONTHLY LAB. REV. 869 (1943). Douty, *Development of Price-Wage Policies* 111-115 (BLS Bulletin No. 1009, 1950).

56. Index of Wholesale and Consumer Prices, Average Hourly Earnings and Estimated Wage Rates of Factory Production Workers, Selected Months 1939-1941.*

		Prices		Gross Average Estimates**	
		Wholesale	Consumer	Hourly Earnings	Wage Rates
1939	August	100.0	100.0	100.0	100.0
	September	105.5	102.0	100.6	99.8
	December	105.6	101.0	104.5	101.9
1940	March	104.5	101.2	105.3	102.9
	June	103.3	101.9	106.1	103.4
	September	104.0	101.8	106.3	102.9
1941	December	106.7	102.1	108.3	103.4
	February	107.5	102.2	109.8	104.7
	March	108.7	102.6	110.4	104.9
	June	116.1	106.1	117.3	109.9
	September	112.4	109.4	119.9	112.9
	December	124.8	112.1	125.5	116.8

* August 1939 is used as a base of 100. Source: U.S. Department of Labor, BLS.

** Estimated from average hourly earnings to exclude overtime premium pay at rate of one and a half after 40 hours. See Douty, *Development of Price-Wage Policies* 113 (BLS Bulletin No. 1009, 1950).

Organization and Authority

The delegation of authority to stabilize prices and wages in World War II, and the organization accompanying it, developed haltingly in Rooseveltian fashion as each new need presented itself. Unlike the Defense Production Act of 1950, passed within three months after the outbreak of war, the Emergency Price Control Bill was not enacted by Congress until January, 1942, two and one half years after the commencement of war in Europe.⁵⁷ Not until October, 1942, a full three years after the start of European hostilities and ten months subsequent to Pearl Harbor, did Congress pass the Stabilization Act, providing authority over prices *and* wages and establishing an organization to coordinate the two programs.⁵⁸

Although there was a dissimilarity of timing as to the outbreak of hostilities and passage of price control acts, it should be noted that in both World War II and the Korean campaign Congress authorized wide regulation over prices soon after American soldiers were actually fired upon by the enemy. While that is not an adequate criterion for the need of price control, perhaps such drastic action has been, and is, necessary for Congress to enact a law restricting the free play of supply and demand.⁵⁹

Following Korea, price control efforts started with authority but no prestige. In World War II there was some prestige but no authority. Until January, 1942, there was no delegation of Congressional authority to control prices, but Leon Henderson, operating as head of one of the seven divisions of the National Defense Advisory Commission, was assigned to "watch prices, to advise the President, to talk with the leaders of American industry, to get their individual consent, so far as possible . . . to [restrain] prices."⁶⁰

57. 56 STAT. 23 (1942), 50 U.S.C. §§901 (1946).

58. 56 STAT. 765 (1942), 50 U.S.C. §§901 (1946).

59. In 1953 the Senate bill (S. 1081) for stop-gap price-wage authority was reported from committee over the protests of Senators Bennett, Goldwater, and others, who claimed that once the emergency was upon us Congress could delegate authority if necessary. S. 1081, as it came from committee, provided that: "The President is authorized and directed to freeze all prices and wages whenever he shall find and declare that a grave national emergency exists and that exercise of such authority is necessary in the interest of national security and economic stability." When S. 1081 got to the Senate floor, Senator Byrd introduced an amendment, which was passed, restricting use of the stop-gap freeze to "whenever the United States has declared war against a foreign nation, or whenever the Congress, by concurrent resolution" so directs, 99 CONG. REC. 5260 (1953). In the debate on this issue, Senator Bricker claimed that a price-wage freeze would not be feasible "unless there were an underlying sentiment supporting it, which there is not at the present time, and which there will not be unless a dire emergency is recognized by the Congress, and the country is practically in an all out war." *Id.* at 5271. The House Banking and Currency Committee refused even to hold hearings on the stop-gap price-wage authority, and no bill was forthcoming.

60. Testimony of Leon Henderson, *Hearings Before The House Committee On Banking And Currency On H.R. 5479, 77th Cong., 1st Sess.* 45 (1941).

No move was made to stabilize wages during 1940 or 1941. Sidney Hillman's function on the NDAC was directed toward the prevention of undesirable disputes that would interfere with the defense effort. On March 19, 1941, the National Defense Mediation Board was established by executive order; but this too was directed toward disputes and did not mention wages or any principles of wage settlement. The Board mediated individual cases "without any policy, not having any power, really, to make a national policy on wages."⁶¹

On the price front, in addition to talks with industrial leaders, formal price schedules were issued, starting with the machine tool industry in February, 1941. By July, 1941, 12 more schedules were issued; another 33 were promulgated by the time of Pearl Harbor; and between December 7, 1941, and the end of January, 1942, an additional 58 schedules were issued. The usefulness of informal methods of persuasion, warnings, and threats started to wear thin with the rising price pressures during the summer of 1941. As in 1950, the greatest success of this approach was with industries closely dominated by a very small number of firms, but the needs of control extended beyond this group of basic industries. The administration hoped that reasonable stability could be achieved by controlling the price movement of the basic commodities—especially since it was quite dubious whether formal authority could be obtained from Congress for anything else. In August, 1941, hearings were initiated on the Emergency Price Control Bill. The proposal, while providing for *either* selective *or* general price control, made no provision for wage control. It merely established a policy for those departments and agencies of government dealing with wages "to work toward a stabilization of prices, fair and equitable wages, and cost of production."⁶²

While Bernard Baruch testified in favor of an over-all price-wage freeze, including rents and farm prices at the parity level, and Representative Gore introduced a bill with these provisions, the Administration and Congress separated wage stabilization from the price control measure. Leon Henderson, who was most concerned with the inflationary dangers of rising labor costs, nonetheless believed that wage stabilization should *not* be tied administratively to price control and felt that voluntary wage restraints would be most effective at that time. Isador Lubin, Commissioner of the Bureau of Labor Statistics and White House confidant, argued that wage control was unnecessary and undesirable. "If you

61. William H. Davis, Chairman, NDMB, Transcript, Executive War Labor Board, Feb. 6, 1942, p. 45.

62. Emergency Price Control Act of 1942, 56 STAT. 23 (1942), 50 U.S.C. §901(a) (1946).

fix prices, you are automatically fixing a certain part of your wage structure."⁶³ With prices fixed, employers offer stiff resistance in collective bargaining to wage demands in order to protect their profits, he maintained. But furthermore, he contended that wage increases do not necessarily increase labor costs, that wage ceilings may adversely affect output and impede the shifting of workers to defense industries, that wage ceilings would require profit ceilings, that collective bargaining contracts stabilize wage rates during the contract period, and that administration of wage structure would be an extraordinarily formidable task due to the complexity of the American wage structure.⁶⁴

Thus, unlike the Defense Production Act of 1950, there was no requirement for parallel action in the Emergency Price Control Bill which became law on January 31, 1942. Although the latter included no authorization to regulate "compensation paid by an employer to any of his employees,"⁶⁵ a far more significant base for achieving wage stabilization was developed before the bill was enacted. Ten days after Pearl Harbor, a labor-managed conference was convened by the President, and with patriotic vigor a no-strike, no-lockout pledge was made by the parties to last for the duration of the war. With this agreement a potentially effective cornerstone for wage stabilization was set in place. To implement the understanding, the National War Labor Board was created.⁶⁶ The executive order establishing this agency, like that establishing the NDMB, made no reference to wages or wage stabilization although it granted authority over *wage issues in disputes within its jurisdiction*. Voluntary wage settlements were outside of the NWLB's jurisdiction. It should be noted that in establishing the Board the President gave no specific guidance as to wage stabilization policy in dispute cases; the Board itself was to develop such a policy consistent with the times.

Attitude and Policy

By the time the Emergency Price Control Bill was enacted in January, 1942, 105 price schedules had been issued, and during February, March, and April, another 50 were promulgated, bringing about one-third of all wholesale prices under ceilings. In the first quarter of 1942, the OPA had come to recognize that the inflationary tide could not be halted through use of fiscal powers and selective regulations. General control over all prices appeared to be the only feasible move. The General Maximum Price Regulation was issued on April 28, 1942, freezing prices at

63. *Hearings, supra* note 60, at 1849.

64. *Ibid.*

65. See EXEC. ORDER No. 9017, Jan. 12, 1942, 7 FED. REG. 237 (1942).

66. *Ibid.*

the March, 1942, level. The regulation became effective for manufacturing and wholesalers on May 4, 1942, for retailers a week later, and for services on July 1, 1942. There were minor exclusions from the order, such as books, magazines, newspapers, and certain raw materials better controlled at later stages of processing. But the basic inadequacy then (as well as in 1951) was in the exclusion of agricultural commodities from the freeze—as required by the Act. Prices of farm and food products could not be brought under control until they had reached 110 percent of parity (later reduced to 100 percent in October, 1942).

OPA next attempted to iron out the inequities of the freeze and to maintain the price line. Basic to a determination of the fairness of price levels was the industry earnings standard which had been under development in the latter half of 1941 and 1942. The law required that maximum prices be “generally fair and equitable,” which OPA interpreted as meaning that a reasonable level of industry earnings be protected. This concept was translated into an earnings standard which assured a price ceiling at least high enough to allow an industry, as a whole, aggregate returns, before taxes, approximating those during a normal peacetime period (1936-39) with adjustments made for changes in investment. While this did not limit the profits a firm or an industry could make, it, of course, did require absorption of costs as long as returns exceeded the standard. The base period (1936-39) did not include “lush” profit years, and hence the standard was a fairly rigorous one. There were other standards existing and developed over the course of OPA’s existence; but basically, at the time of the freeze, there was a recognition of the necessity of taking the price structure “as is” and attempting to hold the line, requiring absorption of costs as long as profits were above the industry earnings standard.

At the time of the general price freeze in April, 1942, the NWLB, without authority to stabilize wages, was developing a wage policy in the settlement of dispute cases coming before it. In the *International Harvester* case, the Board spelled out some basic principles which it would henceforth follow: Wages should be sufficiently high to enable workmen to “maintain a standard of living compatible with health and decency,” and real wage levels would be “reasonably protected.” However, the Board noted that labor should not expect upward changes in wage structure to keep pace with cost of living.⁶⁷ In the early development of wage policy, Chairman Chester Davis wrote the President that wages which had achieved fair levels should, if possible, be maintained and that those which were substandard should be allowed cost-of-living adjustments.

67. 1 WAR LAB. REP. 112 (1942).

Thus, while OPA made a specific effort to hold the price level and structure, early wage policy encouraged the improvement of substandard wages.

Both price and wage standards were (by 1951 criteria) harsh, and the President gave added solidity to this line in his April 27, 1942, speech when he asserted that the "time has definitely come to stop the spiral. And we can face the fact that there must be a drastic reduction in our standard of living." Although the President noted that "due consideration to inequities and the elimination of substandards of living" would continue, "stabilization of the cost of living will mean that wages in general can and should be kept at existing scales." The policy was more specifically established on July 16, 1942, with the *Little Steel* decision,⁶⁸ which permitted wages to catch up with the 15 percent rise in living costs which had occurred between January 1941 and May 1942, but prohibited any further escalation.

These policies were only as meaningful as they were enforceable, and during the summer of 1942, both the OPA and NWLB requested the President for additional authority. The NWLB, having authority only in dispute cases, was concerned over voluntary agreements which were undermining its policy and outside of its jurisdiction. Henderson saw the need of broader power to control wages, salaries, and farm prices.

The first week in September, the President sent a message to Congress which read, in part: "It is impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand, it is impossible to keep any prices stable—farm prices or other prices—if wage rates, one of the most important elements in the cost of production, continue to increase. . . . Therefore, I ask the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher. . . . At the same time that farm prices are stabilized, wages can and will be stabilized also. This I will do."⁶⁹

A month later the Stabilization Act of 1942 was enacted, directing the President to issue a general order stabilizing prices, wages, and salaries affecting the cost of living at the level of September 15, 1942, as far as practicable. Authority over all wage rates was given to the NWLB, and agricultural prices could be controlled at 100 percent of parity. Immediately following passage of the Stabilization Act, the President created

68. 1 WAR LAB. REP. 325 (1942).

69. 77 CONG. REC. 7043 (1942).

by Executive Order 9250 the Office of Economic Stabilization with authority, subject to Presidential approval, to “. . . formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters—all for the purpose of preventing avoidable increases in the cost of living, cooperating in minimizing the unnecessary migration of labor from one business, industry, or region to another, and facilitating the prosecution of the war. To give effect to this comprehensive national economic policy the Director [of Economic Stabilization] shall have power to issue directives on policy to the Federal departments and agencies concerned.”⁷⁰

F. *Comparison with World War II Experience*

Certain generalizations and conclusions regarding price-wage coordination can be distilled out of a comparison of the recent controls experience with that of World War II—despite the fact that the economic, legal, organizational, and environmental factors were quite different.

Conclusions regarding the issue of parallelism can be made quite positively. The *requirement* of parallel wage action when instituting price control can be a deterrent factor to effective stabilization. Few, if any, can take exception to the general theory upon which Congress based the parallelism requirement, namely, that wages are an important element of cost and that it is neither equitable nor generally feasible to control prices and allow wages to increase indefinitely. But the issue must be viewed more closely to see how blind allegiance to this general theory in the institution of controls can, in fact, defeat the objective of effective price-wage stabilization.

At the start of an emergency, prices are generally more volatile than wages, moving in response to anticipated shortages, other price increases, and speculation. Specific prices for goods and services in those areas of the economy where the military impact is most directly felt, or expected to be felt, rise more rapidly. Hence the *need* for control is first apparent in prices. Furthermore, it is most necessary to hold the sensitive prices as soon as possible by selectively directed controls since they concern, by and large, our basic raw materials. If left free to rise, their impact is felt cost-wise throughout the economy. It is also significant to note that indirect economic controls can do little at halting these increases. The need for *selective* price control thus certainly precedes the need for *general* wage control. The time element of this procedure is dependent upon economic factors such as the degree of unemployment, the utilization

70. EXEC. ORDER No. 9250, Oct. 3, 1942, 7 FED. REG. 7871 (1942).

of plant and equipment, and the source of the inflationary pressure—from scare buying or the inflationary gap.⁷¹

The significant point is that where *selective price* controls are called for, they are needed prior to *general wage* controls. The comparison must be between selective price and general wage controls since experience has indicated that it is quite academic to even discuss selective wage controls. Due to the heterogeneity of labor and industrial organization and the interlocking relationships of wage rates, selective wage control appears to be an interesting problem but an impossibility.

Therefore, if a strict parallelism requirement is prescribed by the law, any administrator is faced with the dilemma of either imposing wage controls prematurely (and thereby weakening stabilization) or delaying the imposition of price controls. In the period after Korea, the parallelism requirement tended to retard the imposition of selective price controls and was also a delaying influence on the general freeze.

The effect of this parallelism requirement was not as serious in the Korea experience as it would have been in the institution of price and wage controls in World War II. With hindsight it is far more apparent than it was at the time that had general price and wage controls been imposed in the summer of 1950 many later problems could have been avoided. Following Korea, there was not as great a time lag between the start of price and wage increases. The need for across-the-board direct controls came quickly. In 1940-1942, however, a tight wage-price parallelism requirement would have forced premature wage controls, assuming that the price action would have been taken as it was. It would have been premature since, on equity grounds, wages generally could not and should not have been held at the level existent when the first price action was taken. Therefore, the wage stabilization standards, if established concurrently with the price action, would undoubtedly have resulted in an escalation wage policy. This would have been most difficult, if not impossible, to limit at some later time—specifically, in 1942 when the *Little Steel* formula was established. Starting with a loose wage policy which could not be discarded would have eventually meant that the wage

71. When commenting on an early draft of this article, Mr. DiSalle observed: "If our recent experience has proven anything, it has proven that calling a group in to talk about either a voluntary program or a selective program merely feeds the almost natural inclination of people to raise prices. After an over-all freeze, it might be possible to enter into a great many voluntary agreements. These agreements would be desirable from the standpoint of enforcement and eliminating the detail which so often bogs down the operations of the control program. It might even be possible to exempt a great many items after the freeze and have a selective controls program in reverse, but I just cannot bring myself around to believe that the program would be possible without first taking your over-all action." Letter, M. V. DiSalle to J. H. Kaufmann, June 17, 1953, ODM files.

level would have been higher than necessary and that price controls would have had to have been relaxed.

Experience with the institution of regulations clearly indicates that direct price and wage control legislation should not require absolute parallelism in the institution of selective controls. It is equally clear, however, that general wage stabilization is a basic requirement for general price control, and, therefore, the authority to stabilize wages must be provided when general price controls are established.

The malleability of both the price and wage programs at the time of their institution is limited and affected by many factors outside the control of an economic stabilization administrator. These factors largely predetermine the level of price control, the stringency of wage stabilization, and cannot easily, if at all, be affected or changed by an administrator in his coordinating function. In both emergencies, for example, the parity provisions of agricultural price control established limits to the level at which prices could be contained and thereby affected the level at which wages could be stabilized. Especially if the parity limitations on price controls exists in the legislation without some counter factor, such as a food subsidy program, will the level of stabilization and the malleability of the coordination be largely predetermined. Furthermore, parity provisions establish the scope of escalation in the stabilization program and thus make it more difficult not to extend the escalation policy to other segments of the economy.

While it is possible under certain circumstances to roll back individual prices, it is virtually impossible to roll back either the price levels generally or wage rates. An economic stabilization administrator in instituting controls must, therefore, by necessity, take the general price and wage level "as is." His problem is largely one of timing and strategy. He must have assembled a price agency and obtained agreement with a tripartite board. Since there is no predetermined and objective standard of equity short of "recent normal experience," he must judge his timing shrewdly so that his authority as specified by law, the degree of public support as established by the general sense of urgency and appreciation of the need of controls, and the relative and absolute levels of prices and wages which he wishes to maintain are all in a happy balance.

TO BE CONCLUDED IN THE FALL ISSUE