AN INVESTIGATION OF CERTAIN BASIC MANAGEMENT PROBLEMS
UNDER ANNUAL GUARANTEES OF EMPLOYMENT AND WAGES

DISSERTATION

Presented in Partial Fulfillment of the Requirements
for the Degree Doctor of Philosophy in the
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University

By

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PREFACE

Until recent years the possibility of annual guarantees of work or wages being adopted on a large scale in American industry was remote. Generally the reaction of those in management with whom the issue was discussed, even as late as several years ago, was that annual guarantees were really not a pending issue. It was also evident that, because annual guarantee plans were not considered to be a matter of major concern in the near future, little thought had been given by most executives to the problems confronting management under the operation of such plans.

In view of the growing importance of the subject as a result of union requests for guarantees, a clearer definition and understanding of the problems for the individual firm under a guarantee was desirable. The few general studies made heretofore had dealt mainly with the general economic problems and effects of guarantees. It was with this general objective in mind that this research was undertaken. After discussions of the issue with a number of executives in various business and research enterprises, this study was planned and research begun in an effort to throw additional light on the factors involved in operation of annual guarantees, and to distinguish more clearly the effects of guarantee plans on managerial factors and functions.

For valuable assistance in this research project, the writer wishes to acknowledge a debt of gratitude to several
members of the staff of the College of Commerce, The Ohio State University. Professor Ralph C. Davis of the Department of Business Organization acted as dissertation adviser and gave much helpful criticism and advice. His philosophy of management has been the basis for a number of managerial concepts expressed in the study. Dr. Edison L. Bowers, chairman of the Department of Economics, gave unstintingly of his time and advice throughout the research. His deep personal interest in the study and his encouragement during the difficult periods of the study were prime motivating forces throughout the project. Dr. James H. Healey, Associate Professor of Business Organization, gave much constructive criticism and helpful suggestions during the writing of this report. Dr. Sam Arnold, formerly of the Bureau of Business Research, aided in developing the procedures for making studies of potential guarantee costs. The Bureau of Business Research provided funds which helped to defray expenses necessitated in the gathering of data and tabulating the results.

The writer also wishes to express his appreciation to members of the Northwestern Ohio Industrial Council, Toledo, Ohio, and particularly to Mr. David M. Molthrop, executive vice president of the Council. His encouragement and influence made possible access to information from member firms of the Council and other Toledo companies, as well as from industrial executives in various cities. Appreciation is
also due to numerous other individuals in various business firms and research organizations with whom the writer had the opportunity to discuss the research project in its early stages. The cooperation of all of the above made this study possible.

William E. Schlender
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PREFACE</strong></td>
<td>11</td>
</tr>
<tr>
<td><strong>CHAPTER I - INTRODUCTION.</strong></td>
<td>1</td>
</tr>
<tr>
<td>Interest in Annual Wage Guarantees</td>
<td>2</td>
</tr>
<tr>
<td>Justification for the Research</td>
<td>2</td>
</tr>
<tr>
<td>Aim and Scope of the Research</td>
<td>3</td>
</tr>
<tr>
<td>Contributions of the Study</td>
<td>5</td>
</tr>
<tr>
<td>Methods Employed in the Study</td>
<td>6</td>
</tr>
<tr>
<td>Form of Presentation</td>
<td>7</td>
</tr>
<tr>
<td>Definition of Terms</td>
<td>8</td>
</tr>
<tr>
<td><strong>CHAPTER II - BACKGROUND AND THEORY OF GUARANTEE PLANS</strong></td>
<td>11</td>
</tr>
<tr>
<td>TYPES OF PLANS</td>
<td>11</td>
</tr>
<tr>
<td>DEVELOPMENT OF GUARANTEE PLANS</td>
<td>13</td>
</tr>
<tr>
<td>Early Phases</td>
<td>13</td>
</tr>
<tr>
<td>Recent Developments</td>
<td>15</td>
</tr>
<tr>
<td>Current Status of Guarantee Plans</td>
<td>19</td>
</tr>
<tr>
<td>Reasons for Discontinuance of Plans</td>
<td>20</td>
</tr>
<tr>
<td>GOVERNMENTAL INFLUENCE IN DEVELOPMENT OF GUARANTEE PLANS</td>
<td>20</td>
</tr>
<tr>
<td>OBJECTIVES AND THEORIES OF GUARANTEED WAGE PLANS</td>
<td>23</td>
</tr>
<tr>
<td>Worker Security Theory</td>
<td>24</td>
</tr>
<tr>
<td>Economic Stabilization Theory</td>
<td>27</td>
</tr>
<tr>
<td>GENERAL DISTINCTIONS BETWEEN ESTABLISHED PLANS AND CURRENTLY PROPOSED PLANS</td>
<td>33</td>
</tr>
<tr>
<td>Coverage and Eligibility</td>
<td>34</td>
</tr>
<tr>
<td>Benefits</td>
<td>34</td>
</tr>
<tr>
<td>Administration</td>
<td>36</td>
</tr>
<tr>
<td>Financing</td>
<td>36</td>
</tr>
<tr>
<td>Limitations of Company Liability</td>
<td>37</td>
</tr>
<tr>
<td>Control of Business Conditions by the Company</td>
<td>38</td>
</tr>
<tr>
<td>Miscellaneous Factors</td>
<td>40</td>
</tr>
<tr>
<td>FORMS OF PARTIAL GUARANTEES NOW IN EXISTENCE</td>
<td>42</td>
</tr>
<tr>
<td>ADVANTAGES AND DISADVANTAGES OF ANNUAL GUARANTEE PLANS</td>
<td>43</td>
</tr>
<tr>
<td>Advantages to Employers</td>
<td>43</td>
</tr>
<tr>
<td>Disadvantages to Employers</td>
<td>44</td>
</tr>
<tr>
<td>Advantages to Employees</td>
<td>45</td>
</tr>
<tr>
<td>Disadvantages to Employees</td>
<td>46</td>
</tr>
<tr>
<td>Advantages to the Public</td>
<td>46</td>
</tr>
<tr>
<td>Disadvantages to the Public</td>
<td>47</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS (Continued)

## CHAPTER III - FACTORS AFFECTING THE FEASIBILITY OF ANNUAL GUARANTEE PLANS FOR INDIVIDUAL FIRMS

<table>
<thead>
<tr>
<th>Factor</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Factors Which Will Affect the Success of Guarantee Plans</td>
<td>50</td>
</tr>
<tr>
<td>Kind of Industry</td>
<td>50</td>
</tr>
<tr>
<td>Type of Industry and Method of Manufacture</td>
<td>51</td>
</tr>
<tr>
<td>Product Classification and Characteristics</td>
<td>52</td>
</tr>
<tr>
<td>Method of Distribution</td>
<td>53</td>
</tr>
<tr>
<td>Ability to Forecast Market Demand</td>
<td>54</td>
</tr>
<tr>
<td>Number of Employees and Average Employment</td>
<td>54</td>
</tr>
<tr>
<td>Fluctuations of Employment and Labor Turnover</td>
<td>54</td>
</tr>
<tr>
<td>Employee Representation</td>
<td>55</td>
</tr>
<tr>
<td>Ratio of Labor Costs to Total Costs</td>
<td>55</td>
</tr>
<tr>
<td>Ratio of Labor Costs to Sales</td>
<td>56</td>
</tr>
<tr>
<td>Possibility of Instituting Stabilization Procedures</td>
<td>56</td>
</tr>
<tr>
<td>Possibility of Introducing Labor-Saving Equipment</td>
<td>56</td>
</tr>
<tr>
<td>Effects of Guarantee Plans on Organizational and Operational Factors</td>
<td>57</td>
</tr>
<tr>
<td>Effect on Morale</td>
<td>57</td>
</tr>
<tr>
<td>Effect on Executive Ability to Manage</td>
<td>62</td>
</tr>
<tr>
<td>Effect on Public Relations</td>
<td>71</td>
</tr>
<tr>
<td>Effects on Costs and Price Policy of a Firm</td>
<td>72</td>
</tr>
<tr>
<td>Effects on Costs</td>
<td>72</td>
</tr>
<tr>
<td>Effects on Profits</td>
<td>75</td>
</tr>
<tr>
<td>The Problem of Building Reserves</td>
<td>79</td>
</tr>
<tr>
<td>Competitive Position of the Firm</td>
<td>83</td>
</tr>
</tbody>
</table>

## SUMMARY

### CHAPTER IV - PROBLEMS ARISING UNDER CURRENT INDUSTRIAL RELATIONS AND PERSONNEL POLICIES AND PRACTICES

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seniority</td>
<td>91</td>
</tr>
<tr>
<td>Straight and Modified Seniority</td>
<td>92</td>
</tr>
<tr>
<td>Plant-wide, Departmental, and Occupational Seniority</td>
<td>93</td>
</tr>
<tr>
<td>Employee Transfers</td>
<td>99</td>
</tr>
<tr>
<td>Employment Layoff and Discharge Practices</td>
<td>103</td>
</tr>
<tr>
<td>Training</td>
<td>107</td>
</tr>
<tr>
<td>Distribution of Work Policies</td>
<td>108</td>
</tr>
<tr>
<td>Wage Policies</td>
<td>109</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS (Continued)

<table>
<thead>
<tr>
<th>MISCELLANEOUS FACTORS</th>
<th>112</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grievance Procedures</td>
<td>112</td>
</tr>
<tr>
<td>Administrative Procedures</td>
<td>114</td>
</tr>
<tr>
<td>SUMMARY</td>
<td>115</td>
</tr>
</tbody>
</table>

## CHAPTER V - CROSS COSTS OF ANNUAL GUARANTEE PLANS
FOR SELECTED MANUFACTURING FIRMS

<table>
<thead>
<tr>
<th>IMPACT OF SENIORITY ON LIABILITY OF A FIRM</th>
<th>119</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST DATA OF INDIVIDUAL FIRMS</td>
<td>120</td>
</tr>
<tr>
<td>Method of Determining Compensable Idle Time</td>
<td>127</td>
</tr>
<tr>
<td>Presentation of Data</td>
<td>129</td>
</tr>
<tr>
<td>Comparison with Cost Analyses of Latimer Report</td>
<td>133</td>
</tr>
<tr>
<td>SUMMARY</td>
<td>135</td>
</tr>
</tbody>
</table>

## CHAPTER VI - COORDINATION OF GUARANTEED ANNUAL WAGE PLANS WITH UNEMPLOYMENT INSURANCE

<table>
<thead>
<tr>
<th>CURRENT RELATIONSHIP OF WAGE GUARANTEES AND UNEMPLOYMENT COMPENSATION</th>
<th>163</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYMENT OF GUARANTEES FOLLOWED BY UNEMPLOYMENT COMPENSATION</td>
<td>166</td>
</tr>
<tr>
<td>UNEMPLOYMENT COMPENSATION FOLLOWED BY PAYMENT OF GUARANTEES</td>
<td>169</td>
</tr>
<tr>
<td>ROTATION OF GUARANTEE PAYMENTS AND UNEMPLOYMENT COMPENSATION</td>
<td>172</td>
</tr>
<tr>
<td>SUPPLEMENTATION OF UNEMPLOYMENT COMPENSATION WITH ANNUAL GUARANTEE PAYMENTS</td>
<td>174</td>
</tr>
<tr>
<td>LEGAL STATUS OF SUPPLEMENTARY UNEMPLOYMENT COMPENSATION</td>
<td>177</td>
</tr>
<tr>
<td>FEASIBILITY FROM THE EMPLOYER'S POINT OF VIEW</td>
<td>179</td>
</tr>
<tr>
<td>ASPECTS OF PUBLIC POLICY</td>
<td>186</td>
</tr>
<tr>
<td>INCENTIVE TO STABILIZE EMPLOYMENT</td>
<td>194</td>
</tr>
<tr>
<td>EFFECTIVE UNEMPLOYMENT COMPENSATION SYSTEM VERSUS AN INTEGRATED GUARANTEE ARRANGEMENT</td>
<td>197</td>
</tr>
<tr>
<td>SUMMARY</td>
<td>201</td>
</tr>
</tbody>
</table>

## CHAPTER VII - STABILIZATION PROBLEMS AND PRACTICES

<table>
<thead>
<tr>
<th>ECONOMIC CONDITIONS AND STABILIZATION</th>
<th>208</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secular Movements</td>
<td>216</td>
</tr>
<tr>
<td>Cyclical Fluctuations</td>
<td>218</td>
</tr>
<tr>
<td>Seasonal Fluctuations</td>
<td>222</td>
</tr>
<tr>
<td>TABLE OF CONTENTS (Continued)</td>
<td>Page</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>INTER-COMPANY COORDINATION AND COMMUNITY ACTION</td>
<td>233</td>
</tr>
<tr>
<td>SUMMARY</td>
<td>236</td>
</tr>
</tbody>
</table>

CHAPTER VIII - SUMMARY, CONCLUSIONS AND RECOMMENDATIONS | 241 |

- Definitions and Classifications of Guarantee Plans | 242 |
- Development of Annual Guarantee Plans | 243 |
- Objectives and Theories Related to Annual Guarantee Plans | 245 |
- Distinctions between Established and Proposed Plans | 246 |
- Forms of Partial Pay Assurance | 249 |
- Factors Affecting Success of Guarantee Plans | 250 |
- Effects of Guarantees on Organizational Morale | 250 |
- Effects on Executive Ability to Manage | 251 |
- Effects on Public Relations | 251 |
- Effects on Costs and Price Policy | 252 |
- Effects on Industrial Relations and Personnel Policy | 254 |
- Results of Cost Studies | 256 |
- Coordination of Guarantee Benefits with Unemployment Compensation | 259 |
- Possibilities and Advantages of Stabilization | 263 |
- CONCLUSIONS | 268 |
- RECOMMENDATIONS | 272 |
- AREAS FOR FURTHER STUDY | 275 |

BIBLIOGRAPHY | 277 |

AUTOBIOGRAPHY | 282 |
**LIST OF TABLES**

| TABLE I | LABOR COSTS OF LEADING CORPORATIONS | 74 |
| TABLE II | TYPES OF SENIORITY IN EFFECT IN 326 COLLECTIVE BARGAINING AGREEMENTS IN OHIO INDUSTRIAL FIRMS | 93 |
| TABLE III | SENIORITY PATTERN IN 27 TOLEDO, OHIO INDUSTRIAL FIRMS NOVEMBER 30, 1953 | 121 |
| TABLE IV | ARRAYS OF FIRMS BY PER CENT OF EMPLOYEES WITH INDICATED LENGTH OF SERVICE FOR 27 TOLEDO, OHIO INDUSTRIAL FIRMS AS OF NOVEMBER 30, 1953 | 125 |
| TABLE V | MEDIAN PER CENTS OF EMPLOYEES WITH INDICATED LENGTH OF SERVICE FOR 27 TOLEDO, OHIO INDUSTRIAL FIRMS AS OF NOVEMBER 30, 1953 | 127 |
| TABLE VI | HIGH-LOW RANGE OF YEARLY Employment, By End Of Month Totals, ALPHA COMPANY, 1947-1953 | 134 |
| TABLE VII | TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH ONE YEAR OR MORE SENIORITY, ALPHA COMPANY, 1947-1953 | 135 |
| TABLE VIII | TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH TWO YEARS OR MORE SENIORITY, ALPHA COMPANY 1947-1953 | 136 |
| TABLE IX | TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH THREE YEARS OR MORE SENIORITY, ALPHA COMPANY 1947-1953 | 138 |
| TABLE X | TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY, BY EMPLOYEE SENIORITY, ALPHA COMPANY, 1947-1953 | 139 |
LIST OF TABLES (Continued)

TABLE XI  PERCENTAGE OF TOTAL PAYROLL REPRESENTED BY TOTAL GUARANTEE COSTS AND NET LIABILITY COSTS, BY EMPLOYEE SENIORITY, ALPHA COMPANY, 1947-1953 ........................................ 139

TABLE XII  HIGH-LOW RANGE OF YEARLY EMPLOYMENT, BY END OF MONTH TOTALS, BETA COMPANY, 1947-1953 ........................................ 141

TABLE XIII  TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH ONE YEAR OR MORE SENIORITY, BETA COMPANY, 1947-1953 .................. 142

TABLE XIV  TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH TWO YEARS OR MORE SENIORITY, BETA COMPANY, 1947-1953 ............. 144

TABLE XV  TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH THREE YEARS OR MORE SENIORITY, BETA COMPANY, 1947-1953 .................. 146

TABLE XVI  TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY, BY EMPLOYEE SENIORITY, BETA COMPANY, 1947-1953 ........................................ 148

TABLE XVII  PERCENTAGE OF TOTAL PAYROLL REPRESENTED BY TOTAL GUARANTEE COSTS AND NET LIABILITY COSTS, BY EMPLOYEE SENIORITY, BETA COMPANY, 1947-1953 ........................................ 148

TABLE XVIII  HIGH-LOW RANGE OF YEARLY EMPLOYMENT, BY END OF MONTH TOTALS, GAMMA COMPANY, 1948-1953 ........................................ 149

TABLE XIX  TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH ONE YEAR OR MORE SENIORITY, GAMMA COMPANY, 1948-1952 ............. 151
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>XX</td>
<td>Total Adjusted Idle Time and Total Dollar Liability for Employees with Two Years or More Seniority, Gamma Company, 1948-1952</td>
<td>153</td>
</tr>
<tr>
<td>XXI</td>
<td>Total Adjusted Idle Time and Total Dollar Liability for Employees with Three Years or More Seniority, Gamma Company, 1948-1952</td>
<td>154</td>
</tr>
<tr>
<td>XXII</td>
<td>Total Adjusted Idle Time and Total Dollar Liability, by Employee Seniority, Gamma Company, 1948-1952</td>
<td>156</td>
</tr>
<tr>
<td>XXIII</td>
<td>Percentage of Total Payroll Represented by Total Guarantee Costs and Net Liability Costs, by Employee Seniority, Gamma Company, 1948-1952</td>
<td>157</td>
</tr>
<tr>
<td>XXIV</td>
<td>Annual Ranges of Total Employment by End-Of-Month Totals, for 29 Toledo, Ohio Manufacturing Firms, 1947-1953</td>
<td>212</td>
</tr>
</tbody>
</table>
CHAPTER I
INTRODUCTION

Probably no program which has been proposed or initiated for promoting the goals of labor in American industry has held prospects of having a greater impact on industrial management than have the proposals for regularization of wages in the form of annual wage guarantees. The more prominent proposals have been viewed in various ways. Conservative evaluations describe them as having the effect of liberalized unemployment compensation programs, whereby benefit payments would be easier to obtain, would be larger in amount, and would extend over a longer period of time than at present.\footnote{Slichter, Sumner H., "Guaranteed Annual Wage Plans and Supplementary Unemployment Compensation," Industry at the Bargaining Table (Personnel Series No. 156, New York: American Management Association, 1954), p. 7.} Other observations characterize them as embodying demands for union job control\footnote{"The Next American Labor Movement," Fortune, April 1953, p. 122.} and posing the threat of codetermination, or equal union authority in controlling management policies, which would eventually result in cartelization of industry in a strait-jacketed economy.\footnote{Chamber of Commerce of the United States, The Economics of the Guaranteed Annual Wage (Washington, D.C.: Chamber of Commerce of the United States, 1953), p. 23.}
Interest in Annual Wage Guarantees

The interest currently generated in the drive for wage guarantees by labor is related to the continuing drive for worker security. Both management and labor have been active in promoting various employee security programs. Also, some types of wage guarantee plans have proven to be workable in certain industrial firms. Furthermore, many firms have been successful in regularizing production and sales, with stabilization of jobs and worker income following in consequence. The detailed preparation by unions of annual wage guarantee proposals, and the announced intention of securing such guarantees in industry generally, also serve to cause increasing interest in this development as it may affect management. 4

Justification for the Research

For the employee, the guaranteed annual wage means for the reasonably foreseeable future the promise of regular income and security. For the employer a guarantee means undertaking to provide such regular income and security.

4 In 1953 President Walter Reuther of the United Automobile Workers stated: "The guaranteed wage is on the way--some of the gains were won from management the hard way. Others came out of orderly and peaceful negotiations. That is the only choice remaining to management in relation to our guaranteed wage demand--not whether we will get a guaranteed annual wage but how we will get it." United Automobile Workers, 1953 Annual Report (Detroit, Michigan: United Automobile Workers, March 1953), p. 4.
The implication is that the provision will hold whether the worker is employed or whether he is idle. Such an undertaking involves a number of basic management problems which go far beyond the actual wage costs or hourly wage rates in the firm. Business firms are economic enterprises, the activities of which are factors influencing the direction of the economy. It is imperative, therefore, that the implications of guaranteed wage commitments be analyzed in terms of their effects on the management policies and practices of the individual firm.

Some basic management problems would develop as a result of effectuating guaranteed annual wage proposals. These basic management problems have to do with the effects of guaranteed wage proposals on management functions, particularly on certain organizational and operational factors in the enterprise. It is in order to investigate certain of these basic management problems that this research project was undertaken.

**Aim and Scope of the Research**

In order to analyze effectively the significant management problems posed by guaranteed wage plans, and to collect the pertinent information for such analysis, the study was directed along certain lines of investigation. The aims of the study are:

1. To investigate the probable effects of a guaranteed
annual wage on organizational morale, on executive ability to manage, and on the public relations of a firm;

2. to determine the probable effects of a guaranteed annual wage on the price policy, on the financial position, and on the competitive position of a firm;

3. to determine the problems that would arise under a wage guarantee with respect to specific industrial relations policies and practices now prevailing;

4. to determine, on the basis of past employment experience, what would have been the gross cost of a postulated annual wage guarantee in selected manufacturing firms during the period 1947-1953;

5. to analyze the various factors which constitute the gross wage costs, and to determine how changes in these factors would alter the cost;

6. to determine how employment stabilization programs might effect reductions in guaranteed wage costs;

7. to determine, if and where practicable, some of the factors which management might take into consideration in planning a guaranteed or regularized wage system.

This study is a management-oriented project. Throughout the research and analysis of information, an attempt was made to consider the problems as they would be of concern to the management of an individual firm. It should be recognized, however, that the problems of any one firm
may not be precisely the same as those of another firm, or that the problems of an individual firm cannot always be segregated from problems of groups of firms.

While most of the factors which have been analyzed and discussed would apply to business firms in general, emphasis has been placed upon those which would apply in a manufacturing firm. Thus the data which were collected in analyses of specific firms show the situations in manufacturing firms. The studies were made in Toledo, Ohio because of the availability of various kinds of manufacturing firms, from the standpoint of size, type of production, and kind of product.

**Contributions of the Study**

It is believed that certain contributions will be made by this study to the body of knowledge concerning guaranteed and regularized wages. They include the following.

1. A clearer definition than now exists of certain major management problems which would develop under conditions of guaranteed wage plans has been offered. A contribution to the information already known relating to the way in which current personnel practices and policies would implement or impede wage guarantees has been made.

2. A more precise method of calculating the cost of guaranteed wage commitments, based on detailed analysis of actual past employment experience, has been developed.
3. Clarification has been made of the effectiveness of employment stabilization practices in implementing a continuing wage guarantee or wage regularization system by management. The effectiveness of stabilization practices in eliminating seasonal variations will differ from effectiveness with respect to cyclical variation. Certain suggestions on the possibilities for inter-company coordination for stabilizing employment have been offered.

4. Specific recommendations have been made on the action which management should take to determine whether a guarantee type of commitment is feasible for the organization.

Methods Employed in the Study

Several methods were employed in collecting the information for this research project. Examination was made of considerable published material, consisting of historical information, economic analyses of the general problem of guaranteed wages, and limited analyses of specific aspects of the subject. Results of such examination provided helpful background as well as material for evaluating those factors regarding which no actual experience was available, or about which no data could be gathered through primary research.

Interviews and conferences with management personnel in industry and professional research men in the field of
industrial relations were means of acquiring an insight into the issues involved and their magnitude, as well as management attitude toward them.

Analysis of personnel records was made in order to obtain actual employment data on individual workers for the purpose of making detailed cost calculations of potential company liability under various types of guarantees. Examination of labor contracts was made in order to determine, from the provisions therein, the conditions under which cost of guarantees should be calculated. Also a knowledge of such provisions was necessary in order to determine how they would affect the feasibility of a guarantee, and to determine which provisions would be affected by a guarantee proposal.

Form of Presentation

The following chapter presents a resume of the development of wage guarantee programs to date and compares these programs with those currently being proposed by labor. Limited guarantees already in effect generally are also reviewed.

Chapter III discusses briefly the general factors which determine the feasibility of a wage guarantee plan, and analyses the effects of such a plan on certain significant organizational and operational factors.

Chapter IV discusses the problems which would develop
under industrial relations policies and practices which generally prevail at the present time.

Chapter V presents in detail the results of studies made in specific manufacturing firms in order to find what would have been the gross wage costs, under various wage guarantee conditions, during the post-war period following World War II.

Chapter VI analyzes the proposals for combining wage guarantees with an unemployment compensation program.

Chapter VII analyzes the contribution of stabilization practices to a continuing wage regularization program in a firm, and explores the implementation of an inter-company program for employment stabilization on a community basis.

Chapter VIII presents a summary of the findings of the research project and the conclusions to be drawn from the study.

Definition of Terms

The term "guaranteed annual wage" has been used, sometimes rather loosely, in referring to many types of plans for regularizing wages. In many cases such plans do not involve a guarantee at all, neither are they on a year-round basis. A. D. H. Kaplan, a student of the problem for some years, states that many plans may be called annual-wage plans in the sense that they are designed to achieve greater regularity in the annual wages paid to employees.
This, he says, may be done by assuring "a minimum amount of employment or an averaging of weekly wages, or the supplementing of low earnings and inadequate unemployment compensation."\textsuperscript{5} When such plans are alluded to in this study they will be referred to simply as regularized wage plans. While the report to the President of the United States by the Advisory Board, Office of War Mobilization and Reconversion, on guaranteed annual wage plans is often quoted in relation to guaranteed annual wage plans, it should be noted that this report did not limit itself to wage guarantees on a year-round basis. In this report, commonly called the Latimer Report (after Murray W. Latimer, director of the study), a guaranteed wage plan is defined as a plan "under which an employer guarantees to all or a defined unit or group of his employees a wage or employment for at least three months."\textsuperscript{6} Such definition obviously may include many plans now in operation which do not assure wages for a full year.

For purposes of this study the term "guaranteed annual wage plan" means a definite plan for assuring wages in a stipulated amount to a specified portion of the work force.


for a period of one year. Whether this period consists of one year following the granting of the guarantee, or one year following the beginning of the guarantee benefit payments, must be stipulated in the guarantee.
CHAPTER II

BACKGROUND AND THEORY OF GUARANTEE PLANS

TYPES OF PLANS

In tracing the development of guaranteed or regularized plans, several types have been identified. Classification systems often vary, since the term "guaranteed annual wage" has eluded clear and uniform definition. While a guaranteed annual wage implies assurance of work or wages in a specified amount for the period of one year, the term has often been used to include annual work guarantees. The term has frequently been applied to plans which do not actually involve a guarantee, or which are not made on an annual basis at all, but are rather in the nature of regularized income plans.

In a broad sense guarantee plans are classified either according to amount of work or amount of income guaranteed. They can also be classified on the basis of whether they constitute a full guarantee for the period or a partial guarantee. A full guarantee must in turn be qualified as to whether it refers to a guarantee for continuous time or simply a total number of time units guaranteed.

An annual wage guarantee implies assurance of wages in a specified amount for the period of one year. A standard
of measurement must be established to indicate whether the year is a calendar year or a year's period after layoff, and whether the year is to be composed of fifty-two 40-hour weeks or some other unit.

An annual work guarantee promises an amount of work equivalent to one year. The amount may be stated in terms either of hours or work-weeks per year. When the guarantee is for less than the standard work-week or total hours per year it becomes a limited guarantee. Specification of the time units must be clearly stated. The annual work guarantee does not necessarily guarantee a specified level of earnings. It is more common than the annual wage guarantee.

A limited wage guarantee is properly a minimum guarantee of less than the standard rate of pay, while a limited work guarantee holds for less than the standard guaranteed time period. Wage regularization plans provide for advancing to an employee the difference between his earnings and the specified sum guaranteed in periods when the former is less than the latter. The worker repays the loan in work during periods when more than the standard hours are available, except that obligation to repay usually does not extend beyond a specific period, such as the guarantee year. They are sometimes referred to simply as wage advance plans.
DEVELOPMENT OF GUARANTEE PLANS

Early Phases

The history of guarantee plans is generally traced back to the year 1894, when an agreement for an annual wage plan was arrived at between the National Association of Machine Printers and Color Mixers and the National Wallpaper Company. The plan originally provided for an eleven-month guarantee, but two years later was increased to a twelve-month commitment. Other early plans of this period took the form of annual wage guarantees and limited guarantees of work or wages, and were found in the brewery and textile industries and in retailing. During the early 1900's annual work guarantees and various limited guarantees were introduced. Most of these were made by small employers, and were often oral commitments.

During the twentieth century employer interest in guarantee plans appears to have been generated by the occurrence of economic depressions and also by advances made in scientific management. Various plans were introduced after the depressions of 1914, 1921, and 1931. Between 1919 and the passage of unemployment compensation legislation, a

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7 Ibid.
8 Ibid.
number of guarantee plans were introduced which provided for out-of-work benefits rather than for a guarantee of continuous employment. 9

During the 1930's plans for guaranteeing wages or work were introduced at an accelerated rate, no doubt due largely to the depression. Guarantee plans had been introduced at the rate of two to six per year in the 1920's and early 1930's, but during the period 1938-1942 new guarantees were instituted at the rate of 12-23 per year. 10

Wisconsin in the early 1930's encouraged adoption of guarantee plans by means of a compulsory unemployment insurance law passed in 1932. This law exempted employers from tax contributions when they guaranteed forty-two weeks' pay, at 36 hours a week, to their workers. Ninety-six plans were operated under this law. When the law was changed in 1935 to conform to the Federal Social Security Act, employers

9 Ibid., p. 4.

One writer comments that the history of wage guarantees appears to have moved in a circle. He points out that early plans, when no unemployment compensation existed, were mainly private substitutes for it; that present union demands in mass production industries are reminiscent in some ways of the kinds and philosophies of plans before unemployment insurance. He points out, however, that a much different climate exists now, with different questions arising.


did not retain their full tax-exempt status, and the plans were discontinued.\textsuperscript{11}

**Recent Developments**

The current phase in the history of guarantee plans may be said to extend over the last decade. In this period two significant developments have occurred. One is the actual realization in the post-war period of nearly full annual wage guarantees in several areas of business on a multi-firm basis. The other is the relatively rapid crystallization of demands in mass production industries for a guaranteed annual wage, usually at the prevailing rate of earnings, under conditions unprecedented with respect to annual guarantees.

**Plans Recently Put Into Effect.** The Teamsters' Union of the American Federation of Labor during recent years has been actively negotiating guaranteed annual wage plans with a number of employers in the St. Louis area. The pattern has been to sign contracts for a five-year period.\textsuperscript{12} These contracts provide for a guarantee of 2000 straight-time hours, or fifty weeks per year, exclusive of overtime. A constant number of employees are covered, ranging from

\begin{itemize}
\item \textsuperscript{11} U. S. Bureau of Labor Statistics, "Guaranteed Wage Plans in the United States," \textit{op. cit.}, p. 5.
\item \textsuperscript{12} "Analysis of Recently Negotiated Guaranteed Annual Wage Plans," Toledo, Ohio: Manufacturers Engineering Service, April 27, 1954. (Mimeographed)
\end{itemize}
sixty per cent to 100 per cent of the work force in different firms, with eighty per cent being the most common portion covered. Coverage is determined by what is considered a normal work force based on 1952 employment records. Eligibility is determined by seniority. Few escape clauses are provided the employer. Liability extends even to the event that employees are idled by refusal to cross legal picket lines of other unions. In February, 1954, it was reported that contracts including this type of plan had been signed by fifty-one firms in the St. Louis area.\(^\text{13}\)

The sugar industry represents another area of business in which guarantees have become significant recently. During 1952 two sugar refineries negotiated with the United Packinghouse Workers of the CIO and two others concluded agreements with the International Longshoremen of the American Federation of Labor (AFL). The plans are similar in content.\(^\text{14}\) They guarantee approximately 2000 hours of pay per year, excluding overtime. Reasonable escape clauses are included. Employees with one year of service are eligible.


\(^{14}\) "Analysis of Recently Negotiated Guaranteed Annual Wage Plans," *op. cit.*
Recent Union Proposals for Guaranteed Annual Wage Plans. Although none of the proposals for guaranteed annual wages which have been made by the United Steelworkers (USW), the International Union of Electrical Workers (IUE), and the United Automobile Workers (UAW), all unions in the Congress of Industrial Organizations (CIO), has been effectuated, they represent the boldest bid made thus far for large-scale guarantees in durable goods industries.

The development of these proposals can be traced back to 1943 when the CIO first included guaranteed annual wages in its long-range wage policy. In 1944 the Steelworkers requested guarantees of forty hours' work per week for 52 weeks, the amount of the guarantee being determined by multiplying the individual's hourly rate by 2080 hours. When management refused to adopt such a plan, the Steelworkers presented the demand to the National War Labor Board, which refused approval. In 1948 the United Automobile Workers made a request for a guaranteed annual wage to the Ford Motor Company, but the demand was later dropped. In 1951, the United Steelworkers again presented a demand for a guaranteed annual wage, but were again refused by management, and subsequently by the Wage Stabilization Board to which the demand was presented. In 1951 the CIO formally pledged support to its affiliates for obtaining guaranteed annual wage commitments.
In March of 1953 the United Automobile Workers Convention endorsed six principles drawn up for the guidance of local unions in formulating guarantees. The substance of these principles was that the primary goal of a guaranteed annual wage was to stimulate management to provide steady work the year round, and where it fails to do so management should pay in lieu thereof an amount sufficient to maintain normal living standards. All workers with seniority should have a full year's protection, while lesser protection should be given to those not qualifying. Guarantee payments should be integrated with unemployment compensation benefits, and would be administered by a joint board of union and management officials. Financing should combine pay-as-you-go with a reserve trust fund. The pay-as-you-go feature is intended to compensate for short-work weeks. The union holds that these are avoidable through effective planning. Therefore the company should not exhaust the trust fund, and thus its liability to pay for unavoidable layoffs, by reason of bad management.

A Public Advisory Committee was also appointed to review the work of the UAW Guaranteed Annual Wage Study Committee during its progress in developing the plan.

Details of the plan of the United Automobile Workers have recently been made public. They incorporate all the six principles endorsed by the union and summarized above.

Current Status of Guarantee Plans

At the beginning of 1946 the U. S. Bureau of Labor Statistics reported that a total of 347 guarantee plans had been introduced since 1893. The number in effect had increased in each succeeding year (excluding the ninety-six plans discontinued in Wisconsin in 1934) until in 1946 the plans in effect totaled 196.

A study made in 1952 indicated that, out of 2600 collective bargaining agreements, only 184 (7 per cent) provided for a guarantee of even a limited type. Of the 184, only twenty plans provided for annual guarantees of work or wages for a large part or all of the year. Most of these were work guarantees.

If the agreements consummated in recent years in the St. Louis area, and in the sugar refining industry are added to these figures, the total of annual guarantees of work or wages in operation may be placed at approximately eighty.


18 Levine and Nix, op. cit., p. 557.
Reasons for Discontinuance of Plans

The earliest known plan, that in the wallpaper industry, was discontinued in 1930 as a result of disputes over administration of the plan, and also because of the depression. In addition to the depression as a reason for discontinuing guarantee plans, antagonistic union activity and attitudes, wartime conditions, adoption of state unemployment benefit laws, and employee indifference have been given as reasons for failure of guarantee plans to remain in operation.

GOVERNMENTAL INFLUENCE IN DEVELOPMENT OF GUARANTEE PLANS

Governmental agencies have several times figured in the history of guarantee plans. Apart from the Wisconsin experience, legislative provisions relating to wage guarantees have had slight effect on their growth. The area of influence besides that of legislation has been within the scope of decisions made by Federal governmental agencies relating to questions of wages.

The first move by the Federal government in the direction of encouraging guarantees by employers was made in the

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Social Security Act of 1935. Section 1602 (a) and (c) (4) of the Act allows reduced contribution rates through a tax offset provision to employers who guarantee at least thirty hours of work for forty weeks. The employer may deduct one hour per week from the guarantee for each added week guaranteed in the year. The state unemployment compensation law must provide for such plan, and the state administrative agency must approve the plan.

The depression decade of the 1930's also saw the other major legislative provision relative to guarantees enacted. The Fair Labor Standards Act of 1938 required that overtime payments be made to cover employees who worked more than forty hours per week. Exceptions to this requirement were made when employers met certain guarantee conditions. Section 7 (b) (2) (amended in 1949) provides that employees may work up to twelve hours a day and up to 56 hours per week without overtime compensation if the annual employment guarantee is for 1840 to 2080 hours per year, or for not less than forty-six work weeks of at least 30 hours per week. Employees are not permitted to work more than 2240 hours in a year. Overtime must, however, be paid for hours in excess of twelve per day or 56 per week. The provision states that such an arrangement must be part of a collective bargaining agreement with a union certified by the
National Labor Relations Board. 21

Decisions by Federal government agencies which had some impact on guarantee plans were made in 1944 and again in 1951. The 1944 decision came when the United Steelworkers' demand for an annual wage guarantee was refused by management and then taken to the National War Labor Board. Although the Board refused to recommend a guarantee, it did urge that a comprehensive study of the annual wage problem be made. The result was a major study under the auspices of the Office of War Mobilization and Reconversion. 22 The study reported that guaranteed wage plans on an annual basis were desirable and could be made feasible through integration of benefits with unemployment compensation. It cautioned against compulsory guaranteed wages, however.

The second decision by a Federal government agency was made in 1951, when the Steelworkers again asked for an

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21 The government has been criticized for this last provision. Dr. Emerson Schmidt has expressed the view that the government at this point stepped out of its traditional role of governing for all the people by showing favoritism to a minority group, since only about 15,000,000 workers are included in unions. Schmidt, Emerson P., "The Economics of Guaranteed Wages," Practical Approaches to Labor Relations Problems (Personnel Series No. 91. New York: American Management Association, 1945), pp. 25-26.

22 Guaranteed Wages. Report to the President by the Advisory Board, Office of War Mobilization and Reconversion, op. cit.
annual guarantee during contract negotiations, and were again refused by management. The case was presented for the union by Murray W. Latimer, who had directed the 1947 study made by the Office of War Mobilization and Reconversion. The Wage Stabilization Board, which heard the case, refused to recommend a guaranteed wage.

The suggestion that the government might be required to play a larger role than in the past in the area of wage guarantees has been made. As a union publication puts it, How much help the government will have to give depends on how much business can do itself. But what business cannot do by itself or with labor's aid, the people, through our government, must provide.23

OBJECTIVES AND THEORIES OF GUARANTEED WAGE PLANS

The objectives which have been cited for guaranteed annual wage or work plans are numerous. Objectives of management in making a commitment to pay an annual wage are those of assuring the employee a measure of security, of improving morale of the work force, of minimizing employee turnover, and of increasing efficiency of operations.

For labor the objectives of an annual wage commitment are an assured and regularized yearly income as a means of realizing individual security; attainment of status more nearly equal to that of salaried employees; providing

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23 Economic Outlook, May 1947, p. 2.
incentives for regularizing production, and the stabilization of the economy through the maintenance of mass purchasing power, if guarantees are applied to widespread areas of business.

The thinking of labor on how some of these objectives are to be achieved is more readily understandable than is its logic concerning attainment of others. It is necessary to review briefly the major theories underlying guaranteed wage proposals in order to understand the reasoning behind the objectives currently sought by unions.

Dr. Dillard Bird has identified three theories underlying the operation of annual wage or work guarantees:24 the worker security theory, the maintenance of purchasing power theory, and the general stabilization theory. The maintenance of purchasing power theory is so integral to the general stabilization theory, however, that the two theories should probably be considered as constituting a general theory of stabilization of the economy, since purchasing power and purchasing policy underly both theories.

Worker Security Theory

Security is generally regarded as one of the primary objectives of the worker in his employment situation. It is frequently given preference over wage considerations as

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a personal objective. The desire for security was no doubt one of the major factors in initiation of wage guarantees during the depression decade of the 1930's.

According to the worker security theory the stability attending an annual guarantee will satisfy both the psychological and economic needs of workers. The guarantee relieves the fear of loss of a job, resulting in improved employee morale and a better employer-employee relationship. The worker would then apply himself to his job with more enthusiasm and interest, with the result that work slowdowns would be minimized, productivity would be increased, and labor turnover would be decreased, with consequent savings in training costs and preservation of skills in the work force. The assumptions made in this reasoning bear some consideration.

It is questionable whether all employees in a firm can be guaranteed coverage under an annual guarantee without assuming a risk which may be too great financially. In this event, those workers not covered may be subject to even less security than if no guarantee were given. To this possibility there are differing reactions. Professor Joseph L. Snider, in answer to a question as to whether it would be ethical for management to guarantee employment and wages to one group of employees and thereby add to the instability of another part of the work force feels that even though a firm increases the hazards for one group in this way at the
expense of another, a beginning at least will have been made. From there a firm can gradually increase the proportion of the work force under the guarantee.\textsuperscript{25}

Opposed to this view is the suggestion that a distinction between covered and non-covered employees may result in a cleavage and resentment between such employee groups\textsuperscript{26}. There is, of course, the possibility that such a distinction will be an incentive for younger employees to stay with the organization in anticipation of enjoying the same benefits as covered workers do. This does not obviate the fact that the workers with least seniority, and therefore with the least protection, are often those who need it most, but have it least. If the employer were to attempt to reduce his liability under a guarantee by employing as few workers as possible and working these for additional hours rather than keeping on the payroll workers with less seniority, the latter would have even less job security.

There is also the suggestion by one writer that a

\begin{itemize}
\item \textsuperscript{26} \textit{Annual Wages and Employment Stabilization Techniques}, Research Report No. 8 (New York: American Management Association, 1946), p. 27.
\end{itemize}
guarantee might cause the worker to "become lethargic." Snider, however, feels that as long as the company retains the right of discharge for inefficiency the employee could be sufficiently discouraged from taking his job for granted.

The argument has also been advanced that a continuous wage the year round is simply an economic necessity for every worker. Since workers and their families live by the year, their wages, which are labor costs to the firm, can and should be considered as annual costs, it is alleged.

Economic Stabilization Theory

The theory that annual guarantees would bring about economic stability is based on the assumption of guarantees being generally prevalent throughout the economy. It states that such stability would be effected by means of a high and continuous level of mass buying power. In earlier statements of the CIO this view was particularly emphasized.


Philip Murray, late president of the CIO, stated that when workers are assured full employment and economic security they

furnish the backbone for the mass purchasing power so essential for the continued turning of the wheels of industry. If the steelworkers as a group are guaranteed an annual wage, they have the security which permits them to go out and purchase their automobiles, refrigerators and thousands of other articles which require steel.\(^3\)

One union spokesman has characterized the guaranteed annual wage as an income-stabilizing device which will "tend to put a floor, or a higher floor, under national purchasing power."\(^{31}\) A more general statement of the purchasing power effect is that

The guaranteed annual wage is not a cure-all for our economic problems, but it can be the beginning, and the focal point, of a general attack on the basic problem of maintaining full employment in peace time.\(^{32}\)

This view is based on the premise that, since wages and

\(^{30}\)Murray, Philip, "The Guaranteed Annual Wage," Steel Labor, April 1945, p. 11. While such purchasing power is important it should be noted that only approximately twenty-five per cent of the work force is unionized. This therefore represents only a fractional part of total purchasing power.

\(^{31}\) "Guaranteed Wages: The Perennial Problem," Management Record, National Industrial Conference Board, March 1954, p. 98. The statement was made by Marvin Miller in a round-table conference.

\(^{32}\) Progress Report on Guaranteed Annual Wage Preparations, op. cit., p. 3.
salaries constitute roughly two-thirds of the national incomes, making the flow of this income continuous by guarantees will make spending continuous, with the effects being spread throughout the entire economy in the form of a higher level of employment.

Dr. Emerson Schmidt has taken issue with this point of view and the premise on which it is based. He feels that the concept that unemployment is the result of deficiency of income and general spending is not sound.

The real crux of the issue, however, is whether any alleged deficiency of outlay, consumer spending, or new investment is a cause of under-employment or merely a symptom. If it is a symptom or a result of some deeper disturbance, then the artificial effort to maintain incomes, spending and investment will not correct the imbalance. Even if universal annual wages should sustain high prosperity for a time, this gives no assurance that investment and spending would not eventually reach a saturation point in several directions. Speculative building, over-expansion or bidding up of asset values in land, securities, or other property would inevitably get out of line in various segments of the economy and the universal commitment to pay annual wages would finally break down.

The notion that unemployment is due to deficiency of income and general spending finds little support among most economists. Even Karl Marx...remarked that depressions come when wage income is at a peak! He might have added that when consumer or wage income is at an all-time low, at the bottom of a depression, then we begin recovery. This does not give much support to the new philosophy that annual guaranteed wages would insulate us against depression and unemployment in a voluntary society.33

33 Schmidt, Emerson, op. cit., pp. 21-23.
If the annual wage guarantee cannot be credited with averting depressions, then another weakness in this theory becomes apparent. Should a depression occur which would extend over a prolonged period, it is unlikely that even workers covered by a guarantee would care to part with their incomes at a normal rate of spending, since they might anticipate a period of decreased income or no income at all at the expiration of the guarantee commitment.

The guaranteed annual wage has been credited with being able to stabilize the economy to such a degree that the granting of annual guarantees would be possible even in those industries most subject to cyclical depressions.\(^{34}\) In other words, cyclical fluctuations could be leveled out, according to this theory. Durable goods as well as non-durable goods would be bought at a steady rate. A continued guarantee would result in continued income, which would permit a stabilized consumer demand. A stabilized demand for consumers' goods would be reflected back to producer goods industries, bringing about generally a high level of employment on a steady basis.

\(^{34}\) Cf. Chernick, Jack and George C. Hellickson, Guaranteed Annual Wages (Minneapolis: University of Minnesota Press, 1945). It should be noted that the authors based much of their conclusions on the Hormel plan. The Geo. A. Hormel Company of Austin, Minnesota occupies a dominant position in the community, and there the continued success of the plan has served to keep the economy of the community at a satisfactory level for an extended period of time.
In addition to the protests made by Schmidt above, it is appropriate to refer here to opinions of other students of the problem. In an economic analysis of guaranteed wages made by Professors Alvin H. Hansen and Paul A. Samuelson and included as part of the Latimer Report, the effectiveness of guaranteed wages either to maintain consumption over an "appreciable" period of time, or to stabilize the business cycle, finds little support. On the first problem they state that

...economic analysis of guaranteed wages does not seem to substantiate the claim that this device would, as a first approximation, necessarily tend to maintain consumption for any appreciable period of time at the appropriate full employment levels....35

On the matter of stabilizing the business cycle their conclusion is as follows:

Our tentative conclusion is that the guaranteed wage, by itself, is not likely to prove very effective either as a means of stabilizing the cycle or of lifting the level of employment over the cycle....36

Even when guarantees are implemented by reserve funds to make them feasible in the face of business fluctuations, the problem is still not solved, they feel.

36 Ibid., p. 434.
While moderate reserve accumulations could help to iron out the cycle, large reserves might seriously intensify the savings-investment problem. Thus, either way, there are, we believe, rather severe limits to the extent to which the guaranteed wage can iron out the cycle or raise the general level of employment over the cycle.37

In his study of guaranteed wages, A. D. H. Kaplan states that, although payrolls maintained at a high level are important for consumption as a whole, wages do not guarantee the stability of consumption preferences,38 and in his conclusion he elaborates on this as follows:

the chief hope of the annual-wage guarantee as an aid to employment security lies in a faith that the guarantee of current payrolls will stabilize consumer purchasing power and thereby sustain employment across all branches of industry....It oversimplifies the facts of consumer behavior and the flow of consumer incomes, especially as to durable goods, where insecurity of employment is concentrated....

Guaranteed payrolls and mass consumer power do not ensure crucial areas of capital goods production which depends upon new investment.39

A more recent study by the U. S. Bureau of Labor Statistics concludes that "cyclical movements in business activity are considered to be the greatest obstacle to successful operation of a guaranteed wage program (especially in durable goods industries)"40

37 Ibid.
38 Kaplan, op. cit., pp. 177 and 187.
39 Ibid., pp. 238-239.
40 Levine and Mix, op. cit., p. 556.
GENERAL DISTINCTIONS BETWEEN ESTABLISHED PLANS
AND CURRENTLY PROPOSED PLANS

Surveys indicate that until recently, at least, most of the guarantee plans which have been in existence were originally initiated by management, although some were later incorporated into management-labor contracts. In plans or proposals of more recent origin unions have taken an active interest in the development of governing provisions. Some features of recent proposals and recently activated guarantees are similar to the traditional plans. In other features there are departures from the old established plans, particularly in proposals of major CIO unions in mass production industries. Such distinctions are discussed under the following subheadings:

1. Coverage and eligibility
2. Benefits
3. Administration
4. Financing
5. Limitations of Company Liability
6. Control of Business Conditions by Company
7. Miscellaneous Factors

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Brower, op. cit., p. 23.
Coverage and Eligibility

Most company-initiated guarantee plans of one type or another have based eligibility on length of service, thus excluding some workers from the guarantee. Nix and Levine found that of twenty annual wage guarantee plans, most included all "regular" employees, or those who had completed their probationary period, ranging from one to three months.\footnote{Levine and Nix, \textit{op. cit.}, p. 558.}

In the recent plans initiated in sugar refining plants coverage is extended to workers with one year of service. The plans recently put into effect by various employers of AFL Teamster union employees in the St. Louis area cover a predetermined percentage of the work force.

Of the plans advanced by the three major CIO unions, the United Steelworkers' proposal covers employees with three or more years of service; the United Electrical Workers' plan calls for partial coverage for employees with one year of service; and the United Automobile Workers' plan covers all employees who have attained seniority status, but establishes protection against short work weeks for all employees, without regard to length of service.

Benefits

The traditional plans vary in benefit provisions, as their classification by type might suggest. The guarantee may be for a regularized weekly minimum amount, or benefits
may be reimbursement for a guarantee of a stipulated number of weeks, without specifying the number of hours assured per week. Benefits may be in the form of a wage advance, for which repayment in work is expected. In the case of one major plan, that of the Nunn-Bush Company, the covered workers are assured of a predetermined amount of the wholesale value of plant output. Management has generally reserved the right to decrease benefit amounts if necessary. In many plans now in operation, including those in the sugar refining industry, the benefit period is limited to the contract year. One firm guarantees 2000 hours of work at regular pay, and makes benefit payments only at the end of the contract year.

Proposals of the three major CIO unions are similar in that unemployment compensation benefits, and any other earnings received, would be deducted from weekly benefit payments. Benefits in all three plans would be payable for fifty-two weeks from date of unemployment. They differ in amount of benefits to be paid, however. The Steelworkers' plan calls for payments, at base rate, of thirty hours' pay per week. If the employee is not recalled after layoff, he would receive additional severance pay, the amount of which would be based on length of service. The Electrical Workers plan and the United Automobile Workers plan each calls for forty hours pay, the former to be paid at the base rate plus incentives and differentials, the latter requiring pay at
average hourly earning rate.

**Administration**

In the voluntarily established plans administration is generally the responsibility of the company. In one plan there is joint consideration, and even settlement by collective bargaining, of questions which are often considered to be reserved for management action only, such as hours to be worked, layoffs, and discharge.\(^{43}\) It should be pointed out, however, that the union was originally organized for this purpose at the insistence of management.

In the proposed plans offered by the CIO unions, only that of the Steelworkers provides for employer administration of the plan, with disputes being subject to grievance presentation and arbitration. In the plans of both the United Electrical Workers and the United Automobile Workers there would be joint administration by management and union.

**Financing**

In rare instances do traditional plans provide for any special or systematic method of financing benefits other than by direct or out-of-pocket payments. It was noted that the guarantee in the Nunn-Bush plan is based on a ratio of wages to output value. Some wage advance plans provide for a fund in which earnings over the guarantee amount may

\(^{43}\) Brower, *op. cit.*, p. 15.
be deposited and drawn upon during short-work periods. The company may subsidize the fund if work over the guarantee periods does not offset hour shortages.

In the recent proposals of the CIO unions, a reserve fund is to be established for payment of benefits. Such fund is to be financed by payment of either a definite percentage of payroll or payment of a certain amount per hour per employee. Payments into the fund would continue until a predetermined level is reached, after which payments would cease until benefit payments lowered the reserve level.

The United Automobile plan provides for an additional feature of financing. While regular layoffs would be compensated for from the reserve account, time off due to a short-work week would be compensated on a pay-as-you-go basis.

Limitations of Company Liability

The established plans generally provide for modification or discontinuance of the liability of the company under certain conditions. The liability might be reduced or nullified by reason of incidents such as strikes, acts of God, riots, unavoidable loss of markets, material shortages and consequent layoffs due to governmental restrictions, wars and similar factors. In some cases no overtime payments are made, or hours worked over the standard amount are first
balanced off against shortages in previous periods before
the company becomes liable for premium payments for overtime.
Liability is, of course, limited also by means of coverage
and eligibility restrictions.

In the currently proposed plans of the mass production
industry unions, liability would be limited to the amount
of reserves in the guaranteed wage fund. In the United
Automobile Workers' plan, the liability for short work
weeks would be unlimited, since payments would be on a pay-
as-you-go basis, with no limiting provisions.

Since the benefit provisions of the major CIO plans
are tied in with unemployment compensation, liability of
the company would be decreased by the amount of such com­
pensation received. Other earnings would also be deducti­
ble from payments made by the company.

Control of Business Conditions by the Company

This factor is related rather closely to that concern­
ing limitations in company liability, but probably deserves
consideration apart from the latter. It is largely because
firms may not be able to meet benefit obligations on a pay-
as-you-go basis, due to business conditions, that reserve
funds are insisted upon in currently proposed plans.

In the voluntarily established plans, the company re­
tained the right to modify or abrogate the guarantee if
business conditions developed adversely to the point where
the company would be unable to meet financial obligations under a guarantee. Furthermore, as Kaplan puts it, most such guarantees were undertaken after the company had refined its production and marketing policies and practices to the point where it was in control of the business situation with respect to its activities.  

In the current proposals no such consideration is given to the employer's inability to influence business conditions surrounding his activities. The position of the United Automobile workers is quite plain in this respect:

The annual wage...shifts to the employer, where it belongs, the cost of unemployment.... [It] will compel management to take steps in its plant to end the instability of employment for which it is directly responsible. It will lead management to cooperate more readily in developing national economic measures designed to maintain full employment and full production by eliminating the causes of instability over which individual plant managements have no control.  

A high degree of confidence appears to be held by at least one major union group in the ability of management to adapt company operations to meet the obligations imposed on it by a guarantee:

Powerful business groups, when they find they have to pay a substantial part of the cost of unemployment, will find ways to reduce unemployment.  

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44 Kaplan, op. cit., p. 151.
46 "Guaranteed Annual Wages," Economic Outlook, October, 1953, p. 77. The alternatives of the firm not being able to reduce unemployment are referred to in Chapter VII on stabilization.
Miscellaneous Factors

Other distinctions are apparent from examination of provisions of established agreements, and those of currently proposed plans. Management has traditionally reserved the right to transfer employees in a rather flexible manner in order to provide employment for an optimum number of employees covered by guarantees. Also, speaking from experience of operating under a more recent guarantee instituted in 1952 at the National Sugar Refining Company, Mr. Thomas T. Heney, Vice President and Secretary of the company stated:

"It is essential to the sound administration of a guarantee that management be able to assign employees to work at other than their regular jobs --assuming, of course, that such transfers are within the limits of their physical ability."47

In the plans proposed by the three major CIO unions, the right of the management to transfer an employee is limited. Although the worker must be available for work, he need not accept a job if it is not sufficiently similar to his regular work, or more accurately, if it is not considered suitable to his skill. For determining whether work is suitable, the definition and precedents used under unemployment compensation regulations would not be acceptable (even though benefit payments for idle time would be tied in with benefits received under unemployment insurance).

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Instead, such determination would be made by a separate body comprised of management and union representation. Such an arrangement would tend to make for a rather rigid transfer system.

In general, voluntary plans are based on confidence in the stability of the product, and involve the concept of increasing employee productivity, rather than a concept of adding to the labor cost. Also, voluntary plans have given careful consideration to the number of employees required for normal operations, and production and marketing policies have been improved before commitments have been undertaken. The company was usually able to avoid or modify commitments if business conditions proved unfavorable. Usually the guarantees exist where management can control the situation.

In the union-proposed guarantees, the firm assumes a contractual obligation to make payments, but without many of the modifying factors mentioned in the preceding paragraph.

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48 According to Nathan Weinberg, Research Director for the United Automobile Workers, determination of suitability would be made apart from the unemployment compensation regulations because these have been perverted as a result of experience rating. He charges that employers have exerted their influence in obtaining eligibility rulings which are biased against workers. "Employer and Union Spokesmen Discuss Annual Wage Guarantees," Daily Labor Report, Bureau of National Affairs, March 23, 1954, p. BB-6.
FORMS OF PARTIAL GUARANTEES NOW IN EXISTENCE

In addition to guaranteed annual wage plans, a number of formal plans guarantee wages in limited amount or work in limited amount, that is, on less than an annual basis. The majority of plans analyzed in the National Industrial Conference Board study previously cited and in various studies by the U. S. Bureau of Labor Statistics are of such nature.

There are, in addition, other forms of partial wage guarantees which have become part of the wage payment system in industry generally. Some forms are universally prevalent, while others have less widespread application. The fact that they are more or less common suggests that they should at least be mentioned at this point. A list of such partial guarantees would include:

1. Guaranteed hourly rates
2. Guaranteed day rates
3. Guaranteed reporting time and call-in pay
4. Guaranteed pay for lost time
5. Vacation pay
6. Holiday pay
7. Sick pay
8. Severance pay
9. Unemployment compensation
The demand for a guaranteed annual wage plan is, in a sense, a demand for a far-reaching extension of such guarantees as those listed above. Some are in the form of basic wage compensation, while others are known as fringe benefits. All are designed to contribute to the security of the worker.

ADVANTAGES AND DISADVANTAGES OF ANNUAL GUARANTEE PLANS

The impact which annual guarantee plans would have on employers, employees, and the public has been expressed in terms of various advantages and disadvantages, depending on the point of view taken. It is not intended to draw conclusions as to the appropriateness of the various claims for and against guarantees at this point. They are given here in order to assist in providing background for understanding the nature of guarantees. A summary of the alleged advantages and disadvantages includes the following.

Advantages to Employers

1. The security attendant upon wage guarantees would increase individual and group morale in the organization.

2. A lower labor turnover would result as a consequence of assurance of employment, or wages in lieu thereof, thus minimizing cost of recruitment, training, and loss of skills.
3. Improved employee productivity would be realized by management as a result of more conscientious application of effort.

4. Employer efforts to institute new methods or technological equipment would not meet with employee resistance or slowdowns, since fear of loss of jobs would be minimized.

5. General increase in efficiency would be realized, the returns from which could more than offset extra costs of the guarantee.

6. Unit overhead costs would be cut, since stable operations accompanying such plans would permit production with less capital, machinery, and floor space. A fuller utilization of equipment would be effected.

7. Versatility of the work force would be increased, since workers would be transferred to different jobs in order to maintain balanced employment.

8. Good public relations would be enjoyed by the firm.

Disadvantages to Employers

1. Management, under a guarantee commitment, would tend to be cautious with respect to undertaking new ventures which might necessitate employing new workers, employment for whom could not be assured by such new undertakings.

2. Guarantees with insufficient escape clauses could mean financial loss and possible bankruptcy to a firm which could not foresee all eventualities in business conditions.
3. Management would be impeded in its ability to compete if wages became a high fixed cost.

4. Management would have to give up certain prerogatives which are necessary to determining the policy and direction of the firm's operations. A guaranteed wage would mean greater union control asserted in management.

5. Guarantees would pave the way for greater government control over managerial policies and practices, since widespread guarantee commitments would lead to requirements for an assured demand for product, controlled labor supply, and controlled flow of materials.

6. Whenever guarantees could not be met, morale, dissatisfaction and labor turnover would be more adversely affected than if no guarantees had been given.

Advantages to Employees

1. The Worker would benefit economically; he could plan his expenditures, and generally, his future and that of his dependents, on the basis of a stable income.

2. He would benefit psychologically, through attainment of greater peace of mind and self-respect.

3. He would benefit sociologically, through achievement of better social standing in his community.

4. He would tend to participate to a greater degree in the activities of his company, and thereby find an outlet for his interests and abilities.
Disadvantages to Employees

1. The mobility of employees would be restricted, since they will hesitate to leave a job with an assured income for work which carries no immediate eligibility for a guarantee.

2. The worker might have to accept transfer to a job at which he cannot use his optimum skills in order to stay on the payroll. He may have to sacrifice learned skills.

3. If the employer cannot compete successfully because of higher fixed wage costs, the employee might lose not only the guarantee but also his job.

4. Workers not covered by the guarantee might find they have less security than if no guarantee had been made at all.

5. Employment opportunities for marginal workers would diminish as firms become more selective in adding to the work force.

Advantages to the Public

1. Since workers' wages and salaries constitute a very significant portion of national income, assured wages would contribute materially to purchasing power on a large scale, thus helping to sustain employment at high levels.

2. Businessmen generally would invest more capital if they believed that demand for their product will be more stable.
3. The general standard of living on a community and even on a national basis would be raised. The nation could operate on an economy of abundance rather than on an economy of scarcity.

**Disadvantages to the Public**

1. The economy would be "put in a strait jacket," since there might be a tendency to divide up the market between firms to lessen entrepreneurial risk. Also, since new ventures would be inhibited, a stagnant economy could result. The incentive to innovate would be discouraged.

2. A continued recession or depression could have far-reaching repercussions, which might actually be worse under guarantee condition than otherwise. The reluctance of employers to undertake new ventures, and the expiration of guarantees at the end of the benefit periods on a large scale, might plunge the economy into a severe depression.

3. The consumer would eventually have to pay the higher cost of products necessitated by higher fixed costs.

4. Maintenance of wages at a high level in the face of lowered output would tend to encourage inflation.

Probably most of the foregoing advantages and disadvantages have been questioned as to their validity at one time or another. An interesting conclusion has been drawn by Dillard Bird with respect to the advantages claimed for guaranteed wage plans. In a critical evaluation of the
benefits of stabilization and of the advantages and dis-
advantages propounded for the guaranteed annual wage, he
concludes that the values claimed to be derived from wage
guarantees are actually those due to stabilization of
operations, which must precede guarantees. 49

49 Bird, op. cit., p. 90.
CHAPTER III

FACTORS AFFECTING THE FEASIBILITY OF ANNUAL GUARANTEE PLANS FOR INDIVIDUAL FIRMS

The factors which enter into consideration of a guaranteed wage plan are numerous. The effects which such factors will have on the success of a guarantee plan in operation, or the manner in which an activated plan will affect organizational and operational factors within the business firm are significant. They are the concern of students having an academic interest in the problem as well as those who install and operate them. Unfortunately, there is no one view on how the guarantee plans will be affected by certain factors, or the impact which such guarantees will have on the firm. Differences in opinion are indicated by claims of advantages, or disadvantages, which are often diametrically opposite. In discussing the factors which relate to the feasibility of guaranteed wage plans, some limitations must be made of the scope of discussion. There follows, therefore, a brief presentation of some of the more pertinent factors which affect the feasibility of guaranteed wage or work plans in general. The effects of guarantee plans on certain basic organizational and operational factors of concern to administrative management will be considered in following sections.
GENERAL FACTORS WHICH WILL AFFECT THE SUCCESS OF GUARANTEE PLANS

There are many general factors which would determine whether a guaranteed wage or work plan is feasible. Those which are generally considered to be of greater significance to the study of certain basic management problems related to guaranteed wage or work plans as undertaken in this project are discussed below. They consist largely of factors which affect the stability of a firm and its ability to regularize operations, or those which affect the proportion of total costs which labor costs represent.

Kind of Industry

The kind of industry, whether it be transportation, manufacturing, service, or other kind, would be a factor bearing on the feasibility of a guarantee plan. During the course of this investigation a vice-president of a large department store stated that, with the exception of temporary employees hired for the Christmas season, the employees of that establishment had a virtual assurance of employment the

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50 These factors are recognized in a number of sources which give a basic discussion of annual guarantees of work or wages. See, for example,


Bird, *op. cit.*, pp. 7 ff.
year round. The nature of operations was such that security of employment was not a problem, even though no guarantee had ever been formalized. The same situations obtains in banks, insurance firms, public utilities, and similar industries.

**Type of Industry and Method of Manufacture**

The general types of industry are assembly industries, semi-process and process industries. In assembly industries, the product is the result of a number of component parts which are brought together, each part generally passing through operations differing from those performed on other parts. In process industries, one or several raw materials are united in the early stages of operations and pass through the same general operations until the finished product results or one raw material is broken down into several products. There are, of course, varying degrees of assembly or process type industries, with semi-process industries representing those having some characteristics of both.

Either type of industry, assembly or process, may be characterized by intermittent or continuous manufacturing. Intermittent manufacturing is usually found in concerns which operate on a smaller scale than those engaged in continuous manufacturing. Plans are made and operations performed for smaller demand, and equipment is more easily adjusted to meet changing requirements. Continuous manufacturing
requires a sufficiently large volume of products to permit a balance of operations throughout the various stages of production. It requires also standardization of product and of operations. In general, companies employing large numbers of employees tend to be engaged in production which utilizes the continuous method of manufacture for large volume production.

Product Classification and Characteristics

The Standard Industrial Classification of the Department of Commerce establishes industry categories according to the kinds of products manufactured. Of these various kinds of products, some may be classed as producers goods and others as consumers goods. Since producers goods have a derived demand, stability of operations in establishments operating in this field may not be realized to the degree that is found in some consumer goods industries. Producers goods industries are generally engaged in producing items which do not, as a rule, experience a steady rate of use and

51 The standard industrial classification includes the following categories: (1) food and kindred products; (2) tobacco manufactures; (3) textile mill products; (4) apparel and related products; (5) lumber and wood products, except furniture; (6) furniture and fixtures; (7) paper and allied products; (8) printing and publishing industries; (9) chemicals and allied products; (10) petroleum and coal products; (11) rubber products; (12) leather and leather products; (13) stone, clay, and glass products; (14) primary metal industries; (15) fabricated metal products; (16) machinery (except electrical); (17) electrical machinery; (18) transportation equipment; (19) instruments and related products; (20) miscellaneous manufacture.
replacement. Operations may vary over periods of time.

Products may be classed as durable and non-durable goods. Characteristics of durable goods are such that their purchase may be postponed, thus reflecting back on the demand and production plans for those goods. Durable goods may, however, lend themselves to storage without jeopardizing their salability under certain conditions. This allows the regularization of production and employment programs when it can be done. Non-durable goods, on the other hand, may have to be produced closely to the demand pattern without the possibility of producing for inventory. If non-durable goods are purchased on a regular basis, however, their production may be capable of regularized operations and employment.

Method of Distribution

If the method of distribution is such that a firm is assured of purchase of its products in a way that can be anticipated, or if it is in a position to exercise close control over distribution, it will also be in a position to plan production accordingly. The firm may, on the other hand, be restricted to use of methods of distribution which do not permit regularizing of customer buying practices which would in turn permit its own regularization of production schedules and employment. Generally it is also true that the closer a concern is to the customer, in the channel of distribution, the greater is the degree of demand stability.
Ability to Forecast Market Demand

The ability to forecast market demand is a prerequisite to the planning of a stable production organization. Inability to forecast demand effectively may result in sudden changes in the production schedule with consequent impact on the size of the work force.

Number of Employees and Average Employment

The size of the work force might affect the feasibility of a guarantee plan. The larger the number of employees, the more likely would be the tendency to have employees on the payroll above minimum job requirements in order to fill vacancies due to absences, thus increasing guarantee liability. The number of employees and average employment are important in estimating the liability of the firm for a guarantee.

Fluctuations of Employment and Labor Turnover

The extent to which employment fluctuates over periods of time is highly significant in considering the feasibility of guaranteeing wages or work. Such fluctuation may be due to current economic or political events, seasonal production or market influences to cyclical or secular economic trends, or to other causes. The cause is important from the standpoint of the individual firm's ability to exercise control over it. While the firm might be able to minimize fluctuations due to seasonal causes, it might be powerless to
regularize employment in the face of a government edict regulating control of materials to meet an emergency. It might be able to alleviate only slightly fluctuations due to cyclical or secular changes.

Labor turnover might be a factor in gauging the stability of the work force, and the advisability of granting guarantees. The turnover experience, particularly where seniority is a factor in determining potential liability for a guarantee is important. Generally the highest turnover in a firm occurs among low seniority employees.

**Employee Representation**

The nature of employee representation might make considerable difference in the manner in which the subject of guarantees would be approached, and in the degree to which management would be allowed to provide for assurance of employment and wages at its discretion. The presence of a union would make a difference in the type of agreement for a guarantee which would result. The type of union present would make a difference in the kind of pressures exerted upon management in considering the problem of guarantees.

**Ratio of Labor Costs to Total Costs**

The proportion of total costs which are represented by labor costs would, to a considerable extent, determine the risk involved in a guarantee. In industries where the payroll is the major cost component, the liability of the
company would obviously be much greater than where labor costs are minor relative to other cost factors.

**Ratio of Labor Costs to Sales**

The proportion of sales which labor costs represent might assist the firm in estimating probable increase in sales that might be necessitated in order to cover possible profit decrease resulting from guarantee costs.

**Possibility of Instituting Stabilization Procedures**

In firms where little study has been made of feasibility of stabilization methods, or in which stabilization procedures cannot be introduced effectively, the chances of irregular production and employment are greater than where stabilization has become part of management policy.

**Possibility of Introducing Labor-Saving Equipment**

A firm may find that by mechanizing its operations, or introducing other labor-saving devices, the total number of workers and thus the total wage bill, may be reduced. Fixed costs resulting from installation of more equipment may be less than fixed costs occasioned by wage guarantees to the former number of workers.

If the movement toward automation is extended widely, the future may see many firms with very high fixed costs due to efforts to produce with a minimum number of workers. It should be remembered, however, that there are factors
which limit the degree of automation which is practicable.

The various factors discussed above are, of course, frequently interdependent. It is difficult to evaluate the importance of one without taking into consideration the effect on the feasibility of a guarantee of other factors included.

EFFECTS OF GUARANTEE PLANS ON ORGANIZATIONAL AND OPERATIONAL FACTORS

Effect on Morale

In discussing wage guarantees relative to industrial relations the Latimer Report makes a succinct statement which bears keeping in mind when analyzing the effect of annual guarantees on morale:

It is the benefits arising from sound industrial relations that justify employers in undertaking wage guarantee obligations; without these benefits wage guarantees could not be good business....

The benefits of good labor relations... should be reflected in improved efficiency and reduced costs of production.52

Good morale has been defined as a mental condition which determines the attitudes of individuals and groups so as to induce them to subordinate voluntarily their personal objectives to the service objectives of the organization.53

52 Guaranteed Wages, Report to the President by the Advisory Board, op. cit., p. 169.

A favorable effect of guarantee plans on morale would also be a favorable effect on industrial relations in the organization. An economic justification for such plans could be, in part at least, that they represent an investment in morale.

The favorable state of morale would be brought about by the security offered under guarantees. Security is therefore a morale factor. Morale as a factor in productivity, and security as a morale factor, are therefore considered in the following discussion.

The importance of the effect of guarantees on morale lies in the fact that higher productivity is expected when morale is good in the organization. Thus it is anticipated that there would be an additional input of labor which will result in additional production. This supposition is apparently based on the assumption that the amount of input of labor can be regulated or at least influenced to a significant degree by the worker. When morale is high, the worker will (1) apply himself with greater zeal to the job, and (2) will not be tempted to practice restriction of output to prevent unemployment.

The Latimer Report suggests that the potential influence of wage guarantees on "progressive improvement of productivity" is of primary importance.\textsuperscript{54} It reports that

\textsuperscript{54}\textit{Guaranteed Wages, Report to the President by the Advisory Board, Office of War Mobilization and Reconversion, op. cit., p. 169.}
that there is no basis for the viewpoint that productivity
is improved by insecurity because workers will "hustle in
inverse ratio to the remoteness of the threat of lay­
off." Instead studies by the U. S. Bureau of Labor
Statistics are cited to indicate that in no cases where
guarantee plans had been discontinued was reduction in
productivity given as the reason. In a number of case his­
tories, company heads believed such plans to have contrib­
uted substantially to increased productivity. Opposed to
this view are opinions previously cited (see Chapter II,
page 27).

Although the importance of the contribution of labor
to productivity should not be minimized, it is necessary to
recognize that other very important factors also influence
productivity, such as technological developments and mana­
gerial ability. There is a limit to the extent to which
input of labor can be effected with resulting influences on
productivity. It is reported that in 1850 the mechanical

55 Ibid.
56 Ibid., p. 170.
57 A list of such factors would include "technological
developments, the rate of operations, the competitive bal­
ance between producing units, the regularity of materials
supply, the effectiveness of management, the skill of the
work force, the state of labor relations, and other factors,
including in many cases the weather." Woytinsky, W. S. and
Associates, Employment and Wages in the United States (New
supplement to human energy used in production amounted to roughly one-third of the human total, while by 1940 it was twenty-five times greater.\textsuperscript{58} The Twentieth Century Fund study which reported this fact points out that the real foundation of greater productivity is in the steady accumulation of technical knowledge, and that many of the developments of modern technology have been concerned with reducing the demands on physical energy, on continued mental concentration, or for skills that can be acquired only over long periods of time. To sum it up, the great and growing productivity which we enjoy today has been made possible by putting into the hands of labor vastly more effective means of production than simple hand implements originally used for manual labor. Thus the question might be raised as to how much positive effect on productivity would be realized even if workers were motivated through higher morale to contribute added effort to production operations.

In their analysis of guaranteed wages, Hansen and Samuelson recognized that guarantees might increase man-hour productivity, but felt that their effect on productivity was not clear or certain, particularly in the event that guarantees became general. They felt that, in any event, gains in productivity did not necessarily mean that stability or full employment were assured as a consequence.\textsuperscript{59}

\textsuperscript{58} Ibid., p. 76.
\textsuperscript{59} Ibid., p. 149.
Further, Professor J. M. Clark, who commented on the Hansen-Samuelson analysis, felt that the timing of the effect on productivity would be different than supposed.

Experience seems to show that when bad times threaten, workers work harder, and increase their output. It is when a lay-off does not immediately impend that workers are urged to make their jobs last as long as possible, by restraining output. This is complicated by the effect of reduced output in increasing indirect costs per unit produced, so that total labor cost per unit of product may rise, or output per man-hour fall, on account of this latter factor, which has nothing to do with the attitude of the workers, or how well they work.\textsuperscript{60}

Whether morale would even be improved by consummating a guaranteed annual wage or work agreement may be questioned on the basis of findings reported by C. Wilson Randle. In discussions with major automobile, steel, and electrical concerns, and the unions which have been proposing annual guarantee plans to these companies, he found that unions were in some cases having difficulty getting active backing of their membership for guaranteed wage demands. Many members were still insisting on direct benefits in terms of wage increases, improved pensions and insurance plans.\textsuperscript{61} It is conceivable, that, in a sizeable work force, a large number of the workers might have considerable seniority and therefore have little fear of layoff. In such event they

\textsuperscript{60} Ibid., p. 465.

\textsuperscript{61} Randle, op. cit., p. 15.
might resent seeing money which they might have received in wages being used to provide for idle time compensation for younger workers.

Whether security is necessarily a morale factor would then have to be considered from the standpoint of (1) the worker who is covered by the guarantee and (a) whether he is a high-seniority worker who sees part of his wage go to someone else who is laid off, or become deferred wages which he may or may not receive, or (b) whether he is a low seniority man who will be among the first laid off but is assured an income; and (2) from the standpoint of the worker who is not covered by the guarantee, and therefore who would have less assurance of stable employment by reason of greater security being assured to covered workers.

Even if workers would not resent guarantees, the firm which grants a guarantee according to a pattern already set by others may find its employees expecting such concession as a matter of course without the favorable morale benefits anticipated.

**Effect on Executive Ability to Manage**

The premise that annual guarantee plans, particularly as currently proposed, would have a limiting effect on managerial freedom of action has met with little challenge. It may be in this area that the effects of the guaranteed annual wage will have a more serious impact, both in the
short and long run, than it will be in the area of costs.

The management of a firm has the responsibility for its operations. Management receives its authority to carry out its responsibilities either by reason of the fact that it owns the firm, or that it has been appointed by the owners. The right of ownership is based on the right of property.

Some limitation of the authority to manage the activities of the organization result from legislative provisions, such as, for example, labor laws. Management may accept further limitations on its right to manage through agreements negotiated through collective bargaining. At some point, however, further limitation of the right to plan, organize, and control the activities of the organization must necessarily reach the point where management does not have the requisite authority to carry out its delegated responsibilities. The primary objectives of the organization might be in danger of being relegated to a position of importance secondary to personal objectives represented by worker interests, or to broad social objectives. A primary principle of management would have been violated, for while the latter objectives are important, the very existence of the firm depends on its ability to achieve its primary objectives of producing goods or services which customers will purchase.

In comparing the traditional established plans with
those more recently proposed, it was pointed out that sufficient escape clauses were present in the former so that conditions of liability were not made excessively rigid. The administration of the plans is in most cases in the hands of management, even when the plan is the result of union-management negotiation. In some cases the formal guarantee of certain hours or wages may not even be present, but the plan has come to be viewed as a formal commitment because of the continued stability of operations. In the plans proposed by the major mass production unions few escape clauses are provided.

There are a number of factors which may contribute to imbalance or instability of business activities which may be outside the control of the management of the individual plant. Such unstabilizing effects might be the cause of unexpected disemployment which will directly affect the liability of the company. Among such factors, of which there are many, are strikes in the plants which supply the company, or in firms which purchase the company's products. Mention was made in Chapter II of the contract between the teamsters' union and various employer firms which make the firm liable for the guarantee even when union members are idled by their own refusal to cross legal picket lines of other plants.

Shortages of raw materials may cause idle production periods leading to employee layoffs, as may shortages of
special skills. Wartime conditions, or for that matter, any emergency condition which may lead to restriction of source of supply and markets, and general government allocation of material and personnel will impose conditions under which it may be impossible for the employer to maintain operational stability or even organizational flexibility to the degree of accommodation required by such conditions. It is even conceivable that shifts in consumer choice may be so abrupt as to leave the employer with insufficient time to adapt his product to market demand. The result might be a decrease of the work force. An individual plant management has relatively little influence on the general level of economic activity. Some effective steps are often possible to counteract the problem of seasonal fluctuations. Much less can be done to alter the effects of cyclical and secular changes on company operations.\textsuperscript{62}

In attempting to point out the difficulty of controlling factors influencing stability of operations, Dr. Emerson Schmidt states

\begin{quote}
Different industries, companies, and plants are subjected to a wide range of forces affecting the degree of stability and instability. To make matters even more confusing, the power of management to overcome or offset instability of
\end{quote}

\textsuperscript{62} Effectiveness of management efforts in dealing with problems of seasonal, cyclical, and secular variations is considered in Chapter VII.
employment or market demand may vary from nearly zero to nearly 100%.

Since the factors mentioned in the preceding paragraphs are beyond the control of management, they present a problem when it is asked to guarantee wages or work on an annual basis. Indirectly, management may feel restricted in its decisions concerning operations. Since employee wages become a fixed liability, a policy of reluctance in employing additional workers may be adopted. As two students of the problem have concluded:

Carried to the extreme, he may refrain from adding new products or otherwise expanding his business because he does not want to incur the liability involved in taking on new employees— not to mention his inflexibility in laying off employees while making model changes or technological improvements.64

Besides the indirect way in which executive ability to manage may be affected, there are more direct ways. The trend in the development of annual guarantee plans indicates that they are becoming the subject of bargaining between labor and management, and that in the proposals advanced and the negotiations that ensue, labor is asserting a greater voice in areas of decision which management has generally regarded as being exclusively within its


prerogatives. Thus the question of how much the right to manage can be shared by management with unions is raised. If management is to discharge the function for which it exists, namely that of planning, organizing and controlling the activities of the organization, there must be definite limits to which it can share such responsibility with other forces without abdicating its position.

The implication of the foregoing is that if the guaranteed wage impairs the employer's right to manage, this may be detrimental to the public interest if such curtailment of the management functions adversely affects the volume and quality of output or the price at which it can be sold.

There is little question, however, as to whether an annual guarantee of work or wages is legally bargainable between unions and management. The Inland Steel case\(^{65}\) is probably the most frequently cited in support of annual guarantees of work or wages being appropriate subjects of bargaining. The case dealt with bargainability of pensions. Pensions were held to be "wages" and "conditions of employment." It is the opinion of students considering the legal aspects of the subject that annual guarantees of work or

\(^{65}\) Inland Steel Company v. NIRB, 15 LABOR CASES, Sec. 64, 737, 170 F. (2d.) 247 (CA-7, 1948) cert. den. 336 U.S., 960 (1949).
wages would be regarded in the same way. Such conclusion is a logical one.

Under current proposals of plans the union aspires to a considerable degree of authority in developing the conditions of the guarantee. While the general attitude has been that of a willingness to accommodate the plans to the conditions in the individual company, that is, to adopt the policy of flexibility, the basic provisions are being adamantly insisted upon. One of the major provisions illustrating the intention of the union to participate actively in the control of the plan is found in the plan of the United Automobile Workers. Here a provision for joint administration of the plan, including joint decision of eligibility for benefits, indicates a determination to exercise additional union influence. If eligibility is defined in such a way as to permit the worker to draw benefits even if he declines work not closely related to his skill, or so as to impede transferability in any other way, the ability of management to act in stabilizing employment

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67 Chernick and Hellickson found that in the guarantee plan of Proctor and Gamble top executives felt it is not a subject for collective bargaining. At Hormel work schedules are discussed between management and union regularly. In the Nunn-Bush plan a full-time industrial engineer is a member of the union executive staff and receives his salary jointly from union and management. Cf. Chernick and Hellickson, op. cit., p. 32.
in the plant is restricted.

Probably a more significant question is whether detailed guarantee plans, such as that of the United Automobile Workers portends potential management sharing in areas not immediately related to wages, hours, and work conditions, extending to co-management of all activities of the firm. For example, plant location might be intimately associated with guarantee plans, yet would be outside the scope of such bargainable issues as wages, hours, and working conditions. The provisions of the plans of the three major CIO mass-production unions include establishment of reserve trust funds; the autoworkers' plan provides for reinsurance of the fund. If these provisions are made a part of the management-labor contract the union will be interested in the status and disposition of the trust fund. Under a joint administration arrangement, it is conceivable that the union will interest itself in the reserves, dividends and perhaps the profits of the company. It will have a financial stake in continuing the source of the benefits.

If the union were to interest itself to the extent of observing closely the financing of the guarantee, both the pay-as-you-go and the reserve fund financing, the question arises whether the union would interest itself in other operations of the firm, such as sales and production policies. At least some interests fear just such development. One major company which is faced with a guaranteed wage demand,
states its position thus:

But if employment failed to be as steady as was assumed by the rates quoted by the union, the union officials are likely to conduct a grand investigation of management's action to see if the blame for the wrong guess can't be put there. Union administrators of the trust fund would demand and examine every available fact and figure of the company's past actions and future programs as to prices, production levels, rate and nature of technological changes, size and location of plants, selling methods, and so on....

Since all these would affect the solvency of the fund, the union administrators would inevitably demand and get some authority—along with the management representatives of the fund—to approve or disapprove these and practically all other of the activities of the Company.68

The company further states that this condition might develop into control much larger in scope, since international unions would be involved, with representation on joint boards of competing firms in the same industry. This, the company contends, would probably be in accordance with the stated objective of the CIO, when it called for industry-wide councils to administer prices, production, investment, technological changes and other factors.69

The finances necessary to establish reserve funds and to provide for pay-as-you-go payments would necessarily have


69 Ibid.
to come from any or all of three sources: profits, wages, or dividends. With a direct interest by unions in the establishment and preservation of funds, they could be expected to demand a voice with respect to such sources.

**Effect on Public Relations**

An announcement of the adoption of an annual guarantee of wages or work would no doubt have a very salutary effect on public relations of a firm. This would be particularly true when the firm is the first in the industry or in the community to take such step.

There would probably be less positive effects on public relations where the initiation of a guarantee would be made in response to general pressure exerted on a firm, or where it follows a pattern of adoption which has become widespread. Nevertheless, where a meaningful guaranteed wage or work plan were introduced it would indicate a consciousness of social responsibility on the part of the firm. The objectives of an organization include social objectives, of contributing values which will add to the social welfare of the community.\(^7\)\(^0\) To the degree to which the initiation and successful operation of a guarantee will fulfill those objectives, the opportunity for improved public relations will present itself.

In the event the guarantee were ineffective, both in

\(^7\)\(^0\) Davis, *op. cit.*, p. 103.
the provisions originally decided upon and in the protection of income assured during the operation of the plan, the public relations benefits would be decreased. Where such a program failed altogether, with a consequent disillusionment of employees and the public, the effect on public relations would probably be negative, and might even be extremely damaging.

EFFECTS ON COSTS AND PRICE POLICY OF A FIRM

Effects on Costs

The firm which undertook an annual guarantee of work or wages would be concerned over its effects in the areas of costs, prices and financial position and policy. Gross costs are analyzed in more detail in Chapter V. Here some general possibilities of costs and effects on price policy will be discussed.

If wages were to be guaranteed at certain levels they would become fixed costs, added to those already regularly incurred by the firm. Any increase in fixed costs would tend to raise the break-even point. Therefore any justification for guarantees would have to be demonstrated by counter-balancing factors, such as cost savings or increased prices.

The relationships which wage costs bear to total costs in a firm will be significant in determining the effect of annual guarantee plans on costs. Where wages are a
relatively small part of total costs, additional costs occasioned by guarantees can be borne more easily than in instances where the proportion of total costs represented by wages is relatively large. The manner in which the relationship of wages may vary is seen by the following table. This shows the average labor costs of leading industrial corporations in different industries. While percentages are given relative to gross revenue the approximate relation to total costs may be inferred from the data shown.

It is notable that the three industries indicated as having the lowest proportion of wages and salaries to gross revenues are process industries.

It becomes obvious from inspection of the above table that if an increase of six per cent in wage costs were to be incurred by added guarantee costs in a sugar refining firm, the impact on the costs would be relatively small. Wages as a per cent of gross revenues would be increased to ten per cent. In the case of an average firm in the coal industry a six per cent increase in payroll costs would result in wages assuming a proportion equal to 44 per cent of gross revenues. Such an increase could make an appreciable difference in the profit position of a firm. A large margin of profit may be able to absorb such cost increases. To quote the Latimer Report, however,
<table>
<thead>
<tr>
<th>Industry</th>
<th>Wages and Salaries as Per Cent of Gross Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>41.5</td>
</tr>
<tr>
<td>Aircraft Manufacturing</td>
<td>33.0</td>
</tr>
<tr>
<td>Auto Parts</td>
<td>35.1</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>34.3</td>
</tr>
<tr>
<td>Machinery--Industrial</td>
<td>35.1</td>
</tr>
<tr>
<td>Electrical Products</td>
<td>35.3</td>
</tr>
<tr>
<td>Metal Fabricating</td>
<td>27.5</td>
</tr>
<tr>
<td>Building</td>
<td>29.5</td>
</tr>
<tr>
<td>Rail Equipment</td>
<td>27.7</td>
</tr>
<tr>
<td>Tires and Rubber</td>
<td>29.6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>26.8</td>
</tr>
<tr>
<td>Oil</td>
<td>15.6</td>
</tr>
<tr>
<td>Sugar</td>
<td>9.4</td>
</tr>
</tbody>
</table>

* Source: The Outlook, July 19, 1954, Standard and Poor's, p. 714-717.
There is no generally accepted criterion of the ability of profits to absorb cost increases. The situation is, furthermore, different in each industry if not in each firm....

That the situation may be very different in each industry is illustrated by the fact that although labor costs in the steel firms represented in the table above amounted to an average of 34.3 per cent of net sales, individual firm experience ranged from 14.1 per cent to 48.1 per cent of sales. Such variation makes impossible an attempt to generalize on the precise impact of increased costs through guarantees.

A guarantee commitment may become an added cost during a period of business decline and layoff for the firm. Profits might also decline at such time. Therefore the ability to pay for such costs out of profits would be less. At any rate, a firm would be reluctant to cover such costs by an increase in prices at such time.

Effects on Profits

While it might be expected that profits would be adversely affected when a firm experiences marked fluctuations, this is apparently not necessarily so. Hansen and Samuelson cite an unpublished study of the Office of Price Administration to show that in industries with great seasonal and

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71 Guaranteed Wages, Report to the President, op. cit., p. 167.
cyclical fluctuations, there does not appear to be a strong relationship between profits and stability. Nevertheless, they conclude that even though the rate of profit in unstable industries would remain relatively unaffected (in the event of widespread guarantees) profits still would probably have to bear the burden of extra costs incurred through guarantees. Although profit rates might be equalized over all industries in the long run, the "equilibrium rate of profit" would be lower under widespread guarantees than where wages are a variable cost. Again speaking of the effect of guarantees on the profit position they state:

Depending upon the variability of the industry and upon the limitations placed upon the guarantee, we could expect profits to fall in the short run after the plans are first put into effect--unless indeed the plans induced an increase in efficiency. In the longer run, and to the extent that capital can be made mobile, capacity and output would gradually shrink in the more variable industries.

More and more the burden would then be shifted forward through higher prices, or backward upon wage rates in general--not through actual pay cuts, perhaps, but through a slowing up of the rate of increase of real wage rates.74

One study of the interrelationship of unionism, wage trends, and income distribution from 1914 to 1947 found that

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72 Guaranteed Wages, Report to the President, op. cit., p. 426.

73 Hansen and Samuelson point out that such lower "equilibrium rate of profit" would have repercussions on consumption, savings and investment. Ibid., p. 427.

74 Ibid.
while wages increased considerably over this period, even resulting in a net gain relative to other factors of production, profits increased a total of five per cent. This conclusion might be construed to place a different effect on profits than that which Professors Hansen and Samuelson attribute to them. Consideration of payment of wages for idle time, which would be the case under guarantees, may not necessarily make the two conclusions contradictory to each other, however.

It has been pointed out that in the event that idle time cannot be avoided, the costs must rise and consequently a more effective system of pricing is developed which charges to consumers the social cost of such unavoidable idleness. In the case of the individual firm, it is hardly possible that prices can always be adjusted easily so as to absorb the increased cost of guaranteed wages at any time that such costs could not be offset by benefits derived through operations of guarantees.

The cost of unavoidable idle time would have to be


76 Guaranteed Wages, Report to the President, op. cit., p. 167.

77 Actual costs of unavoidable idle time are considered in greater detail in the cost analyses made in Chapter V, where analysis is made of gross costs of specific firms.
offset by other factors, since the term itself implies inability to stabilize completely employment in the firm. Assuming that such offsetting factors, such as lower training costs or higher productivity would result, it is improbable that they would always be sufficiently less to offset idle time costs in many instances.\textsuperscript{78}

Sumner Slichter has stated\textsuperscript{79} that an employer cannot afford to pay for much labor that is not performed or that is not worth to him about what he pays for it, and therefore an annual guarantee presupposes two conditions. The first is that the employer can effectively control the number of jobs in his plant. This, he points out, occurs in successful (not marginal) firms in non-cyclical industries. The second condition is that adoption of annual guarantees on a wide scale will stabilize total employment, thus limiting the amount of unemployment to the point where no large payments for idle time or for work of little value will be necessary. This requirement is oversimplified, he feels, by failure to compute how wide an adoption would be necessary for such stabilizing effect. It is oversimplified also,

\textsuperscript{78} Estimates of guarantee costs for specific plants for the period 1937-41 as reported in the Latimer Report ranged as high as 222.1 per cent of actual payroll. \textit{Guaranteed Wages, Report to the President, op. cit.}, Appendix B9, pp. 250-273.

\textsuperscript{79} Slichter, Sumner, "Guaranteed Annual Wage Plans and Supplementary Unemployment Compensation," \textit{op. cit.}, p. 4.
he notes, by failure to consider the hazard to firms which first adopt and are bound by such plan before it becomes widespread enough to produce the expected stabilization. He feels, therefore, that in such a case the need for reserve funds are indicated.

The Problem of Building Reserves

The problem of building reserves has a number of facets. It would affect the financial position and policies of the firm. The time of building the reserves and the means by which such funds can be acquired are factors in the problem as well as is the impact of such reserves on the total economy.

Generally it is advocated that such reserve funds should be built up during periods of prosperity, which will then tide over the business commitments through a period of employment instability. In a period of high demand a firm could be expected to be in a better position to contribute to an additional fund. This is especially true since contributions to unemployment compensation generally decline under experience rating at such times. A high level of activity and the attendant optimism would encourage confidence in the ability to assume the additional obligation.

A firm might consider supplying trust fund finances from undistributed profits or dividend reserves. In this case it would also have to consider the consequences of reallocating such moneys. Such funds would not be available
for plowing back into the business, or for distributing to investors, thus contributing to basic long-term risk of business decline, and possible instability.

Gains realized from stabilization of operations may put the firm in a better position to contribute to a reserve trust fund. Paradoxically, stabilization would also decrease the need for such funds.\textsuperscript{80} Regularity of operations, with attendant benefits of optimum utilization of equipment and labor, might reduce cost per unit, permitting a greater profit margin, higher profits, and increased ability to contribute to the fund.

The prospects for shifting the burden of higher guarantee costs by means of higher prices has been discussed. Reserve funds might be financed through higher prices under certain conditions. Kaplan believes that there would be a tendency to increase prices during a period of high demand as long as the market holds up. When a recession sets in, however, cut-throat competition is to be expected in an effort to keep laborers at work.\textsuperscript{81} The fixed costs created by wage guarantees, he notes, must widen the spread between high prices at peak levels and low prices in recession or depression periods.

\textsuperscript{80} Stabilization of seasonal variations would have less impact on the need for reserve funds than would leveling out of cyclical variations.

\textsuperscript{81} Kaplan, \textit{op. cit.}, p. 161.
Employee contributions might be resorted to in the building of reserves. This method has met with the general disapproval of unions. The contention is sometimes made that there is no more justification for employee contributions to a guaranteed wage trust fund than there is for contributions to the unemployment compensation fund. The response to such contention usually is that the firm is already making its share of contributions in the form of unemployment insurance premiums. Mr. Harlow H. Curtice, president of General Motors Corporation, has declared that the employer has in nearly all states paid all of the unemployment insurance fund; that the questions of how much should be paid for unemployed time, for how long, and to whom it should be paid have been answered by state legislatures after due consideration of all points of view.\textsuperscript{82}

Indeed, several management spokesmen have suggested that the problem of establishing a guaranteed annual wage program would be solved by putting the entire plan, its development, administration and financing into the hands of the union.\textsuperscript{83} By employee contributions on a per-hour basis, the fund could be built up rapidly, the union could develop

\textsuperscript{82}Wall Street Journal, January 21, 1954, p. 4.

\textsuperscript{83}Molthrop, David M., Pros and Cons of the Guaranteed Annual Wage, a speech before the 12th Annual Industrial Relations Conference, University of Minnesota, April 6, 1954. Rising, Frank, The Guaranteed Annual Wage—How to Accomplish It, a speech before the Industrial Relations Association of Detroit, May 13, 1954.
and control the administration of the plan independently of management, it is contended. The argument is further that such an arrangement would remove legal obstacles to guaranteed annual wage plans which are combined with the unemployment compensation system.\footnote{Legal obstacles to a guarantee plan coordinated with unemployment insurance benefits are discussed in detail in Chapter VI.}

The Hormel plan provides for withholding that part of an employee's pay which exceeds the stated weekly guarantee (other than incentive earnings). This amount is retained for payment to the employee during short-work weeks. Thus the plan has a contributing feature. To the extent that employee contributions reduce the hazards incurred by the company providing the entire amount of the fund, and to the extent that greater employee participation and interest in operations will result, a contributory plan has merit.

If money allocated for guaranteed wage reserve funds could be considered as a tax deductible item, additional incentive to set up such funds would be provided. The cost of providing such reserves would be decreased. Until the present time, however, no provision has been made for taking tax exemptions on such funds, as is the case with pension funds.

Thus the problem of building reserves for guarantees breaks down into the problems of sources of funds and the impact of tapping such sources.
Competitive Position of the Firm

Ordinarily the competitive position will be influenced by the degree of control which the firm exercises over the market and by the way in which buyers will respond to changes in prices. If one firm were to institute a guarantee, which would add wage costs for idle time or which would necessitate reserves, and if it enjoyed a monopoly position, the additional costs could be recovered through higher prices. If a firm were to institute a guarantee but were in a field with competitors who did not offer guarantees, it would find it difficult to increase its prices in order to recover guarantee costs. It is possible, moreover, that if a guaranteeing firm were to increase prices to cover a guarantee, even under conditions of considerable control, buyers might resort to alternative products, thus placing the firm at a disadvantage.

The degree of general instability of the economy is a final factor in considering the effects of a guarantee on the costs and price policies of a firm. The extent of total purchasing power and its fluctuation would be a very real factor in the firm's estimate of whether regular operations can be anticipated, regular employment can be assured, and guarantee commitments can be met. Price increases to cover guarantee payments or reserve financing would, during a period of declining consumer buying power, affect demand to a greater extent than during a period of increasing demand.
Furthermore, guarantees become costs during a period of declining demand, when layoffs occur. As pointed out previously, there is intensified pressure not to increase costs, but rather to keep the employees at work. Thus such a period is most unfavorable for passing along guarantee costs in the form of higher prices, since a firm might actually have to lower its prices in order to remain in the market.

A firm might attempt to maintain its competitive position through non-price competition. Quality of product might be emphasized, depending on a high degree of employee cooperation to maintain quality standards. Whether this would be successful can only be a matter of speculation.

**SUMMARY**

There are many factors which might affect the success of a guaranteed wage plan. The more significant include the (1) kind of industry, (2) type of industry and method of manufacture, (3) product classification and characteristics, (4) method of distribution, (5) ability to forecast market demand, (6) number of employees and average employment, (7) fluctuations of employment and labor turnover, (8) employee representation, (9) ratio of labor costs to total costs, (10) possibility of instituting stabilization procedures, and (11) prospects for introducing labor-saving equipment.

Organizational morale would in general be favorably
affected by guarantee plans which assured substantial security. Some elements of the work force may not respond favorably to guarantees. Workers with considerable seniority may resent wages, which might have been paid them, being allocated for idle time payments to workers with less service. Workers not covered because of insufficient seniority might feel less secure than where no guarantee exists.

The ability to increase productivity through increased morale has limitations. The worker’s contribution is only one factor in productivity. It is often outweighed in importance by other factors, such as technical knowledge.

The guaranteed annual wage will probably have its most serious impact on the executive ability to manage. The trend of guarantee proposals is toward limiting the use of escape clauses for circumstances beyond the control of individual management, toward union participation in development and administration of plans, and toward advance assurance of meeting liability through reserves. Management might feel restricted indirectly since it will be cautious in employing new workers or undertaking new ventures. Direct limitations would result from sharing administration of guarantee provisions with the union, and the probable increased interest exercised by unions in the operations of the firm so as to assure stability of employment and sufficiency of the reserve fund. If management agrees to an
increasingly greater degree of sharing of managerial functions with labor, there must come a point at which it simply does not have the authority to carry out its responsibilities of accomplishing the objectives of the organization in the order of their importance. The primary objectives of producing a product or service may be relegated to a level of secondary importance. Personal objectives may assume a position of primary importance if these represent the objectives to be acquired through union influence in the management functions.

The effect of guarantees on public relations would generally be very favorable, particularly where the firm is the first in the area or industry to establish a guaranteed wage plan.

The effects of a guarantee plan on costs and price policy of a firm are not easily determined. It is difficult to generalize on the capacity or tendency of profits to absorb cost increases. Wage costs as a proportion of total costs vary markedly among industries and among firms in an industry. Since guaranteed wage costs would add to total fixed costs, the breakeven point would tend to rise. Benefits which might accrue from guarantees would not always offset such increased costs. A firm would be inclined to pass along added costs through higher prices. This would not always be possible, since the guarantee would become a
liability usually during a period of decline in demand. Pressure to hold prices firm or even decrease them would develop. In the case of widespread guarantees it is more likely that costs would be passed along in the form of higher prices. The "equilibrium rate of profits" would probably be lowered generally, which might affect investment, consumption, and savings.

An employer cannot afford to pay for much idle time. The hazards of committing a firm to pay for periods of time not worked can be mitigated within limitations by providing reserve funds.

The problem of building reserves will involve the timing of contributions to the fund and the source of such funds. The financial position and policy of the firm may be affected. A firm would be in a better position to build reserves during periods of prosperity. Funds might be supplied from undistributed profits or dividend reserves; gains from stabilization of operations, higher prices, employee contributions, withholding out of employees pay, and saving from tax deductions, if tax exemptions on such funds were allowed.

The competitive position of the firm might be affected. In a high wage cost firm, and in an industry where guarantees were not widely prevalent, the competitive position of a guaranteeing firm might be weakened. During a period of economic instability particularly, the firm would find it
difficult to compete price-wise. Whether ability to com-
peste on a non-price basis (by producing a better quality
product, for example) would be possible can only be a
matter of speculation.
CHAPTER IV

PROBLEMS ARISING UNDER CURRENT INDUSTRIAL RELATIONS
AND PERSONNEL POLICIES AND PRACTICES

It was suggested in Chapter III that one of the more serious effects of an annual guarantee of work or wages under proposed plans would be to limit executive ability to manage to a degree beyond which it now extends. It was also pointed out that serious consequences may result when management functions of planning, organizing, and controlling the activities of the enterprise are deterred to the point where operations are no longer guided effectively by those designated to do so. Management must maintain an organization designed to carry out as effectively and economically as possible the objectives set for it. Such an organization must maintain a satisfactory degree of flexibility and stability. Executive authority to manage is frequently assured in a management-labor contract by the inclusion of a "management prerogatives" clause. An

85 "Organizational flexibility" has been defined as the ability of the organization to adjust to temporary changes in business conditions without serious loss of economy or effectiveness.

"Organizational stability" has been defined as the ability of the organization to adjust to loss of personnel without serious loss of economy or effectiveness. Davis, Ralph C., Fundamentals of Top Management, op. cit., p. 801.
example of such a clause is the following:

1. Management prerogatives and the exercise thereof shall be unqualified, shall remain exclusively in the Management and shall include without limitation all matters not covered by this Agreement as well as the following, to the extent that the following are not limited or modified by the terms and conditions of this Agreement:

(a) The prerogative to hire, promote, assign to shifts, maintain discipline and efficiency, discharge and discipline all employees for a justifiable reason.

(b) The prerogative to determine the type of work to be performed, the location of work within the plants, the schedules of production, the schedules of working hours and the methods, processes and means of manufacture.

Also included in the contract are certain provisions which assure for employees definite terms regarding their wages, hours of work, and working conditions. Through collective bargaining by a certified union, employees have the right to participate in determining such conditions. They become a part of the industrial relations policies which the firm follows. In those firms which formulate personnel or industrial relations policies without union participation, such policies are usually similar in nature to those influenced by collective bargaining. Provisions may often be more liberal in such instances, or management may see fit to be more conservative in determining circumstances of employment than where a union exists. At any

rate, over a period of time certain general policies and practices have been developed in the areas of seniority, selection, training, transfer, layoff and rehire, discharge, and wages. Existing concepts or prevailing practices with respect to these factors will present some very practical problems to a firm which seeks to operate under an annual guarantee plan.

SENIORITY

When the coverage of a guarantee is determined by the seniority status of employees, as is the case with many established and proposed plans, the pattern of seniority indicates partially the liability which a company would assume under a guarantee. The extent to which seniority may vary among different firms, or within a firm over a period of time, is treated more fully in Chapter V which deals with gross costs of guarantees. There are, however, problems concerning seniority which would be met in the determination of provisions of a guarantee plan. Concepts about seniority which have been developed over long periods may have to be revised if any degree of practicality is to be approached in granting guarantees of work or wages.

Seniority may be classified as (1) straight, or strict seniority and (2) modified, or contingent seniority. More generally, however, seniority provisions in practice are classified according to three types: (1) plant-wide
seniority, (2) departmental seniority, and (3) classification or occupational seniority. The two classifications are not mutually exclusive. Determination of individual seniority rights within plant-wide, departmental, or occupational seniority is made on the basis of either straight or contingent seniority.

**Straight and Modified Seniority**

Straight seniority implies determination of seniority strictly on length of service. Modified, or contingent seniority provides that length of service plus additional factors, such as training, knowledge, skill, or family status are considered in determining seniority. Each type of seniority, as a factor in determining who should be laid off or transferred, poses some problems. When transfer is made on the basis of straight seniority it may be questionable whether the most effective transfers can be accomplished. The individual with the greatest length of service may be able to exercise his right to "bump" another individual with less seniority but with the result that needed skills are lost to the job. Such "bumping" may continue to the point where, if a layoff does occur, it may affect only an individual with insufficient seniority to be eligible for guaranteed pay.

When contingent seniority prevails, an individual may be retained on a job because of certain skills he possesses. The individual who may eventually be subject to layoff may
be eligible for a guarantee. He may or may not have more seniority than the worker who is kept on the job. At any rate, when eligibility for a guarantee payment is at stake, either type of seniority may result in aggravation on the part of those employees who may feel their seniority is a basis for unfair discrimination against them.

**Plant-wide, Departmental, and Occupational Seniority**

In a recent study of 326 collective bargaining agreements of Ohio firms, types of seniority were distributed as shown in Table II.

<table>
<thead>
<tr>
<th>Type of Seniority</th>
<th>Number of Firms (as per cent of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational</td>
<td>1.2</td>
</tr>
<tr>
<td>Departmental</td>
<td>38.3</td>
</tr>
<tr>
<td>Plant-wide</td>
<td>29.8</td>
</tr>
<tr>
<td>Departmental and Occupational</td>
<td>1.5</td>
</tr>
<tr>
<td>Plant-wide and Departmental</td>
<td>25.3</td>
</tr>
<tr>
<td>Plant-wide, Departmental, and Occupational</td>
<td>3.9</td>
</tr>
</tbody>
</table>

The terms are self-explanatory; that is, plant-wide seniority denotes application of seniority rights to the

entire plant, departmental seniority to the department, and occupational seniority to the work classification or occupation involved.

The type of seniority which exists in a firm will affect the manner in which transfers and layoffs are made. It will have a bearing on the liability which a firm assumes under an annual guarantee plan.

Management has frequently preferred to follow a practice of applying departmental or even occupational seniority rather than plant-wide seniority. The problem of transfer by individuals to other jobs by way of the "bumping" privilege is thus minimized. Loss of skills developed on one job is not necessary, neither is a re-training for the new job to which the worker transfers. Under a wage guarantee, however, such types of seniority would preclude older workers from "bumping" down through a series of jobs, eventually resulting in layoff of younger workers who would not be eligible for guarantee payments. Instead, workers would become excess and be laid off simply by virtue of decreased work in their own departments or within their particular occupational classification. Thus, the liability of the company would probably be greater than under plant-wide seniority, since not only would more workers of eligible seniority be disemployed, but the average or base rates of such workers would tend to be higher than younger workers.

On the other hand, management has in general been
reluctant to accept plant-wide seniority, principally for the reason mentioned above. Although the transfer privilege held by workers would tend to increase the flexibility of the work force, management would constantly be faced with the task of re-training workers for new jobs assumed. Smooth production would be hampered because of the necessity for taking time to bring each new worker up to average productive ability. With the work force becoming a constant factor in operations and wages becoming a more fixed cost, management would find it necessary to minimize payments made for idle time. It would be expedient, and even necessary, cost-wise, to retain on employment status as many of those employees as possible who are eligible for guarantees. Therefore, a firm undertaking a guarantee would tend to prefer to operate on a plant-wide seniority basis. Transfers would frequently have to be made to other departments or occupations, since layoffs do not always result from a plant-wide reduction in the work force, but often occur because of decreased operations which affect only particular departments or occupations. Whether management could afford to make such transfers without reservations is doubtful. Certainly some workers with specialized skills would have to be kept on the job whether or not their length of service suggested that they be next in line for transfer.

Under present seniority practices it is entirely possible
that employees with seniority just above the minimum for guarantee eligibility would be laid off, while employees with longer service would be required to stay on the job. The younger workers would draw guarantee benefits from the source to which older workers might feel entitled to have priority claim. Such a situation might suggest the need for considering a reverse system of seniority, by which older workers would be entitled to layoff and idle benefits first. A compromise might result where oldest workers, in point of seniority, would be laid off after the younger workers not yet eligible are laid off. A problem is involved here also, however, Older workers usually have greater skills and are those upon whom management often places the greatest reliance. Management would be loath to part with the older worker first. Such a situation illustrates again how collateral personal objectives might take precedence over primary objectives of the organization.

Even the very inclusive coverage stipulated by the United Automobile Workers recognizes that workers younger in point of service may not be able to expect the same protection as afforded to the older workers, and proposes a graduated benefit for low seniority workers. Its plan states:

There is a limit to the degree of protection that a guaranteed annual wage can provide for low seniority workers without risk of drying up the job opportunities available for new workers, particularly younger workers.88

That this problem has not gone unrecognized is also indicated by the guarantee proposal of the United Electrical Workers' union. That proposal divides the trust fund into three parts, each reserved for certain seniority classifications. When that part of the fund reserved for a specific seniority classification is exhausted, no more payments would presumably be made to workers in that category. To this proposal, the management of one electrical manufacturing firm expresses itself as follows:

How could anyone entertain the idea that he could or would lay off a long-service employee with no pay when a short-service employee had used up the fund! The union proposes to avoid this problem by dividing the trust fund into three parts, each of which would be reserved for employees in a certain seniority bracket....

The liability of a three-part fund would be surely no less than the liabilities of a single-part fund, and the problems as to what was fair would certainly be more than tripled. With one part of the fund exhausted, who could or should, in all fairness, leave the other parts untapped when a laid-off employee—even one of relatively short service—was not receiving the guarantee benefits, to which he had been led to believe he was entitled—and was failing to get benefits because of some bad guess the union and management had made in allocating funds to the various brackets.89

While the management would logically advocate a system of seniority which would permit a minimum of layoffs of older workers, the labor interests would be concerned with providing some protection of work standards and skills, even at the risk of increasing the cost of a guarantee to management.

89 The So-called "Guaranteed Annual Wage" Demand, op. cit., p. 11.
It is for this reason that special provisions for determining suitability of re-assignment of work are included in such plans as that proposed by the Automobile Workers' union. If the job, to which an older worker is assigned by reason of a downturn in the production schedule, is not sufficiently similar to his regular work or suitable to his skills, he may decline a job and take a layoff under such suitability provisions. He would then be eligible for guarantee benefits.

It must be recognized, of course, that the subject of suitable work under an annual guarantee plan is one which lends itself to differences of opinion. Just as is true in unemployment compensation today, there would have to be some sort of an agency to resolve differences of opinion to resolve differences between labor and management.

Craft unions have also been very much aware of the possible effects on skill standards which they have developed over a period of years. For this reason probably, craft unions have been less enthusiastic about obtaining annual guarantees than those unions with plant-wide membership. Mr. Boris Shishkin, Director of Research for the American Federation of Labor, expresses an opinion concerning this as follows:

In striving for the very real contribution which an annual wage guarantee can make to necessary employment stability, unions must be ever mindful of the danger that a guarantee may become
an end in itself rather than one means of achieving greater stability. Annual wage guarantees should not be negotiated at the price of concessions far out of proportion to their likely value or at the risk of abandoning hard-won union wage and other employment standards.90

Another reason for craft unions showing less interest in guarantees than have industrial unions is that in many instances craft unions embrace special skills which are often necessary to the operation of the enterprise even when other workers in production jobs are laid off.

EMPLOYEE TRANSFERS

The problems arising under seniority provisions are related to those concerning transfer policies and practices. Under plant-wide seniority workers would be transferred between departments and occupations in order to give older workers priority claim to remaining work when the work force declined. When the employer has such authority to transfer workers, seniority rights, skill and craft lines may be broken down. Kaplan points out that unions would have a vital interest in transfers to other than regular jobs, especially if jobs to which workers were transferred happened to be under the jurisdiction of another union.91


91 Kaplan, op. cit., p. 147.
Shishkin feels that "it is easy to see that a policy which stresses indiscriminate transfers could quickly wipe out long-established union work standards." The suitability provisions of proposed CIO plans are aimed directly at preventing transfers which would result in work assignments much out of line with present type of work or degree of skill.

Yet if management is to maintain the degree of internal flexibility which is necessary under ordinary conditions of operation, as well as for the purpose of sustaining an annual guarantee of work or wages, it must look to its transfer system to provide a great deal of the necessary level of effectiveness. To lay off personnel in some skill classifications while hiring workers to fill jobs in others would not only give the appearance of bad personnel practice, but would also result in idle payment costs which might well be excessively burdensome to the firm.

A number of instances in practice illustrate the vital importance of being able to transfer employees with some degree of flexibility when available work declines. The experience of the National Sugar Refining Company is one of the most interesting. Within the last several years annual guarantee plans were negotiated in its New York plant, where

93 Heney, op. cit., p. 162.
bargaining rights are held by a CIO union, and in its Philadelphia plant, where the bargaining unit is an AFL union. In its CIO contract a clause provided that employees must do any work to which assigned, providing they were physically capable, and that the assignment "did not depart from usual practice." (This latter stipulation was described as not being very restrictive, in view of previously prevailing flexibility in work assignments at the plant.) In its AFL contract, however, such a clause was not permitted by the union. The result was a condition which management feels may be too difficult to tolerate. As an official of the firm describes it:

If an employee cannot be moved to a department where there is more work, he is in effect demanding that he should be paid for not working. Most unions have always denied that they want this; in fact,...our AFL union,...disavowed any interest in being paid for not working. But when they were actually faced with it, they could not tolerate the thought of working at jobs other than their usual ones.

...in view of the number of hours which we were then called upon to guarantee,...we don't know at what point it will pinch so hard that we can't live with it. The guaranteed annual wage without provision for transferring employees from job to job is proving in practice to be every bit as burdensome and expensive an arrangement as we had anticipated.\(^94\)

In an older guarantee plan, that of McCormick and Company, one study finds that "the most important factor in stabilizing employment has been the company's policy of

\(^{94}\text{Ibid.}, p. 163.\)
universal transfer of factory labor under the centralized control of the production office.\textsuperscript{95}

A transfer plan is also a characteristic of the famous Geo. A. Hormel and Company plan. Because of the seasonal variation in work of some departments, an entire group of workers might move out of its regular department and assume some other productive work in another department.\textsuperscript{96} This firm reported early in the spring of 1954 that it was experiencing its first real difficulty with the guarantee plan since 1934.\textsuperscript{97} Small quantities of hogs delivered to the plant at abnormally high prices resulted in some doubt that management could fulfill its guarantee commitments. The company reported that only the provisions for balancing short-work weeks with overtime at later periods, and permitting shifting of workers between departments, enabled the firm to meet its payroll.

The Namm Store, a department store in Brooklyn, was forced to discontinue its guarantee plan as a result of curtailment of its flexible transfer system. It is reported that when the store was unionized, seniority rules were on a departmental basis, and the company felt that sufficient flexibility of transfer was not possible under such a contract.

\textsuperscript{95} Brower, \textit{op. cit.}, p. 19.

\textsuperscript{96} Snyder, \textit{Guarantee of Work and Wages, op. cit.}, p. 84.

The guaranteed annual wage plan was therefore discontinued in 1944.98

Even when a sufficiently flexible transfer system is inaugurated to implement a guarantee plan, personnel problems still confront management. Aside from providing for training to newly assigned employees, the workers themselves may resent frequent changes, and insecurity and discrimination may be felt by workers. As one study points out, the "transfer may be resented as a reflection on ability; the new work may be unfamiliar and difficult, the new co-workers hard to get along with, the pay and social status reduced."99 Such problems call for development of personnel policies which provide for preparing the worker for possible transfer, both with respect to skills and attitudes.

Transfer policies also give rise to the issue of wages to be paid under varying working conditions. This is discussed in a subsequent section of this chapter.

**EMPLOYMENT LAYOFF AND DISCHARGE PRACTICES**

Under an annual guarantee plan a firm can be expected to exercise caution in its selection and placement practices. Since added persons may become a fixed liability, the employer will be reluctant to add any more new workers than

98 Snyder, op. cit., p. 84.

99 Annual Wages and Employment Stabilization Techniques, op. cit., p. 76.
necessary. He will wish to be certain that those workers who are hired will be of the caliber necessary for effective performance of job assignments. It is probable that selection techniques to obtain more competent workers would be introduced. The employer would find it desirable to acquire personnel who could be depended upon for maximum productivity and who would be least likely to incur idle time which would have to be compensated for under the guarantee. Indeed, as wage guarantees cause labor to be regarded as an increasingly costly factor of production, industry generally may be expected to raise its sights with respect to the qualifications of the workers which it hires.

One study100 of guarantee plans reports an effective method of follow-up on selection to assure the maintenance of a satisfactory caliber of worker. In the firm employing this method the guarantee is in the form of an individual contract with each employee. When the contract is due for renewal, the department head examines the employee's record. If the record is not satisfactory, the supervisor need not approve a renewal. This practice has been effective in eliminating continued employment of unsatisfactory workers simply out of habit or inertia. If the contract is renewed, however, the employee is given an extra two weeks' pay to maintain and stimulate his interest in the plan.

100 Ibid., p. 47.
It would be costly to the employer for employees in one department to be laid off while new employees were being hired for use in another department. A central clearing station would probably be necessary to secure information from departments as to pending excesses of workers. These workers would then be re-assigned wherever possible, and hiring of new workers would be minimized. Vacations and slow seasons might be adjusted so as to minimize hiring of new workers who might only be needed temporarily.

It has been a general policy for some firms in the past to rely on part-time or temporary workers to meet demands of high-activity periods. Such policy has generally met with disapproval by unions where they exist, since it has been viewed as a means of circumventing the hiring of workers who become permanent union members.

It has been suggested that a labor pool be created in order to meet needs for increased labor. This pool, it has also been proposed, could be made up of employees whose regular employment has been terminated. Such employees could be available for any work assignments, wherever they develop. While such a plan has some merit, it would present some problems, also. Such employees would naturally desire to return to their regular jobs when these were

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again available. Also the employees would require some training, probably, in order to develop the necessary degree of versatility for such an assignment. When returning to their original jobs at which they hold seniority, such versatility might be lost to management. It is true that some firms have special crews of workers who constitute just such a labor reserve, but these are a permanent feature of the personnel program.

Because of the greater stake which both the company and the employees would have in the continuation or termination of the individual's job under a guarantee, both parties could be expected to circumscribe their positions with contract conditions most favorable to themselves, in event of a separation. While production layoffs have been the subject of much bargaining because of their relation to seniority, the union would probably seek to provide for a minimum of escape clauses in layoff provisions designed to keep costs to management at the lowest possible figure. Management would, on the other hand, probably attempt to bargain for layoff provisions which would require guarantee payments in no greater amount than necessary. The union would probably attempt to minimize the application of disciplinary layoffs, since these would ordinarily not leave the employee eligible for guarantee benefits. It is possible

102 Annual Wages and Employment Stabilization Techniques, op. cit., p. 76.
that disciplinary layoffs would increasingly become a mat-

ter for grievance committees to debate.

Under a guarantee plan, the loss of a job would be a
rather serious matter. Resistance to discharges of employ-
ees would almost certainly be increased, and the work of
management-labor grievance committees complicated in this
way. The situation would be made more acute if guaranteed
wage or work plans were to become widespread. Other firms
having guarantee plans in effect would be more cautious
about employing additional workers, thus the opportunity to
find employment elsewhere would diminish. Older workers
particularly, who had built up eligibility for a guarantee,
and who because of their age would experience difficulty in
getting a job at another firm, would be loath to accept a
permanent separation and would wish their representatives
to prevent such from happening. On the other hand, manage-
ment would be eager to emphasize the development of a produc-
tive work force. It would be inclined to separate unsatis-
factory employees wherever it deemed such a move to be in
the best interest of economy and efficiency.

TRAINING

The necessity for utilization of workers on other than
their regular jobs in order to sustain a guarantee has already
been pointed out in preceding discussions. To minimize the
time it takes for a worker to adjust to the requirements of
a job, and thus minimize loss of productivity, management would be confronted with the problem of developing training techniques, and perhaps an entire training program, for such eventuality. Such special training might become a major activity in terms of time and expense, since increased skills and flexibility would take on greatly added importance. In addition to the problems attendant upon providing the additional training, some other possible difficulties have been cited. It is reported that some foremen have complained that versatility training results in some loss of specialized skills. Another complaint cited by the same study is that employees who are given training expect to use acquired skills to obtain promotion and better pay. When opportunity for these rewards does not present itself, the employee may become critical of training policies.

DISTRIBUTION OF WORK POLICIES

In some firms there is to be found a policy of distributing remaining work on some predetermined basis when production schedules decline. Such share-the-work policy may be incorporated in the management-labor agreement. The manner in which the work is to be shared may vary. Remaining work may be distributed equitably among all employees before any layoffs are contemplated; or employees with

\[103\text{Ibid., p. 77.}\]
little seniority, such as those with less than a year, may be laid off, after which work is distributed among the remainder of the work force. There is, of course, a limit to the extent to which work can be shared without laying off workers. When the total amount of work per week per individual reaches some point below the regular work week, earnings would be insufficient to warrant continuing to work. Employees would feel, furthermore, that unemployment benefits if they could qualify for them, would be preferable to continuing to work at a wage insufficient to meet their basic needs.

From the standpoint of the management, a share-the-work policy might be a means of decreasing the total liability of the firm. Layoff of older workers would be deferred. When a share-the-work policy cuts across union lines or tends to destroy craft lines, it might again meet with resistance by labor, however.

WAGE POLICIES

The wage policies and practices would be affected in a substantial way by the operation of a guaranteed wage or work plan. It has already been pointed out in previous discussion that wages would tend to become a fixed cost to the firm. Present proposals stipulate that in the event a worker is transferred to another job in order to keep him on the payroll, he will continue to receive wages based on
his past earnings, such as, for example, his past average weekly wages. Much of the work that has gone into scientific determination of the wages for a job based on the worth of that job would become ineffective.\textsuperscript{104} The value of job evaluation would become questionable if, in a period of numerous transfers, wages paid to a worker would be based on past earnings rather than on present performance. The wage rate structure in the firm could become extremely distorted. There is the related feature of incentives where they exist, which may put wages even more out of line with the basic rate structure. It has been suggested that established wage rates which are based upon higher differentials for skilled work may be threatened.\textsuperscript{105} This may be another reason why craft unions have been less enthusiastic about applying pressure for annual guarantee plans than industrial unions.

Management would certainly wish to minimize the extra costs occasioned by policies of working overtime. Some older established guarantee plans eliminate payment of premium rates for overtime by complying with provisions of the Fair Labor Standards Act which permits balancing of short

\textsuperscript{104} It would appear that unit labor costs would be increasing at a time when prices would normally be decreasing. This could increase the rate of failures during a time of declining business.

work weeks by working overtime, within limits, during other
weeks. Wages earned above the regular weekly amount are
put into a fund which is drawn upon during short work
weeks. A system of deferred wages is thus established.
Current proposals, however, will not tolerate avoidance of
premium payment for overtime hours worked.

It has been argued that wages under an annual guaran­
tee plan would be on a more suitable basis, and would meet
the requirement that wage systems should and can be tailored
to fit the peculiar needs of the industry and firms within
the industry, and would also supply economic security.
This is the position of Chernick and Hellickson in their
study of guaranteed annual wages. It can be summarized in
their own words.

This volume has sought to present the theory
that the traditional wage system of industry is
obsolete and that, for the well-being of individ­
uals and society as a whole, it must be supplanted
by a mechanism that will make the operation of the
economy more efficient. The contention is that,
although the annual wage may not be a perfect
mechanism, it deserves a fair trial until something
better is conceived.106

It has also been suggested that salary status be extend­
ed to workers to the extent possible.107 This implies con­
tinuous employment. It does not assure guaranteed income
or guaranteed work, however, any more than jobs are guaran­

106 Chernick and Hellickson, op. cit., p. 139.

107 The Guaranteed Annual Wage: An Active Issue, op.
cit., p. 24.
teed to most white collar workers when the need for their services diminishes. There is, of course, some psychological value in granting salary status to employees. It would result in changes in administration of compensation. Payment would not necessarily be gauged to actual work performed. The setting of incentives might be made more difficult.

In view of the above problems which would present themselves, it is obvious that complexities of administration of compensation policies would be increased under an annual guarantee plan.¹⁰⁸

MISCELLANEOUS FACTORS

Grievance Procedures

Any guarantee agreement arrived at between management and the union would be incorporated in the management-labor contract. Because such a condition would be new, and because of its great impact on both management and workers, a considerable number of differences and problems could be expected to arise in connection with the contract clauses. Certainly the number of grievances submitted would tend to

¹⁰⁸ There is also the possibility that under a coordinated guaranteed wage-unemployment compensation plan, payments made under a guarantee for idle time could not be considered as wages under unemployment insurance laws. This question is discussed in detail in Chapter VI, which deals with the proposal to tie in guarantee payments with unemployment benefits.
increase during the time that understanding about such clauses was being crystallized. Even after contract clauses became clarified and standardized, there would still be considerable interest by each party to the contract in protecting or enhancing its position. Because of the stake in a favorable interpretation of the provisions, workers who had any doubt about their claim to benefits would not hesitate to bring pressure upon their representatives to carry their grievances regarding guarantees through the grievance machinery to the top levels if necessary. Management would not be easily inclined to grant benefits where there was any degree of doubt as to eligibility, and particularly would it wish to avoid setting costly precedents in granting benefits.

Several of the CIO plans propose setting up a system of administration which would integrate guarantee benefits with unemployment compensation, but would provide a separate system for determining eligibility, apart from that provided by the unemployment insurance laws. Presumably any claims by employees for guaranteed wage benefits would be directed at and through this system. To such a proposal Mr. Philip Arnow of the U. S. Bureau of Labor Statistics inquires whether it is "really sound industrial relations practice to contemplate setting up a complicated grievance machinery paralleling the unemployment insurance disqualification
system. Dr. Sumner Slichter characterizes such a private system as "undesirable," and opines that the suggestion that private machinery be created to replace public machinery is a more or less impertinent one.

Administrative Procedures

A detailed discussion of the managerial problems of an integrated guaranteed wage-unemployment compensation program is included in Chapter VI. It is appropriate here, however, to mention, at least, the procedural difficulties that may arise under such an arrangement. If, as the proposed plans stipulate, the recipient of benefits must be available for work, and register with the public employment office, the communications necessary between the employer and the public employment office could become most involved.

Notification to each by the other of the employee's availability status, of eligibility status, and verification of amounts paid to the workers are illustrative of the numerous procedures that would be necessitated by such a system. This assumes, of course, that a way would be found of legalizing such a proposed integration of the two systems.


SUMMARY

It has been pointed out that several types of seniority are to be found in significant degree in industry, and that the type of seniority might have a marked effect on the cost of a guarantee to management, as well as on the eligibility of workers for guarantee benefits. While management would tend to prefer plant-wide seniority in event of a guarantee in order to keep seniority workers employed as much as possible, a system of complete plant-wide seniority would probably impair efficiency of operations to an intolerable degree. While some labor interests have often been in favor of plant-wide seniority, there would be a tendency, particularly on the part of craft union or other skilled employees, to attempt to retain departmental or occupational seniority to protect work standards and higher pay differentials for those workers with skilled jobs.

A highly flexible system of transfers might result in a deterrent to plant efficiency when practiced without limitation. It would be resisted to some extent by some labor groups for the same reason that plant-wide or straight seniority might meet objection. Yet a certain degree of flexibility is necessary in order to minimize idle time for which the firm may have to pay, since there is an early limit to the amount which a firm may be able to pay for work not done. When such freedom of transfer is precluded by contract, the company is placed in a difficult position.
It is probable that under a guarantee selection techniques would be sharpened so as to promote efficient operations through hiring of employees of the most suitable qualifications. Conditions for layoff and discharge would be the subject of precise definition and perhaps more bargaining than even now prevails, since both labor and management would have an increased stake in whether employees are laid off or discharged and whether their right to guarantee benefits is granted or upheld.

Training would take on added significance if shifting of workers to different jobs would be done on a large scale. It would be necessary to minimize the time it takes a worker to develop output ability to the standard level in as little time as possible. Versatility training would be common in firms. Whether the necessary degree of shifting could be done would depend on the type of work, the training time and expense, and the willingness of workers to submit to training. If workers were not able to improve their position or pay after taking training, their reaction might be unfavorable. Management would be faced with complex wage problems. The results of job evaluation and scientific determination of basic wage rates might be nullified if employees were entitled to receive past average earnings when moved to jobs paying less than those vacated. The problem of wage incentives would present itself also. The rate
structure of a firm might become immeasurably distorted. Putting workers on a salary status, where possible, has been suggested. While this may have some value, it would not assure full security of jobs or stability of employment.

Distribution of work policies exist in some firms. If such a provision is effective, the cost of the guarantee may be decreased, since decreased operations would first result in everyone working a short work week before any layoffs were made. There is a limit to the extent that distribution of work can be carried out, however, before layoffs are necessary.

Grievance machinery might become more complex as well as would administrative procedures necessary to implement an annual guarantee plan. Industrial relations might become more legalized than previously.

It would appear that some marked changes would have to be made in industrial relations policies and practices in order to accommodate an annual guarantee plan. Workers would almost certainly have to relinquish some of the practices which they have been able to develop, and give up some concessions they have obtained from management in the past. Seniority provisions would have to be made more favorable to company interests, as would transfer policies and work assignments. Whether employees would be willing to accept a reversal of some existing practices in order to obtain an annual guarantee the benefits of which would be in a deferred
form, or perhaps never realized at all by some, is debatable. Yet such changes might be necessary if guaranteed wage or work plans were to become a reality.
CHAPTER V

GROSS COSTS OF ANNUAL GUARANTEE PLANS FOR SELECTED
MANUFACTURING FIRMS

Some studies of gross costs of annual guarantee plans have been made in the past. Among the most comprehensive of these is the series of case analyses of gross cost estimates embodied in the Latimer Report.

This chapter presents data relating to gross costs of annual guarantees for specific manufacturing firms. The objectives in presenting these data are (1) an addition to the still inadequate body of knowledge concerning costs of guarantee plans; (2) some indications what the gross costs might approximate for a given period for selected manufacturing firms under varying guarantee conditions, the analysis being based on a minute examination of individual personnel records.

In attempting to obtain these objectives it was necessary to devise a method for determining gross costs for selected manufacturing firms. The method indicated in this chapter is intended to be one of the contributions of this study.

It would be incorrect, in analyzing gross costs for specific firms, to assume that data for such firms are fully
representative of costs for similar firms in the industry. This is so for various reasons. For example, the seniority pattern for various firms, as shown below, differs so markedly that this feature alone could account for distinct differences in costs for firms otherwise identical as to size, operations, wage levels, and other characteristics. In other words, there is no "typical" firm, as such, which can be used as a pilot study to determine guarantee costs for firms in an industry. This is a fact of utmost importance for any firm contemplating the adoption of a guarantee plan.

In the case of the three specific firms for which data are given in detail, the results will, it is hoped, assist in assessing the impact of an annual guarantee (1) under varying conditions of coverage, and (2) under guarantees coordinated with unemployment compensation as contrasted with conditions whereby the company assumes total liability for the guarantee.

**IMPACT OF SENIORITY ON LIABILITY OF A FIRM**

It was stated above that the seniority pattern differs quite markedly among firms, and that this factor alone makes comparability between firms extremely difficult. This fact would have some implications for pattern bargaining within industries, as well as attempting to establish a "typical" firm to use for a representative cost study. Table III
### TABLE III

**SENIORITY PATTERN IN 27 TOLEDO, OHIO INDUSTRIAL FIRMS NOVEMBER 30, 1953**

(In Per Cent of Total Factory Payroll)

<table>
<thead>
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<th>Firm</th>
<th>Under 3 mos.</th>
<th>3-6 mos.</th>
<th>6 mos.</th>
<th>1-2 yrs.</th>
<th>2-3 yrs.</th>
<th>3-4 yrs.</th>
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</tr>
<tr>
<td>24</td>
<td>.04</td>
<td>.4</td>
<td>.6</td>
<td>29.8</td>
<td>14.6</td>
<td>5.0</td>
<td>.66</td>
<td>49.7</td>
</tr>
<tr>
<td>25</td>
<td>19.0</td>
<td>12.7</td>
<td>4.8</td>
<td>7.9</td>
<td>6.3</td>
<td>3.2</td>
<td>1.6</td>
<td>44.4</td>
</tr>
<tr>
<td>26</td>
<td>.1</td>
<td>.1</td>
<td>.1</td>
<td>3.5</td>
<td>6.4</td>
<td>2.5</td>
<td>.1</td>
<td>87.1</td>
</tr>
<tr>
<td>27</td>
<td>(--- 18.3 ----)</td>
<td>7.6</td>
<td>10.0</td>
<td>7.5</td>
<td>3.9</td>
<td>52.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Personnel records of subject firms.

---

*a Total percentages for a firm may not be equal to exactly 100 per cent, due to rounding of fractions.*
shows the seniority pattern\textsuperscript{111} for twenty-seven industrial firms in Toledo, Ohio as of November 30, 1953.

In number, the firms represented approximately five per cent of the manufacturing firms in the Toledo metropolitan area, and employed approximately 33 per cent of the workers in manufacturing.\textsuperscript{112} The size of the firms varies from less than one hundred to over 10,000 employees.

The predominant kinds of manufacturing by industrial classification were machinery, fabricated metal products, and transportation equipment. Twenty of the 27 firms were in these three classifications mentioned above. Other product classifications represented in the twenty-seven firms were leather and leather products; stone, clay, and glass products; textile mill products; paper and allied products; miscellaneous fabricated textiles; and chemicals and allied products.

Breakdown of the work force is indicated by percentages to show the proportion of employees falling within the

\textsuperscript{111} While there may be some variations between seniority and length of service, such differences were felt to have no appreciable effect on final results. Seniority and length of service are considered to be synonymous for purposes of these cost studies.

\textsuperscript{112} Relationships were established on the basis of:
\textit{Toledo Industrial Directory}, Toledo Chamber of Commerce, Toledo, Ohio, 1953.
Records of the Toledo Office of the Ohio State Employment Service, Toledo, Ohio.
various seniority categories. Several firms reported having some employees laid off. These temporarily separated workers were included in the counts since layoffs, are, after all, a basic factor in the problem.

Seniority status in these firms is acquired within thirty days to six months after date of hire. Examination of the table shows how liability would vary among firms if, for example, employees with three months service were given a guarantee of work or wages on an annual basis. Some firms show no employees with three months service or less. Thus they would have a liability for a guarantee to 100 per cent of the work force. One firm had over one-fifth of its workers in the group of three months service or less. Thus its liability would have extended to less than 80 per cent of its work force.

Another example of the disproportionate coverage, or liability, which may occur may be seen when three years' seniority is assumed to establish eligibility for a guarantee. A wide range of percentages of the total work force would be covered among the twenty-seven firms. One firm (Number Three) would be liable for a guarantee to 97.8 per cent of its workers, while another firm (Number Fifteen) would be granting a guarantee to only 28.1 per cent of its employees. A spread of 69.7 per cent would prevail between the high and low proportions of the work force covered.

The seniority pattern in Table III indicates yet
another interesting aspect of liability, or potential lia­
bility. One firm, which employed in excess of 10,000
workers in November, 1953, has sizable groups of workers in
the low seniority categories. Thirty per cent had been
employed more than one year but less than two years, while
nearly 15 per cent held a seniority status of more than two
but less than three years. As these employees move into a
status where they attain higher seniority, the liability
becomes greater by large amounts. It is debatable whether
a firm could support a sudden drop in the payroll similar
to the manner in which these workers had been hired.
Whether a guarantee reserve fund could be established to
cover such employment behavior is a problem which must be
faced by such a concern. Whether pattern bargaining could
be applied where such variations are in evidence seems
doubtful. Furthermore, the application of a formula with
any consistency seems hardly possible under such circum­
stances. While firms Number Three and Number Thirteen were,
incidentally, engaged in manufacturing the same product,
their seniority patterns vary from 32.5 per cent to 97.6
per cent with five years or more of seniority.

Another interesting phenomenon is evident when the
seniority categories of the twenty-seven firms in Table III
are arranged differently. Table IV shows an array of em­
ployees according to the proportions which fall into
TABLE IV

ARRAYS OF FIRMS BY PER CENT OF EMPLOYEES WITH INDICATED LENGTH OF SERVICE FOR 27 TOLEDO, OHIO INDUSTRIAL FIRMS AS OF NOVEMBER 30, 1953
(In Per Cent of Total Factory Payroll)

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>6 mos. or more</th>
<th>1 year or more</th>
<th>2 years or more</th>
<th>3 years or more</th>
<th>4 years or more</th>
<th>5 years or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>63.3</td>
<td>49.3</td>
<td>37.5</td>
<td>38.1</td>
<td>25.0</td>
<td>21.9</td>
<td></td>
</tr>
<tr>
<td>64.1</td>
<td>56.3</td>
<td>38.6</td>
<td>36.4</td>
<td>36.1</td>
<td>32.5</td>
<td></td>
</tr>
<tr>
<td>68.3</td>
<td>63.4</td>
<td>55.5</td>
<td>49.2</td>
<td>39.3</td>
<td>35.1</td>
<td></td>
</tr>
<tr>
<td>81.1</td>
<td>71.9</td>
<td>56.3</td>
<td>49.2</td>
<td>41.0</td>
<td>37.8</td>
<td></td>
</tr>
<tr>
<td>86.3</td>
<td>75.2</td>
<td>63.0</td>
<td>51.2</td>
<td>45.8</td>
<td>41.0</td>
<td></td>
</tr>
<tr>
<td>88.4</td>
<td>76.3</td>
<td>67.2</td>
<td>54.8</td>
<td>46.0</td>
<td>44.4</td>
<td></td>
</tr>
<tr>
<td>89.9</td>
<td>78.8</td>
<td>67.6</td>
<td>57.5</td>
<td>49.8</td>
<td>45.3</td>
<td></td>
</tr>
<tr>
<td>91.5</td>
<td>79.9</td>
<td>68.3</td>
<td>58.9</td>
<td>53.1</td>
<td>47.7</td>
<td></td>
</tr>
<tr>
<td>92.1</td>
<td>80.6</td>
<td>69.4</td>
<td>61.1</td>
<td>53.8</td>
<td>49.7</td>
<td></td>
</tr>
<tr>
<td>93.4</td>
<td>81.5</td>
<td>74.1</td>
<td>64.1</td>
<td>56.6</td>
<td>52.6</td>
<td></td>
</tr>
<tr>
<td>93.8</td>
<td>81.7</td>
<td>74.9</td>
<td>65.4</td>
<td>58.5</td>
<td>57.0</td>
<td></td>
</tr>
<tr>
<td>94.6</td>
<td>87.5</td>
<td>76.3</td>
<td>71.8</td>
<td>68.1</td>
<td>64.4</td>
<td></td>
</tr>
<tr>
<td>95.8</td>
<td>87.6</td>
<td>77.2</td>
<td>73.9</td>
<td>68.8</td>
<td>66.3</td>
<td></td>
</tr>
<tr>
<td>96.0</td>
<td>89.1</td>
<td>78.3</td>
<td>74.7</td>
<td>69.9</td>
<td>67.9</td>
<td></td>
</tr>
<tr>
<td>96.2</td>
<td>92.7</td>
<td>80.8</td>
<td>77.3</td>
<td>69.9</td>
<td>68.5</td>
<td></td>
</tr>
<tr>
<td>97.6</td>
<td>94.0</td>
<td>83.1</td>
<td>77.5</td>
<td>71.4</td>
<td>69.9</td>
<td></td>
</tr>
<tr>
<td>97.9</td>
<td>94.2</td>
<td>87.3</td>
<td>78.3</td>
<td>72.3</td>
<td>70.5</td>
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</tr>
<tr>
<td>98.8</td>
<td>94.2</td>
<td>87.3</td>
<td>78.3</td>
<td>72.3</td>
<td>72.2</td>
<td></td>
</tr>
<tr>
<td>99.2</td>
<td>94.9</td>
<td>89.7</td>
<td>79.3</td>
<td>74.1</td>
<td>74.0</td>
<td></td>
</tr>
<tr>
<td>99.6</td>
<td>96.4</td>
<td>93.4</td>
<td>81.0</td>
<td>75.9</td>
<td>74.3</td>
<td></td>
</tr>
<tr>
<td>99.8</td>
<td>97.0</td>
<td>93.7</td>
<td>86.2</td>
<td>78.0</td>
<td>75.3</td>
<td></td>
</tr>
<tr>
<td>99.8</td>
<td>97.2</td>
<td>94.8</td>
<td>89.7</td>
<td>83.5</td>
<td>75.7</td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td>97.4</td>
<td>95.2</td>
<td>89.9</td>
<td>87.2</td>
<td>87.1</td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td>98.3</td>
<td>96.1</td>
<td>90.7</td>
<td>90.5</td>
<td>90.5</td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td>99.2</td>
<td>97.0</td>
<td>93.6</td>
<td>90.7</td>
<td>90.5</td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td>99.2</td>
<td>97.2</td>
<td>94.4</td>
<td>94.4</td>
<td>94.4</td>
<td></td>
</tr>
<tr>
<td>n.a.</td>
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<td>98.1</td>
<td>97.8</td>
<td>97.8</td>
<td>97.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Table III.
different categories of length of service. For each length-of-service category the median is indicated. The high-low range in each service or seniority category (assuming seniority to be based wholly on length of service) gives some indication of the differences in proportionate liability which would exist in different firms under an assumed eligibility requirement based on length of service extending from six months on upward. Even where eligibility might be based on a minimum of five years or more of service, liability would extend to slightly more than one-fifth (21.9 per cent) of the work force in one firm, while in another firm it would extend to nearly all (97.6 per cent) of the employees.

Table V shows the median per cents of employees in the different seniority categories. The median firm in the six-months-or-more category had a relatively high proportion, 95 per cent, of the total work force. In the categories of four-years-or-more and of five-years-or-more the median per cent differed by only two-tenths of one per cent. Thus the liability for granting a guarantee in the median firm would be practically the same for a four-year eligibility requirement as for one of five years. This may, of course, not be a typical firm. If it were, the similarity between proportions of four-year seniority and five-year seniority might be ascribed to the drop-off in hiring employees during the 1949 recession period, since that occurred
TABLE V

MEDIAN PER CENTS OF EMPLOYEES WITH INDICATED LENGTH
OF SERVICE FOR 27 TOLEDO, OHIO INDUSTRIAL
FIRMS AS OF NOVEMBER 30, 1953

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Median Per Cent of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Months or more</td>
<td>95.9</td>
</tr>
<tr>
<td>1 Year or more</td>
<td>89.1</td>
</tr>
<tr>
<td>2 Years or more</td>
<td>78.3</td>
</tr>
<tr>
<td>3 Years or more</td>
<td>74.7</td>
</tr>
<tr>
<td>4 Years or more</td>
<td>69.9</td>
</tr>
<tr>
<td>5 Years or more</td>
<td>67.9</td>
</tr>
</tbody>
</table>

Source: Table IV.

approximately between the four-to-five year period prior to November, 1953, when the seniority data were collected.

COST DATA OF INDIVIDUAL FIRMS

Studies of the gross costs of an annual guarantee which were made in three individual manufacturing firms in Toledo, are presented in the following discussion and tables. The firms are referred to as Alpha, Beta, and Gamma Companies.

The years 1947 to 1953 for which the study was made were selected because of their recency and because they represent varying economic conditions. Most of the conversion from war production to peacetime production had taken
place by 1947. The year 1948 represented the first post-year of high production, while 1949 saw a recession in business, generally. In 1950 business received some impetus from the outbreak of hostilities in Korea. The years 1952 and 1953 were periods of high business activity. Because data were collected in Gamma Company prior to the end of 1953, that year is not included in the analysis for the firm.

While the method of analysis could not be uniform in the three firms because basic wage and idle time data were not kept in the same way, the results are significant and interesting. Certain assumptions for the third firm for which data are presented differ of necessity from those made for the first two firms analyzed. Faithful comparison of the costs is therefore not possible among the three firms. In itself, this should not detract too significantly from the value of the figures presented.

It should be pointed out that certain assumptions are implicit in this type of study. Since the analysis was based on a reconstruction of conditions in the past, the assumption is that the employment pattern and employees would have behaved in the same way even if a guarantee had been in effect. While this may not be a plausible assumption for an isolated case in the community, if the guarantee were widespread the assumption is more tenable.

Each firm represents a different type of industry, with one firm running somewhat counter to the pattern of employ-
ment experienced by other firms in the community. Indeed, the management of this firm could not account fully for the difference.

For each firm costs were calculated for a guarantee involving three different degrees of coverage, (1) for employees with one year of seniority, (2) for employees with two years of seniority, and (3) for those having three years of seniority.

Since plant-wide seniority was in effect to some extent in each of the firms, it was assumed in making the calculations that a flexible system of transfer prevailed, and that plant-wide seniority was in effect. There were no spread-the-work clauses in the union contracts under which the three firms operated.

Method of Determining Compensable Idle Time

Compensable idle time for Alpha and Beta companies were figured in terms of weeks. For Gamma company this factor was calculated in terms of total hours. This procedure in the latter firm was necessitated by the manner in which the total work hours and wages were recorded on the payroll records.

In the first two companies, it was assumed that a guarantee of fifty-two weeks had been given to all eligible workers being paid on an hourly basis. Lay-off periods for each employee were recorded from his personnel record, as
was his base rate at time of layoff.

The assumption that a laid-off employee was idle, and not working elsewhere, was made whenever examination of unemployment examination of unemployment compensation records indicated that he was drawing benefits. It was felt that wherever an employee had at least one year of seniority with a firm, he had accumulated sufficient time to permit his benefits to be drawn from the unemployment compensation insurance system, which benefits would be charged against the employer's account. If an employee was not drawing benefits, he was presumed to be working elsewhere and was not eligible for benefits. In this case, however, it was assumed that, on the average, it took at least three days for a laid-off worker to locate on another job, and therefore three days' compensation was provided.

Payment for compensable idle time was made at the base rate for the job held at time of layoff. This produces a conservative figure for two reasons: (1) a worker may have transferred prior to layoff to a job with a base rate lower than that of his regular job, and (2) average pay due to incentive earnings is ruled out of consideration.

Where an employee was still idle at the time of expiration of his unemployment benefit period, liability was assumed to continue until the end of the fifty-two week period. These cases were quite rare in the study.

In order to re-establish eligibility after having drawn
his full guarantee, an employee must have returned to full-time work for at least twelve weeks, or 480 hours.

In the case of Gamma Company, a distinction was made in the unit of time measurement. It was assumed that a total of 1930 hours was guaranteed for the year. This figure represents the actual working time which the employees would have accounted for without working overtime and when such items as vacation time, holidays, and other time not ordinarily worked were not counted. Total absence figures for the year were then taken for each employee and these added to the total hours worked. If the total of these amounted to 1930 hours, the guarantee was considered to be satisfied. The firm assumed liability for the amounts by which the total of work time plus voluntary time absent was less than 1930.

This points up one distinction between the conditions of the guarantee in this firm and the first two. In the Alpha and Beta companies, the guarantee was figured on a basis of weeks, with overtime not included in the time covered by the guarantee. In Gamma Company, overtime was included, that is, overtime hours in some weeks were permitted to offset hour shortages in other weeks. They were figured at a straight-time rate into the total annual amount of hours worked by the employee.

If an employee, when his job was discontinued, refused
to use his seniority privilege of displacing an employee with less seniority, but chose rather to take a lay-off, his idle time was disqualified from compensation eligibility. The rationale for this is that if the laid-off employee had displaced an employee with less seniority, the low-seniority employee eventually laid off may not have had sufficient seniority to be eligible for a guarantee payment. Furthermore he may not have had enough quarters of work accumulated with the present employer to permit payment of unemployment insurance benefits to him to be charged to the present employer's account, but rather he might have been paid benefits chargeable to the account of his previous employer. This particular item did not have any significant bearing on the total liability, however. In only a very few cases was an employee found to be drawing unemployment compensation after refusing to use his seniority privilege in the manner indicated. One must assume that either the individual had an immediate prospect for another job, or the company successfully challenged his claim to benefits on the ground that work was available to him. Probably the former condition was the actual one, since most instances of refusal to exercise seniority occurred in periods when jobs were relative easy to find in the community.
Presentation of Data

The Alpha Company appears as Company Number 3 in Table III. It is engaged in the manufacture of electric appliances. In 1948 the firm changed from a multi-product firm to one manufacturing a single appliance. The impact of this change of policy was felt in the work force, where the decrease in product line resulted in a substantial reduction in the number of employees.

The high-low figures for total employment of the Alpha Company for the years under study appear in Table VI. This gives an approximate idea of the change in over-all employment during the seven-year period. The production force consisted of approximately 55 per cent males and 45 per cent females.

Table VII shows the compensable idle time and dollar liability for employees with seniority status of one year or more. The relationship of idle time is seen to be somewhat consistent from year to year, as expected. Where the ratio does vary somewhat, this is due to (1) a larger amount of employees in the low seniority brackets being laid off, (2) layoff of a large proportion of female workers, who usually hold jobs paying a smaller base rate, and (3) marked general increases in wages in later years. The gross costs vary considerably among the years, however. The total dollar liability, as a per cent of total payroll, (Table XI,
### TABLE VI
HIGH-LOW RANGE OF YEARLY EMPLOYMENT, BY END OF MONTH TOTALS, ALPHA COMPANY, 1947-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>Highest End of Month Total</th>
<th>Lowest End of Month Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>1069</td>
<td>886</td>
</tr>
<tr>
<td>1948</td>
<td>1264</td>
<td>926</td>
</tr>
<tr>
<td>1949</td>
<td>893</td>
<td>691</td>
</tr>
<tr>
<td>1950</td>
<td>774</td>
<td>729</td>
</tr>
<tr>
<td>1951</td>
<td>720</td>
<td>573</td>
</tr>
<tr>
<td>1952</td>
<td>672</td>
<td>471</td>
</tr>
<tr>
<td>1953</td>
<td>581</td>
<td>463</td>
</tr>
</tbody>
</table>

Source: Personnel records of Alpha Company.

Page 139) varies from zero per cent in 1947 to 13.5 per cent in 1953.\(^{113}\)

Table VII also shows the effect on the dollar liability figures when unemployment compensation drawn during lay-off is deducted from the guarantee amount, as is provided in current proposals by major CIO unions. The greatest reduction in the guarantee liability was made in 1953, when the...

\(^{113}\) It would be helpful to relate the dollar costs to net sales also. All the necessary data, such as the net sales figures and data on variables which would have to be taken into consideration in that event, were not available, however.
### TABLE VII

**TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH ONE YEAR OR MORE SENIORITY, ALPHA COMPANY 1947-1953**

(Idle Time in Weeks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1948</td>
<td>264</td>
<td>$13,340.34</td>
<td>$2,746.00</td>
<td>$10,594.34</td>
</tr>
<tr>
<td>1949</td>
<td>3402</td>
<td>215,304.07</td>
<td>57,875.50</td>
<td>157,428.57</td>
</tr>
<tr>
<td>1950</td>
<td>854</td>
<td>53,194.32</td>
<td>13,262.50</td>
<td>39,931.82</td>
</tr>
<tr>
<td>1951</td>
<td>2683</td>
<td>128,721.00</td>
<td>45,686.00</td>
<td>83,035.00</td>
</tr>
<tr>
<td>1952</td>
<td>1137</td>
<td>60,311.44</td>
<td>16,317.50</td>
<td>43,993.94</td>
</tr>
<tr>
<td>1953</td>
<td>2895</td>
<td>164,093.80</td>
<td>63,947.50</td>
<td>100,146.30</td>
</tr>
</tbody>
</table>

Source: Personnel records of Alpha Company.

\( ^{a} \) Adjusted by ending date of unemployment compensation.

The application of unemployment benefits to the guarantee would have reduced the dollar liability by an amount approximately equal to 5.3 per cent of total payroll.

Table VIII shows the compensable idle time and dollar liability for employees with seniority status of two years or more. The range in dollar costs as a percentage of payroll is similar to that for the costs under a one-year requirement. As indicated in Table XI (page 139) the low is
TABLE VIII
TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR
EMPLOYEES WITH TWO YEARS OR MORE SENIORITY, ALPHA COMPANY
1947-1953

(Idle Time in Weeks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Guarantee Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1948</td>
<td>106</td>
<td>$ 7,014.74</td>
<td>$ 1,354.50</td>
<td>$ 5,660.24</td>
</tr>
<tr>
<td>1949</td>
<td>2014</td>
<td>111,855.11</td>
<td>28,660.50</td>
<td>83,194.61</td>
</tr>
<tr>
<td>1950</td>
<td>1119</td>
<td>38,997.04</td>
<td>10,736.50</td>
<td>28,260.54</td>
</tr>
<tr>
<td>1951</td>
<td>2683</td>
<td>128,721.00</td>
<td>45,686.00</td>
<td>83,035.00</td>
</tr>
<tr>
<td>1952</td>
<td>1137</td>
<td>60,311.44</td>
<td>16,317.50</td>
<td>13,993.94</td>
</tr>
<tr>
<td>1953</td>
<td>2795</td>
<td>157,510.20</td>
<td>61,633.50</td>
<td>15,876.70</td>
</tr>
</tbody>
</table>

Source: Personnel records of Alpha Company

a Adjusted by ending date of unemployment compensation.

Again zero per cent, while the high is almost 13 per cent. An appreciable decrease can be seen in the costs for 1949 when two years are required for eligibility, as contrasted with costs under the one-year requirement. The cost was reduced by nearly 50 per cent. The most significant reduction made by unemployment compensation again appeared in 1953, when the dollar liability for the guarantee was reduced by
an amount equal to slightly more than five per cent of the total payroll.

In Table IX the costs for a guarantee requiring three years seniority for eligibility are presented. One interesting fact to be noted here is that the range of total guarantee costs is the same as that for a guarantee requiring only two years of seniority. Since the company did not hire any additional personnel for several years following layoff of a large number of workers, the length of service requirement made no difference for 1952 and 1953, and relatively little difference for 1951. Net liability remained almost the same for 1951, and remained the same for 1952 and 1953. For earlier years, as for example 1949, a considerable difference in total dollar liability is evidence, however. Table XI (page 139) shows the total guarantee liability decreased from 6.36 per cent to 1.45 per cent of payroll, while net liability decreased from 4.85 per cent to 1.24 per cent of payroll. It is interesting to note the potential effect of such change on the type of guarantee which a firm would be willing to sign.

Table X presents a summary of the idle time in weeks and the total guarantee costs, or total dollar liability. Here emphasis is placed upon the total dollar liability rather than on the net liability after unemployment compensation benefits are deducted. Since the firm is under an
### TABLE IX

**TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH THREE YEARS OR MORE SENIORITY, ALPHA COMPANY 1947-1953**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1948</td>
<td>21</td>
<td>$1,384.90</td>
<td>$231.00</td>
<td>$1,153.90</td>
</tr>
<tr>
<td>1949</td>
<td>377</td>
<td>25,431.88</td>
<td>3,675.50</td>
<td>21,756.38</td>
</tr>
<tr>
<td>1950</td>
<td>44</td>
<td>2,900.00</td>
<td>238.00</td>
<td>2,662.00</td>
</tr>
<tr>
<td>1951</td>
<td>2641</td>
<td>126,206.28</td>
<td>45,541.50</td>
<td>80,664.78</td>
</tr>
<tr>
<td>1952</td>
<td>1137</td>
<td>60,311.44</td>
<td>16,317.50</td>
<td>43,993.94</td>
</tr>
<tr>
<td>1953</td>
<td>2795</td>
<td>157,510.20</td>
<td>61,633.50</td>
<td>95,876.70</td>
</tr>
</tbody>
</table>

*Source: Personnel records of Alpha Company.*

*a Adjusted by ending date of unemployment compensation.*

Experience rate, paying the cost of the unemployment compensation also, savings to the company by deducting unemployment compensation is more illusory than actual.

Table XI presents the relationship to total payroll of total dollar costs and also of net liability.
**TABLE X**

TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY, BY EMPLOYEE SENIORITY, ALPHA COMPANY, 1947-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>1 yr.</th>
<th>2 yrs.</th>
<th>3 yrs.</th>
<th>Total Dollar Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 year</td>
</tr>
<tr>
<td>1947</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>1948</td>
<td>264</td>
<td>106</td>
<td>21</td>
<td>13,340.34</td>
</tr>
<tr>
<td>1949</td>
<td>3402</td>
<td>2014</td>
<td>377</td>
<td>215,304.07</td>
</tr>
<tr>
<td>1950</td>
<td>854</td>
<td>1119</td>
<td>44</td>
<td>53,194.32</td>
</tr>
<tr>
<td>1951</td>
<td>2683</td>
<td>2683</td>
<td>2641</td>
<td>128,721.00</td>
</tr>
<tr>
<td>1952</td>
<td>1137</td>
<td>1137</td>
<td>1137</td>
<td>60,311.44</td>
</tr>
<tr>
<td>1953</td>
<td>2895</td>
<td>2795</td>
<td>2795</td>
<td>164,093.80</td>
</tr>
</tbody>
</table>

Source: Tables VII, VIII, and IX.

**TABLE XI**

PERCENTAGE OF TOTAL PAYROLL REPRESENTED BY TOTAL GUARANTEE COSTS AND NET LIABILITY COSTS, BY EMPLOYEE SENIORITY, ALPHA CORPORATION, 1947-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Guarantee Costs</th>
<th>Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 year</td>
<td>2 years</td>
</tr>
<tr>
<td>1947</td>
<td>00.00</td>
<td>00.00</td>
</tr>
<tr>
<td>1948</td>
<td>.55</td>
<td>.29</td>
</tr>
<tr>
<td>1949</td>
<td>12.30</td>
<td>6.36</td>
</tr>
<tr>
<td>1950</td>
<td>3.16</td>
<td>2.32</td>
</tr>
<tr>
<td>1952</td>
<td>3.98</td>
<td>3.98</td>
</tr>
<tr>
<td>1953</td>
<td>13.53</td>
<td>12.98</td>
</tr>
</tbody>
</table>

Source: Tables VII, VIII, and IX.
BETA COMPANY

Beta Company appears as Company Number 18 on the list of firms on Table III. It is engaged in the manufacture of certain types of brushes and molded plastic products. Until 1951 it was a subsidiary of a large firm engaged in the manufacture of glass products. In 1951 it was purchased by a national manufacture of brushes.

The production force is composed mostly of female workers. This probably accounts for the large amount of unemployment compensation relative to total dollar liability which would have been incurred under a guarantee. This is so for two reasons. According to Father Joseph Becker's study of unemployment compensation distribution, (1) women generally make relatively little effort to search for jobs after they are laid off, and (2) there are often not enough jobs in the industrial community to absorb any reasonably large number of women laid off.\textsuperscript{114}

Table XII shows the high-low range of employees, by years, on the payroll of the Beta Company during the years 1947-1953.

\textsuperscript{114} Becker, Joseph, \textit{op. cit.}, p. 249.

In advocating the need for initiative in searching for jobs by women laid off, he states, "It would be conservative to say that as many as 10 per cent of them placed their main reliance on ES [Employment Service], and they were mostly the casual workers, the domestics, and the hard-to-place." \textit{Ibid.}, footnote 16.
TABLE XII

HIGH-LOW RANGE OF YEARLY EMPLOYMENT, BY END OF MONTH TOTALS, BETA COMPANY, 1947-1953

(In Numbers of Full-time Employees)

<table>
<thead>
<tr>
<th>Year</th>
<th>Highest End of Month Total</th>
<th>Lowest End of Month Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>369</td>
<td>204</td>
</tr>
<tr>
<td>1948</td>
<td>203</td>
<td>170</td>
</tr>
<tr>
<td>1949</td>
<td>335</td>
<td>209</td>
</tr>
<tr>
<td>1950</td>
<td>344</td>
<td>218</td>
</tr>
<tr>
<td>1951</td>
<td>396</td>
<td>224</td>
</tr>
<tr>
<td>1952</td>
<td>300</td>
<td>214</td>
</tr>
<tr>
<td>1953</td>
<td>350</td>
<td>257</td>
</tr>
</tbody>
</table>

Source: Personnel records of Beta Company.

Table XIII shows the potential dollar liability incurred by the company under conditions of a guarantee to employees with one year or more of seniority. The year 1948 was by far the most costly in the post-war period. This is in contrast to the experience of other firms which generally had a good year during most of 1948. The management of the company reported that in this year the firm sustained a net loss for the year of an amount approximately equal to the total guarantee liability.

As a percentage of total payroll the gross dollar costs
### TABLE XIII

**TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH ONE YEAR OR MORE SENIORITY, BETA COMPANY 1947-1953**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>1914^b</td>
<td>$63,221.60</td>
<td>n.a.(^c)</td>
<td>n.a.(^c)</td>
</tr>
<tr>
<td>1948</td>
<td>3432^b</td>
<td>114,892.40</td>
<td>n.a.(^c)</td>
<td>n.a.(^c)</td>
</tr>
<tr>
<td>1949</td>
<td>368^b</td>
<td>13,436.00</td>
<td>n.a.(^c)</td>
<td>n.a.(^c)</td>
</tr>
<tr>
<td>1950</td>
<td>307</td>
<td>13,360.80</td>
<td>n.a.(^c)</td>
<td>n.a.(^c)</td>
</tr>
<tr>
<td>1951</td>
<td>376</td>
<td>16,363.60</td>
<td>$7,525.00</td>
<td>$8,838.60</td>
</tr>
<tr>
<td>1952</td>
<td>502</td>
<td>22,285.20</td>
<td>10,855.00</td>
<td>11,430.20</td>
</tr>
<tr>
<td>1953</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Personnel records of Beta Company.

- **a** Adjusted by ending date of unemployment compensation.
- **b** Unadjusted by ending date of unemployment compensation on individual basis. Aggregate, U.C. information only.
- **c** Figures not available.

... of the guarantee amounted to approximately 40 per cent (see Table XVII, page 148). The unemployment compensation records were not available in detail for this period.\(^{115}\) It was the...
opinion of the management of the firm, however, that unem-
ployment compensation drawn by the guarantee recipients
bore roughly the same relationship to total dollar liabil-
ity in the years 1947-1950 as it did during 1951 and 1952,
the years for which unemployment benefit payments to indi-
vidual employees could be ascertained. If this is assumed
to be true, then the dollar guarantee liability would have
been reduced by unemployment compensation to about 21 per
cent, or a reduction of nearly 19 per cent, of total payroll.

The total dollar liability ranged from a low of zero
per cent in 1953 to a high of 40 per cent of payroll in
1948. For the same years the net dollar liability after de-
ducting unemployment compensation probably ranged from a
low of zero per cent to a high of 21.1 per cent of payroll.

A proportionately similar picture to that in Table
XIII is given in Table XIV, which presents the idle time
and costs for a guarantee based on eligibility after two
years of seniority. The high cost year of 1948 is again
prominent. The total guarantee liability amounted to 21.5
per cent of total payroll. Unemployment compensation, if
the figure would have been assumed on the same basis as in
Table XIII, would have decreased this liability by slightly
less than one-half, or to 11.9 per cent of payroll. The
total guarantee costs ranged from zero per cent in 1953 to
21.5 per cent of total payroll in 1948. With the exception
of 1947 and 1948 the total dollar liability did not consti-
TABLE XIV

TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH TWO YEARS OR MORE SENIORITY, BETA COMPANY, 1947-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Guarantee Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>879b</td>
<td>$28,462.00</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1948</td>
<td>1855b</td>
<td>61,955.60</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1949</td>
<td>321b</td>
<td>11,063.20</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1950</td>
<td>185b</td>
<td>7,160.80</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1951</td>
<td>162</td>
<td>7,059.60</td>
<td>$3,018.00</td>
<td>$4,041.60</td>
</tr>
<tr>
<td>1952</td>
<td>337</td>
<td>14,974.80</td>
<td>6,956.00</td>
<td>8,018.80</td>
</tr>
<tr>
<td>1953</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Personnel records of Beta Company.

a Adjusted by ending date of unemployment compensation.
b Unadjusted by ending date of unemployment compensation on individual basis. Aggregate U.C. information only.
c Figures not available.

tute a large percentage of total payroll. For 1951 and 1952, for which data on unemployment compensation benefits drawn by guarantee recipients were available, the benefits drawn were equal to 42.8 per cent and 46.5 per cent, respectively, of total guarantee liability.

For the years 1947, 1948, 1950, and 1951 the total
dollar liability for the two-year seniority guarantee was approximately one-half that for the one-year eligibility requirement. For 1949, the two-year plan was only slightly less, while for 1952 it was approximately two-thirds of the one-year plan. No liability existed in 1953 under either guarantee.

If unemployment compensation had been integrated with the annual guarantee, the guarantee cost would have been reduced from a total of .94 per cent to .54 per cent of payroll in 1951. In 1952 the cost would have been reduced from 2.51 per cent to 1.34 per cent of payroll.

Table XV shows the data for Beta Company if the guarantee had been based on an eligibility requirement of three years' seniority. The high-low range of total guarantee liability extended from 15.6 per cent of payroll in 1948 to zero per cent for 1953.

While a significant decrease in total guarantee costs from the two-year plan is evident for 1947, 1948, and 1949, a relatively small decrease is revealed for 1950. The drop in total guarantee costs for 1951 and 1952 is by approximately two-thirds.

The high-cost year of 1948 is accompanied by a liability of about 15.6 per cent, which is decreased to about 9.3 per cent of total payroll when approximate unemployment compensation benefits drawn by recipients is deducted. The
TABLE XV

TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR
EMPLOYEES WITH THREE YEARS OR MORE SENIORITY, BETA COMPANY
1947-1953

(Idle Time in Weeks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusteda</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Dollars</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>492b</td>
<td>$16,650.80</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1948</td>
<td>1339b</td>
<td>44,902.80</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1949</td>
<td>208b</td>
<td>7,259.20</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1950</td>
<td>164b</td>
<td>6,351.60</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1951</td>
<td>44</td>
<td>1,888.80</td>
<td>$663.50</td>
<td>$1,225.30</td>
</tr>
<tr>
<td>1952</td>
<td>109</td>
<td>4,830.40</td>
<td>2,234.50</td>
<td>2,595.90</td>
</tr>
<tr>
<td>1953</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Personnel records of Beta Company.

a Adjusted by ending date of unemployment compensation.
b Unadjusted by ending date of unemployment compensation on individual basis. Aggregate U.C. information only.
c Figures not available.

unemployment compensation figure for the first four years is again approximated by assuming it to bear a relationship to total dollar liability equal to an average of that for 1951 and 1952.

For 1951 and 1952, for which benefit figures drawn by individuals were available, the unemployment compensation
benefits amounted to 35 per cent of total guarantee costs for 1951, and 46.3 per cent for 1952, as shown in Table XVII, page 148.

Unemployment compensation benefits in 1951 would have accounted for a decrease in liability from .25 per cent to .15 per cent of payroll. In 1952 such benefits decreased total liability from .81 per cent to .44 per cent of payroll.

Table XVI gives a summary of the idle time in weeks and the total guarantee costs under the three kinds of eligibility provisions assumed. Table XVII shows the percentage of total payroll represented by total dollar costs and by net liability figures. The net liability data are given only for the three years for which unemployment benefits drawn by individual employees are available.

**GAMMA COMPANY**

Gamma Company appears as Company Number 22 in Table III. It is an established firm manufacturing food machines and certain related products used for commercial and industrial purposes.

Male and female workers are about evenly represented in the work force. Table XVIII presents the high-low range of workers on the payroll for the years 1948-1953. The table gives an idea of the trend of employment during this
### TABLE XVI

**TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY, BY EMPLOYEE SENIORITY, BETA COMPANY, 1947-1953**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Idle Weeks</th>
<th>Total Dollar Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 yr.</td>
<td>2 yrs.</td>
</tr>
<tr>
<td>1947</td>
<td>1914</td>
<td>879</td>
</tr>
<tr>
<td>1948</td>
<td>3432</td>
<td>1855</td>
</tr>
<tr>
<td>1949</td>
<td>368</td>
<td>321</td>
</tr>
<tr>
<td>1950</td>
<td>307</td>
<td>185</td>
</tr>
<tr>
<td>1951</td>
<td>376</td>
<td>162</td>
</tr>
<tr>
<td>1952</td>
<td>502</td>
<td>337</td>
</tr>
<tr>
<td>1953</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Tables XIII, XIV, and XV.

### TABLE XVII

**PERCENTAGE OF TOTAL PAYROLL REPRESENTED BY TOTAL GUARANTEE COSTS AND NET LIABILITY COSTS, BY EMPLOYEE SENIORITY, BETA COMPANY, 1947-1953**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Guarantee Costs</th>
<th>Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 year</td>
<td>2 years</td>
</tr>
<tr>
<td>1947</td>
<td>15.60</td>
<td>7.02</td>
</tr>
<tr>
<td>1948</td>
<td>39.87</td>
<td>21.50</td>
</tr>
<tr>
<td>1949</td>
<td>2.40</td>
<td>1.98</td>
</tr>
<tr>
<td>1950</td>
<td>2.21</td>
<td>1.18</td>
</tr>
<tr>
<td>1951</td>
<td>2.18</td>
<td>0.94</td>
</tr>
<tr>
<td>1952</td>
<td>3.74</td>
<td>2.51</td>
</tr>
<tr>
<td>1953</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Tables XIII, XIV, and XV.

a Not available.
<table>
<thead>
<tr>
<th>Year</th>
<th>Highest End of Month Total</th>
<th>Lowest End of Month Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>1557</td>
<td>1328</td>
</tr>
<tr>
<td>1949</td>
<td>1186</td>
<td>1019</td>
</tr>
<tr>
<td>1950</td>
<td>1320</td>
<td>1017</td>
</tr>
<tr>
<td>1951</td>
<td>1481</td>
<td>1318</td>
</tr>
<tr>
<td>1952</td>
<td>1280</td>
<td>1220</td>
</tr>
<tr>
<td>1953</td>
<td>1391</td>
<td>1250</td>
</tr>
</tbody>
</table>

Source: Personnel records of Beta Company.

The year 1949 saw the most sudden drop in employment. Although some layoffs were made late in 1948, a major series of layoffs occurred as a result of production overtaking the demand generated during the war and immediate post-war periods.

It should be re-emphasized at this point that a variation in method of computing costs exists relative to this firm, compared to methods employed on the two other firms. A total of 1930 hours of guaranteed employment was assumed. Hours worked overtime were counted on a straight-time basis toward the fulfillment of the guarantee. This type of
guarantee is similar to that employed by the Geo. C. Hormel Company.

Table XIX shows the idle time and guarantee liability when eligibility is based on seniority of one year or more. Only five years are included in the analysis. Records prior to 1948 did not permit going back prior to that year. The most significant feature here is the sudden increase in cost in 1949 over that of 1948. Whereas the total guarantee liability in 1948 was only slightly more than one-half of one per cent, the total cost in 1949 amounted to over six per cent of total payroll as shown in Table XXIII, page 157. In other years the total guarantee costs amounted to less than one per cent. The total payroll figure for 1951 was not available, the dollar liability for this year was negligible, however.

The total liability for 1952 was affected by a considerable number of total-hour shortages due to causes other than layoffs. Whenever this occurs, unemployment compensation would have little effect on the wage guarantee in an integrated plan. Most of these hour deficits in Gamma company in 1952 involved employees with high seniority.

The costs for the period of 1948-1952 ranged from a negligible amount in 1951 to 6.3 per cent of total payroll in 1949.

The unemployment compensation drawn by guarantee
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Paid</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>12,740.0(^b)</td>
<td>$ 17,307.35</td>
<td>$ 5,538.35(^c)</td>
<td>$11,769.00(^d)</td>
</tr>
<tr>
<td>1949</td>
<td>92,448.0</td>
<td>133,053.85</td>
<td>43,305.34</td>
<td>89,748.51</td>
</tr>
<tr>
<td>1950</td>
<td>10,702.7</td>
<td>13,620.33</td>
<td>4,261.71</td>
<td>9,358.62</td>
</tr>
<tr>
<td>1951</td>
<td>184.8</td>
<td>268.72</td>
<td>149.86</td>
<td>118.86</td>
</tr>
<tr>
<td>1952</td>
<td>6,611.3</td>
<td>12,157.01</td>
<td>1,177.20</td>
<td>10,979.81</td>
</tr>
</tbody>
</table>

Source: Personnel records of Gamma Company.

- Adjusted by ending date of unemployment compensation except for 1948.
- Unadjusted by ending date of unemployment compensation on individual basis. Aggregate U.C. information only.
- Estimated by using average of unemployment compensation as per cent of total dollar liability, 1949 and 1950.
- Estimated on basis of assumed unemployment compensation.

The benefit amount allotted for 1948 was therefore arrived at by using the average relationship of unemployment compensation to total guarantee costs in 1949 and 1950. (The years 1951 and 1952 were considered unsuitable to be used in arriving at an average for this purpose.)
While unemployment compensation would have had little effect in reducing liability during 1952, decreasing it by .05 of one per cent of payroll, it had significant effect on the liability for 1949, when it would have reduced total guaranteed liability by slightly more than two per cent of total payroll (see Table XXIII, page 157).

When the guarantee is viewed on the basis of a two-year seniority requirement (Table XX), the costs for the first three years are decreased by a relatively consistent amount, approximately two-thirds. The minor cost for 1951 remains the same for all plans, since employees with at least three years seniority were involved. Since for 1952 the employees who would have received guarantee payments for total hour shortages had high-seniority employees, and who were not actually laid off, the total dollar liability decreased very little. Also interesting in regard to this item is the high hourly rate represented by the guarantee payments, since they would have been made to older and higher-paid employees.

The total guarantee liability for these years is relatively small, ranging from a negligible amount in 1951 to a high of slightly less than two per cent in 1949. In the latter case the liability would have been decreased by unemployment compensation benefits to an amount equal to 1.3 per cent of total payroll.
### TABLE XX

**TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH TWO YEARS OR MORE SENIORITY, GAMMA COMPANY, 1948-1952**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusteda (Idle Time in Hours)</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Paid</th>
<th>Total Net Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>3,365.9b</td>
<td>$4,293.35</td>
<td>$1,292.30c</td>
<td>$3,001.05d</td>
</tr>
<tr>
<td>1949</td>
<td>22,210.6</td>
<td>41,287.52</td>
<td>14,007.24</td>
<td>27,280.28</td>
</tr>
<tr>
<td>1950</td>
<td>3,622.3</td>
<td>4,085.66</td>
<td>1,078.57</td>
<td>3,007.09</td>
</tr>
<tr>
<td>1951</td>
<td>184.8</td>
<td>268.72</td>
<td>149.86</td>
<td>118.86</td>
</tr>
<tr>
<td>1952</td>
<td>5,955.2</td>
<td>11,057.96</td>
<td>583.16</td>
<td>10,474.80</td>
</tr>
</tbody>
</table>

Source: Personnel records of Gamma Company.

a Adjusted by ending date of unemployment compensation except for 1948.

b Unadjusted by ending date of unemployment compensation on individual basis. Aggregate unemployment compensation information only.

c Estimated by using average of unemployment compensation as per cent of dollar liability, 1949 and 1950.

d Estimated on basis of assumed unemployment compensation.

Table XXI presents the cost data for a plan based on an eligibility requirement of three years seniority. While 1949 remains as the high-cost year, the total guarantee cost now is .66 per cent of total payroll (see Table XXIII, page 157), which when adjusted for a net liability figure by
**TABLE XXI**

TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY FOR EMPLOYEES WITH THREE YEARS OR MORE SENIORITY, GAMMA COMPANY, 1948-1952

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Adjusted Idle Time</th>
<th>Total Dollar Liability</th>
<th>Total U.C. Liability Paid</th>
<th>Net Total Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>2,176.2&lt;sup&gt;b&lt;/sup&gt;</td>
<td>$2,729.91</td>
<td>$696.13&lt;sup&gt;c&lt;/sup&gt;</td>
<td>$2,033.78&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>1949</td>
<td>9,160.60</td>
<td>13,922.28</td>
<td>4,101.00</td>
<td>9,821.28</td>
</tr>
<tr>
<td>1950</td>
<td>3,279.7</td>
<td>3,636.85</td>
<td>803.57</td>
<td>2,833.28</td>
</tr>
<tr>
<td>1951</td>
<td>184.8</td>
<td>268.72</td>
<td>149.86</td>
<td>118.86</td>
</tr>
<tr>
<td>1952</td>
<td>5,821.8</td>
<td>10,849.19</td>
<td>583.16</td>
<td>10,266.03</td>
</tr>
</tbody>
</table>

Source: Personnel records of Gamma Company.

- Adjusted by ending date of unemployment compensation except for 1948.
- Unadjusted by ending date of unemployment compensation on individual basis. Aggregate unemployment compensation information only.
- Estimated by using average of unemployment compensation as per cent of total dollar liability, 1949 and 1950.
- Estimated on basis of assumed unemployment compensation figure.

Unemployment compensation, is reduced to less than one-half of one per cent (.47 per cent) of total payroll. The total guarantee costs range from a negligible amount in 1951 to slightly more than one-half of one per cent (.66 per cent) for 1948. The decrease in cost from a plan requiring two
years seniority is somewhat uneven. Unemployment compensation for 1949 and 1950 averaged about 25 per cent of total guarantee liability, and would have decreased costs accordingly. The years 1951 and 1952 were again somewhat unusual, with the costs remaining the same for 1951, and decreasing only slightly in 1952, for reasons given above.

Table XXII gives a summary of idle time and total guarantee costs for the years 1948-1952, based on a three-year requirement for eligibility.

Table XXIII shows the percentage of total payroll represented by total dollar costs and by net liability costs.

Comparison With Cost Analyses of Latimer Report

The Latimer Report includes a series of case studies of company liability under guarantees. The report does not attempt to draw conclusions which are generalizations for any particular industry. Analyses were made for 42 firms in different industries. Analyses covered the years 1937 to 1941. Three types of guarantee plans were assumed. Plan A guaranteed 40 hours each week for 52 weeks; Plan B guaranteed 2080 hours of work per year; Plan C guaranteed annual wage payments equivalent to 2080 hours per year at straight-time rates of pay. A full-time guarantee was assumed after three months of service.

Various limitations upon liability were imposed as
TABLE XXII
TOTAL ADJUSTED IDLE TIME AND TOTAL DOLLAR LIABILITY, BY EMPLOYEE SENIORITY,
GAMMA COMPANY, 1948-1952

<table>
<thead>
<tr>
<th>Year</th>
<th>1 year</th>
<th>2 years</th>
<th>3 years</th>
<th>1 year</th>
<th>2 years</th>
<th>3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>12,740.0</td>
<td>3,365.9</td>
<td>2,176.2</td>
<td>$ 17,307.35</td>
<td>$ 4,293.35</td>
<td>$ 2,729.91</td>
</tr>
<tr>
<td>1949</td>
<td>92,448.0</td>
<td>22,210.6</td>
<td>9,160.6</td>
<td>133,053.85</td>
<td>41,287.52</td>
<td>13,972.28</td>
</tr>
<tr>
<td>1950</td>
<td>10,702.7</td>
<td>3,622.3</td>
<td>3,279.7</td>
<td>13,620.33</td>
<td>4,085.66</td>
<td>3,636.85</td>
</tr>
<tr>
<td>1951</td>
<td>184.8</td>
<td>184.8</td>
<td>184.8</td>
<td>268.72</td>
<td>268.72</td>
<td>268.72</td>
</tr>
<tr>
<td>1952</td>
<td>6,611.3</td>
<td>5,955.2</td>
<td>5,821.8</td>
<td>12,157.01</td>
<td>11,057.96</td>
<td>10,849.19</td>
</tr>
</tbody>
</table>

Source: Tables XIX, XX, and XXI.
TABLE XXIII

PERCENTAGE OF TOTAL PAYROLL REPRESENTED BY TOTAL GUARANTEE COSTS AND NET LIABILITY COSTS, BY EMPLOYEE SENIORITY, GAMMA COMPANY, 1948-1952

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Guarantee Costs 1 year</th>
<th>2 years</th>
<th>3 years</th>
<th>Net Liability 1 year</th>
<th>2 years</th>
<th>3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>.55</td>
<td>.14</td>
<td>.09</td>
<td>.38</td>
<td>.10</td>
<td>.07</td>
</tr>
<tr>
<td>1949</td>
<td>6.32</td>
<td>1.96</td>
<td>.66</td>
<td>4.26</td>
<td>1.30</td>
<td>.47</td>
</tr>
<tr>
<td>1950</td>
<td>.51</td>
<td>.15</td>
<td>.14</td>
<td>.35</td>
<td>.11</td>
<td>.11</td>
</tr>
<tr>
<td>1951</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1952</td>
<td>.45</td>
<td>.41</td>
<td>.40</td>
<td>.40</td>
<td>.38</td>
<td>.38</td>
</tr>
</tbody>
</table>

Source: Tables XIX, XX, and XXI.

a Not available.

conditions of the guarantees. Average costs for particular firms under Plan A ranged from .4 per cent of payroll to 33.0 per cent of payroll; costs of Plan B ranged from 0.0 per cent to 30.3 of payroll; costs of Plan C ranged from 0.0 to 30.0 per cent of payroll. For individual years, however, costs for one plant could have been as high as 222.1 per cent of payroll, under all three plans, and under a minimum of limitations.116

The Latimer Report concludes that by applying appropriate limitations the gross cost could be reduced to less than

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116 Guaranteed Wages, Report to the President, Office of War Mobilization and Reconversion, op. cit., p. 75.
an average of 6.0 per cent annually (of actual payroll), even in the highest-cost firm.\textsuperscript{117}

In arriving at such conclusions, certain limiting conditions\textsuperscript{118} were progressively placed upon cost figures. Such limitations consisted, for example, of adjustments for additional vacations which would be granted currently over those estimated to have been granted in 1937 to 1941; limiting payments in any one year to 10 per cent of the guaranteed payroll for that year; limiting the guarantee to 48 weeks exclusive of vacations; applying the 10 per cent liability to the 48-week guarantee; and finally a provision which permits the employer to terminate guarantee benefits payable to laid-off employees after the lay-off has lasted for more than a year.

By applying these conditions the cost was able to be reduced for an automobile plant, in 1938, from 109.7 per cent of payroll to 19.8 per cent of payroll, for example.

\textbf{SUMMARY}

Economic conditions, major change in product line, and the length of service were the most significant factors in the varying cost picture for a firm over the periods for which costs of a guarantee were determined. It is difficult

\textsuperscript{117} \textit{Ibid.}

\textsuperscript{118} \textit{Ibid.}, p. 250.
to trace any close similarity among the cost patterns for the firms studied. For any one firm some consistency of cost relationships can be found for several consecutive years, but not for all the years in this period. The occurrence of high-cost years is apparently a somewhat unpredictable phenomenon, coming suddenly and varying sharply from preceding and succeeding years. In Alpha Company, a firm manufacturing electrical appliances, the high-cost years were 1949, 1951, and 1953, with total guarantee costs as a per cent of payroll being 12.3, 9.8, and 13.5 respectively under a one-year seniority plan. Application of unemployment compensation could have reduced these costs in a rather consistent manner to 8.9 per cent, 6.3 per cent, and 8.3 per cent of payroll, respectively.

For a two year seniority plan (as compared with a one-year requirement) the total guarantee costs would have been reduced for 1949, from 12.3 per cent to 6.4 per cent; for 1951 they would have remained the same; for 1953 they would have been reduced from 13.5 to 13 per cent, a relatively small reduction.

For a three-year seniority plan (as compared with a two-year requirement) the total guarantee costs would have been reduced, for 1949, from 6.4 per cent under a two-year plan to 1.5 per cent of payroll, a considerable drop in liability. For 1951, the cost would have dropped from 9.8 per cent under a two-year plan to 9.6 per cent, a slight
decrease. For 1953 no change would have taken place in the total guarantee costs as compared to the two-year plan.

The lack of change in costs for the latter years is due to the fact that the firm had not been hiring employees for some time, thus the liability tended to remain unchanged.

For Beta Company, a firm manufacturing certain types of brushes and molded plastic products, 1947 and 1948 proved to be the high-cost years. Total guarantee costs for the one-year, two-years, and three-year plans for 1947 were approximately 15.6 per cent, 7.0 per cent, and 4.1 per cent of total payroll, respectively. An appreciable drop in liability took place with each added year of service required for eligibility. The same effect is observed for 1948, where for the one-year, two-year, and three-year plans liability dropped from 38.9 per cent to 21.5 per cent to 15.6 per cent of payroll, respectively.\footnote{In presenting the request for a guaranteed annual wage for the Steelworkers to the Wage Stabilization Board, Mr. Murray W. Latimer indicated that a guarantee based on an eligibility requirement of three years of service was feasible. \textit{Confer In the Matter of United Steelworkers of America-CIO and Various Steel and Iron Ore Companies before the Wage Stabilization Board}, Case No. D-18-C, p. 21, paragraph 43. In both Alpha and Beta companies, such a guarantee would have cost the former as much as 13 per cent in its high-cost year, while it would have cost the latter as much as 15.6 per cent of total payroll in its high-cost year.}
one-half of total guarantee costs, an unusually high proportion.

Gamma Company, engaged in making food machines and related products, was the most stable of the three firms. Costs here represented a relatively small part of total payroll, with the exception of costs for 1949 under a one-year seniority requirement. Here the total guarantee costs amounted to 6.3 per cent of payroll, which would have been reduced, by application of unemployment benefits, to 4.1 per cent, or by about one-third.

For all firms the total guarantee costs under a one-year plan ranged from zero per cent to 39.9 per cent of payroll. Under a two-year plan, total costs ranged from zero per cent to 21.5 per cent of payroll. Under a three-year plan, total costs ranged from zero per cent to a total of 15.6 per cent of payroll.

As between the cost results for the above three firms and those shown in the Latimer Report, comparison is somewhat difficult. It would appear that the conditions assumed for the three selected firms are more realistic. The 10 per cent liability provision in the Latimer Report would account for a very substantial drop in high-cost firms, but the guarantee would certainly mean appreciably less. Acceptability of a marked limitation on liability has not as yet been characteristic of the attitude of those seeking guarantees
currently. Comparability with calculations made in the Latimer Report is not feasible.
CHAPTER VI

COORDINATION OF GUARANTEED ANNUAL WAGE PLANS
WITH UNEMPLOYMENT INSURANCE

A major feature of current proposals for annual wage guarantees is that of combining the wage guarantee with unemployment compensation benefits. The objective of this feature, according to its proponents, is to make the plan a more practical one for the employer, partly by reducing the employer's cost, and in addition by giving him an attractive incentive to stabilize his employment. The effect, it is alleged, would be to give the employee a more substantial income during lay-off than he could obtain under other plans, and such economic security would be within reasonable limits of cost to the employer.

It is the purpose of this chapter to discuss the various arrangements under which guaranteed wages could be related to payments made under unemployment compensation insurance, and to examine at some length the proposal which is contained in the plans presently being advanced by the major CIO unions.

CURRENT RELATIONSHIP OF WAGE GUARANTEES
AND UNEMPLOYMENT COMPENSATION

Unemployment compensation insurance is actually a part of the Federal social security program. It is administered
by the states, however, through their own systems of unem­
ployment compensation as provided by the law of each
individual state. Thus there are differences in the details
of the various state plans. In nearly all of the states
(except six) the employer pays all the cost of the unemploy­
ment compensation insurance in the form of contributions
(taxes), while in the remaining few the employee also con­
tributes.

In order to be eligible for unemployment compensation
benefits, an individual must have worked in covered employ­
ment for a certain period of time during the preceding
year, or earned a minimum stipulated amount of wages or
both. Upon separation which leaves him eligible, and
usually after a waiting period of one week, he is entitled
to receive weekly benefits for a period usually not in ex­
cess of twenty-six weeks. Furthermore, in order to qualify
for compensation, he must be able and willing to accept
available employment if it is sufficiently similar to his
regular occupation to be deemed "suitable" employment.

Coverage of unemployment compensation insurance usually
extends to firms employing three or more employees. Certain
occupations are not covered by the law. Approximately 38
million workers are covered by unemployment compensation
insurance legislation, as compared to approximately 64 mil­
lion in the total labor force.
There is little evidence that, up to the present, there have been any significant effects of wage guarantees, where they exist, upon unemployment compensation, or vice versa. In Chapter II it was pointed out that the Federal Social Security Act encouraged guarantees by permitting a lower contribution rate through a tax offset provision to employers who gave certain guarantees. It was also pointed out there that legislative provisions have had slight effect on development of the concept of wage guarantees.

The concept of annual guarantees of wages or work is related to stability of employment, however, and stability of employment is related to unemployment compensation. It follows that if annual guarantees are to take on added significance in terms of widespread application and in relation to the amount of wages involved, interest in the relationship of guaranteed wages and unemployment compensation is sure to be evident.

That such relationships has already been generally recognized is apparent by the considerable amount of thinking that has been devoted to (1) attempts to assess the potential impact of proposed annual guarantees on unemployment compensation and vice versa, and (2) developing a system of coordinating the administration of annual guarantees and that of unemployment compensation.

There are several possible ways in which coordination of annual guarantees and unemployment compensation could be
effected:

(1) Payment of guarantees until expiration of eligibility, followed by payment of unemployment compensation for the regular benefit period;
(2) Payment of unemployment compensation for the regular benefit period, followed by payment of guarantees;
(3) Rotation of employee between guarantee payment periods and unemployment compensation payment periods;
(4) Supplementation of unemployment compensation by guarantee payments to permit receipt by the employee of an amount related more approximately to his level of earnings.

Of these several methods of relating annual guarantees and unemployment compensation, the last one has been emphasized in the preliminary plans drawn up by major CIO unions.

PAYMENT OF GUARANTEES FOLLOWED BY UNEMPLOYMENT COMPENSATION

The first two methods might be referred to as tandem arrangements. In the one under consideration, the employee, upon layoff through no fault of his own and if he were otherwise eligible, would receive his guarantee in the amount stipulated. It can be assumed that any earnings from other sources during the idle period would decrease the amount for which the employer would be liable. Where
the employee had no other earnings, however, the employer would be liable for the whole amount of the guarantee. This would be at a predetermined level.

The employer would, if paying full or nearly-full wage amounts, be seriously affected by added costs. It may be assumed that the employee would have to register at the public employment office for available work. If a job were not available, the employer would be required to pay full liability for a long period of unproductive time. It would not be possible for the employer to guarantee 100 per cent of wages and under this method have part of the guarantee cost absorbed by unemployment compensation.

The employer could conceivably experience a savings on his unemployment compensation tax. A reduction in the premiums could result because many employees would be re-employed before the first fifty-two week period were exhausted. The tax savings would be a minor part of the liability incurred under this plan, probably. No doubt the employer, because of the heavy costs involved, would be making every possible attempt to prevent any layoffs from occurring at all.

If the employer were able to limit the guarantee period to a smaller portion of the year, such as the first twenty-six weeks, after which unemployment compensation could be drawn for twenty-six weeks, the employer's total liability would be less, but the employee would sustain a greater wage
loss. The employer's liability would be highly concentrated during the first twenty-six week period, which might prove to be exceedingly costly to him during a period of economic difficulty.

This type of guarantee resembles neither the traditional plans in effect, nor those plans currently being proposed. From the legal standpoint, it would be possible, since it would not conflict with any state laws regarding unemployment compensation eligibility.

It might prove to be less than a year-long guarantee for some employees. The conditions for eligibility for benefits may differ, since the guarantee plan and the unemployment compensation plan are administered independently and at different times. If the provisions determining suitability of work for employees are less stringent under the guarantee plan, the employee may draw benefits for the length of his guarantee period, but find that, when this benefit period ends, he is not eligible for unemployment compensation. It would be more probable, however, that he would be able to find some employment by that time.

On the other hand, if the employer enforced more stringent work suitability provisions than exist under the unemployment compensation system, the worker would have the alternative of accepting work, if available, in lieu of guarantee payments, or applying for his unemployment compen-
sation benefits. In this case it must be assumed that the bureau of unemployment compensation would not insist that he accept work from his employer which does not meet the state standards of suitability. He would draw unemployment benefits under the state system, without the employer incurring any additional liability.

The employer would be required to make full payments during the guarantee period even if his guarantee would extend for twenty-six weeks. For this reason, and because it has received little attention from labor groups, this type of plan is perhaps of very little significance in future developments which would see coordination of annual guarantees and unemployment compensation.

UNEMPLOYMENT COMPENSATION FOLLOWED BY PAYMENT OF GUARANTEES

Under this tandem arrangement, the order of benefit payments would be reversed, as compared to the method previously discussed. Payment of unemployment compensation benefits would be provided for first. After the period of eligibility for unemployment insurance were exhausted, the employee would then draw his guarantee for the proper period. The same assumptions can be made as for the preceding plan, that is, the employee would have to register at the public employment office, and that any earnings from other sources would result in an equivalent decrease in his benefit payments.
The rationale of this plan is that unemployment is a social matter, and that the employee should first draw from the fund which is set up primarily for that purpose. After that, if he has not yet returned to work, the employer assumes some responsibility in providing for him, rather than requiring him to transfer to public relief status.

This plan would be probably the least costly to the employer, since it is likely that the employee would be back to work in most instances before he is ready to draw his guarantee. It would not alleviate the worker's situation where unemployment benefits provided are a very small proportion of his average earnings. It would maintain an incentive for the worker to search for a job. The employer would come into the picture at the expiration of the unemployment insurance benefit period, at which time it would be quite conclusively obvious that employment is simply not available.\textsuperscript{120}

Some problems might present themselves under the operation of such a plan. Since the two benefit plans would be independent of each other, it is again possible, and even probable that eligibility provisions would differ, or at least the interpretation of them would differ. If the

\textsuperscript{120} An employer might conceivably be tempted to rehire employees who are about to exhaust unemployment compensation benefits, and lay off other workers, thus keeping liability burden at a minimum. Of course, such restrictions as seniority and layoff provisions in a union-management contract might prevent such a policy.
employee were not eligible for unemployment compensation, for example, because of refusal to take work considered suitable under unemployment compensation law, would the employer be liable to pay his part of the guarantee? If he were liable, the employee might well refuse jobs considered suitable under the state system but unsuitable under the guarantee plan in order that he might draw the guarantee amount, which would probably be higher.

If the employee were not eligible to draw benefits from the state at time of separation, and if the employer's provisions for eligibility precluded his receiving guarantee payments from the employer immediately, would he be required to wait until twenty-six weeks had elapsed, (or whatever the duration of the public benefit period) before obtaining the employer's benefit payments? Would he also be assured, at the time of separation, or at the time of being refused unemployment insurance benefits, that he would receive his wage guarantee at the proper time if still unemployed?

These are illustrative of questions which would have to be resolved under such a system of coordination of annual guarantees and unemployment compensation insurance. This plan has also received no real attention from interested groups, however, and it is not probable that it will assume any major importance in the development of income regularization schemes.
ROTATION OF GUARANTEE PAYMENTS AND UNEMPLOYMENT COMPENSATION

Under this system, rotation of periods of payment of guarantees and unemployment compensation would be made. The Latimer Report gives a brief description of how this scheme could operate when less than a year's equivalent of work or wages is guaranteed:

Such a guarantee might, for example, provide that at some time during the period of a year an employer pay an employee wages equal to, say, 35 weeks at 40 hours a week -- that is, with wages for 1,400 hours but without any commitment as to the period in which they would be paid. If the guarantee were coupled with a proviso that the employee must, upon penalty of forfeiting the guarantee, register with a public employment office during the period in which he is on the unemployment insurance rolls, and accept suitable employment if offered, the arrangement would probably be of relatively little value to him in most periods. During the first 17 weeks of a guarantee period, an employer would be under no obligation to make any payments to an employee if he did not wish to do so. He could wait until the latter part of the year to make good on the guarantee. For example, if in the first quarter of the first guarantee year, the employer was able to provide full-time work for the employee, but during the second and third quarters only about half as much, the employee would have had 26 weeks of work and 13 weeks of unemployment insurance at the end of the third quarter. If as many as 9 weeks of employment were then provided in the fourth quarter the employer would have lived up to his guarantee without any additional cost to himself.\textsuperscript{121}

Even for conditions of a full year guarantee, the report points out that numerous employers would be able to assure

\textsuperscript{121} Guaranteed Wages, Report to the President by the Advisory Board, Office of War Mobilization and Reconstruction, op. cit., p. 113.
employees of fifty-two weeks of either employment or unemployment compensation benefits, but that such an arrangement cannot be termed a guarantee. There would have to be, it states, a limitation on how long guarantee payments by the employer can be postponed. For example, if a provision were included that the worker could draw unemployment compensation insurance benefits for not more than three weeks consecutively, the arrangement would be more likely to have some guarantee value.122

In some, but not all, instances this plan would have the same effect as the second tandem arrangement discussed above, where guarantee payments are paid only and specifically after the employee's unemployment compensation period is exhausted. Under this plan, however, stipulation could be made that rotation of periods must occur at definite intervals of the idle time period.123

122 Ibid., p. 114.

123 In the textile mills of Massachusetts, a system of job rotation, or staggering of employment, has been in effect for a period dating back even prior to unemployment compensation legislation. Employees are rotated between jobs and layoff as a means of holding the labor force when there is not sufficient work for continued employment of all workers. Such practices, however, have resulted in an unusually heavy drain on the unemployment compensation fund. The result of continued practices of this kind in the face of a declining number of jobs could result in maintaining an uneconomically large work force. It was also reported that if such practices were to spread to other industries in the state, the drain on the state unemployment compensation fund could become very serious. Galenson, Walter, A Report on Unemployment Compensation Benefit Costs in Massachusetts, Division of Employment Security, The Commonwealth of Massachusetts, 1950, pp. 217-245.
If this plan were used to assure the worker of payment of a certain basic annual guarantee in terms of hours rather than weeks, it could be made workable. In this event the worker could be assured of a minimum income in excess of that which could be obtained from reliance on unemployment compensation alone. To be made feasible, it may have to provide for overtime hours to be included to make up the guarantee minimum.

The unemployment compensation feature could be maintained on an independent basis, as it now is. The employee would have an incentive to seek work as he now does. His guarantee payments would be reserved for a period of idleness in which he probably would need the income more than when first laid off. The rotation plan has not been given much attention in the past, neither is it likely to be advocated by proponents of annual guarantees in the future. The reason for this is that, as in the preceding plans, compensation for certain periods of time would not be above that available under unemployment compensation. This fact is actually the basis for much discontent concerning present provisions for income during layoff.

SUPPLEMENTATION OF UNEMPLOYMENT COMPENSATION WITH ANNUAL GUARANTEE PAYMENTS

Past history of legislative encouragement for employers to grant annual wages shows that it has been something less
than fruitful. The history of efforts to liberalize provisions for unemployment compensation insurance benefits reveals that they have also not been as successful as their advocates would wish. It is not surprising, therefore, that this experience has provoked some attempts, by way of current guarantee proposals, to mitigate these problems. The suggested solution has been in the form of a provision for supplementing unemployment compensation concurrently with the annual guarantees made by the employer.\textsuperscript{124}

An employee upon being laid off, would be required to register with the public employment office, thus declaring himself available for work. Whether he would be required to accept a job opening would depend upon whether such job were considered to be suitable, or commensurate with his skill. Since the administration of the guarantee payments would be separate from that of the state unemployment insurance, and since the suitability provision under state law has been deemed to be too strict by the unions, it can be assumed that suitability would be defined more liberally under the company guarantee plan where it was developed jointly under collective bargaining.

\textsuperscript{124} Although it has been referred to as supplementary unemployment compensation (Cf. Slichter, \textit{op. cit.}, p. 4), it should probably be termed supplemented annual guarantees. The guarantee is actually the major benefit amount, and the employer's direct payment would be decreased by the amount obtained under unemployment insurance. Wherever unemployment compensation would not be available, the employer would then pay the entire amount on the basis of his annual guarantee.
At any rate, the employee would, then layoff, apply for unemployment compensation. The amount which he obtains from unemployment insurance would be deductible from the total guarantee. Thus the employer would, in effect, supplement the unemployment compensation system in order to provide for the idle worker an income approximate to that which he would earn while employed. It is only logical to assume that the total benefits would not be very considerably below earning level, since the guarantees, in order to appeal to the worker, would have to be an appreciable margin above his unemployment compensation level. Further, some current proposals insist that the benefits be sizable enough to permit the worker to maintain a standard of living substantially similar to that enjoyed while employed. Where proposals suggest a level considerably below such a level, it would probably only be a matter of time before demands for increased guarantees would be forthcoming.

Whenever the employee did not draw unemployment insurance benefits, the employer would pay the entire amount of the guarantee. This would occur (1) during the employee's waiting period after lay-off, (2) if he were ineligible under the state system but eligible under the company plan, (3) if the employer did not wish to make the employee available for other jobs through registration at the public employment service, but preferred to keep him on call status.

The reasoning behind a system of supplementing unemployment-
ment compensation is that, according to its proponents, (1) it would provide sufficient economic security to the employee, (2) it would be within the financial capabilities of the employer, and (3) it would hold for him an effective incentive to stabilize his production and employment. While the first two factors have been discussed previously, the third factor, concerning incentive for stabilization, is given further attention at a later point in this chapter. Cost data in Chapter V have shown unemployment compensation benefits relative to total benefits in differing periods of idleness.

LEGAL STATUS OF SUPPLEMENTARY UNEMPLOYMENT COMPENSATION

One problem must be recognized early in the discussion of unemployment compensation supplemented by guarantees. It concerns the legality of combining compensation benefits with annual guarantees in the manner outlined above. While this problem has been touched on briefly in an earlier chapter (Chapter IV), it bears closer scrutiny here because of the importance which this provision holds relative to the entire proposed plan.

Under present unemployment compensation legislation, payments made by the employer from his own fund directly to the employee, and considered as a business expense, would be a payment of wages. Thus the only way in which the

125 This was the Supreme Court decision in the case of Social Security Board vs. Nieroitko, 327 U.S. 358.
employer could make a payment to the employee now, and still permit payment of unemployment compensation benefits, would be where the employer's payments were less than the unemployment compensation benefit amount to which the worker was entitled.

Mr. Murray W. Latimer, who supervised the report by the Office of War Mobilization and Reconversion to the President on guaranteed wages, feels that although specific amendments should be made to state laws which would legalize such supplementation, there is a possibility of such a scheme being workable under present laws in most states. It is his opinion that benefits paid to employees from a trust fund would not disqualify an employee from unemployment compensation, except possibly in four states: Pennsylvania, Indiana, Connecticut, and Minnesota. Even in three of these, interpretation of the law is not clear enough to rule out such a possibility, he states. Where payments from a trust actually do result in disqualification, the employer, through the trust fund, would pay the entire guarantee cost.

The United Automobile Workers union also maintains that integration is definitely possible under the laws of some important industrial states, and that it is very probable that it can be achieved in most of the remaining ones, with-

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out amending legislation. 127

There is at the present time no way in which Mr. Latimer's suggestion of the legal status of supplementary unemployment compensation can be judged. Most expressions of opinions on the subject have been to the effect that the laws of the various states and territories would have to be changed to accommodate the proposal—a considerable expectation indeed. 128

FEASIBILITY FROM THE EMPLOYER'S POINT OF VIEW

For purposes of considering the feasibility of a supplementary unemployment compensation plan, it will be assumed that such an arrangement as has been described above is legal, that is, that it would be possible to effect changes in the various state laws which would permit payment of unemployment compensation benefits concurrently with annual guarantee payments. The disemployed worker would have to register at the public employment office and accept

128 See for example, the following:
Chamber of Commerce of the United States, The Economics of the Guaranteed Wage, op. cit., p. 29.
Rising, Frank, op. cit.
Molthrop, David, op. cit.
"suitable" work. As in the current union-proposed plans, the two benefit plans would be administered independently. As has been mentioned previously, arguments for such an arrangement include the allegation that the plan would be more workable from the standpoint of cost to the employer. A reserve fund, however, is also assumed as part of the arrangement.

The Latimer Report states that the device of using unemployment insurance as a part of the guaranteeing mechanism would be useful, not only as an element of security in the plan, but also in limiting costs to the employer and in preventing the creation of "pools of unemployment."\textsuperscript{129} A statement by the United Automobile Workers parallels this type of thinking:

> The higher state unemployment compensation benefits are raised, the greater the number of weeks for which they are paid, and the fewer the unjust excuses for disqualifying workers from eligibility for benefits, the lower will the cost of the guaranteed wage be to the corporation.\textsuperscript{130}

In both of the above positions taken is implicit the viewpoint that if coordination of unemployment compensation with annual guarantees are effected as suggested, the employer will stand to gain cost-wise with respect to his own liability for a guarantee. Overlooking the fact that the

\textsuperscript{129} Guaranteed Wages, A Report to the President, Office of War Mobilization and Reconversion, op. cit., p. 184.

\textsuperscript{130} Progress Report on Guaranteed Annual Wage Preparations, op. cit., p. 19.
Latimer Report somewhat contradicts itself by saying at another point that unemployment compensation costs would be little affected by the operation of the guaranteed wage plan, since a substantial number of employers already contribute the minimum rate provided by state law,\(^{131}\) it must be recognized that the employer pays for the most part the amount in the unemployment compensation fund from which employees separated from his organization will draw benefits. Since this is so, the employer would, in effect, be contributing to two separate funds from which eligible laid-off employees would be drawing benefits. There might be some slight difference in the rate at which the employer pays into the unemployment compensation fund as compared with the rate at which disemployed workers draw from it. In most states the law provides a minimum rate of contribution below which the employer cannot escape payment. Thus if the employer had no layoffs at all, he would still be paying for some other employer's unemployment experience. On the other hand, all laws provide a maximum contribution rate. Thus there is a limit to the liability which an employer bears in supporting the unemployment compensation insurance fund, even if his layoff experience indicates that separated employees are drawing more than the amount he has contributed. Under such

\(^{131}\) Guaranteed Wages, A Report to the President, Office of War Mobilization and Reconversion, op. cit., p. 103. This was made for 1946, when the average rate was stated as having 1.4 per cent of payroll.
circumstance the employer is in effect able to shift part of his own idle time costs to other employers. This is, of course, one of the reasons why social insurance exists.

The reason for advocating an integration of unemployment compensation with annual guarantees extends beyond this, however. The union statement points out that

Guarantee payments should be integrated with state unemployment compensation benefits so that employers can reduce their liabilities by effectively working toward the improvement of the state laws.\(^{132}\)

By "improvement of the state laws" is meant the previously quoted objective of higher benefit amounts for longer periods under less stringent eligibility provisions. Thus if an employer had a high layoff experience, he might be able to lower the cost of a guarantee if a greater part of his guarantee payments were defrayed through the liberalized social insurance aspects of the guarantee. The question arises then as to what degree should the cost-sharing of idle time be permitted to be socialized.

Probably a more disagreeable circumstance wherein an employer would be subsidizing the payroll of another would be where the laid-off worker is employed by another firm, but at a lower rate of pay than that given by the first employer. The first employer would be expected to make up the

difference in earnings on the two jobs. The employer who had no work to offer would be, in effect, subsidizing the employer who was maintaining his production pace or increasing it.

The funds to be provided for payment of guarantees by the employer would bear some relationship to his potential liability. Present unemployment compensation legislation also provides for the employer's contribution to the public fund being related to his probable liability, through basing his tax rate on his lay-off experience in the past. It is this feature in the state laws which unions have attacked with some vehemence in the past. As one publication phrased it, "One of the backward steps [of unemployment insurance] was experience rating, which labor fought because it gave employers a direct incentive to keep workers from drawing benefits and resulted in unjust disqualifications."\textsuperscript{133} It is to remedy this that the unions have proposed to set up separate eligibility provisions for the guarantee plan. The experience rating principle has, however, been incorporated in the plan offered by unions, since, if the employer succeeded in stabilizing employment, his guarantee fund would not be drawn upon. The experience rating principle appears to be a salutary feature, and should be retained insofar as possible. Berridge and Wolfe, in their commentary on the

\textsuperscript{133} "Guaranteed Annual Wages," \textit{Economic Outlook}, op. cit., p. 78.
Latimer Report, point out that the denunciations of the unions and the Latimer Report against experience rating "certainly cannot demolish the healthy principle of granting lower employer taxes for favorable employment record. On the contrary, any miscarriage of the principle should call for its strengthened application."\textsuperscript{134} Earlier in this chapter mention was made of Latimer's opinion that an employer would experience very little saving, if any, on unemployment insurance contribution by reason of operation of a guaranteed annual wage, since the average rate of contribution in 1946, for example, stood at 1.4 per cent. Even a reduction of one per cent in the tax rate, however, might make an appreciable difference in the net profit of a concern. Therefore, any improvement in the experience rating of an employer would be something to be desired. An improved experience rating can only be obtained by operating on a more stabilized basis than formerly, over a period of time. As Berridge and Wolfe state it,

\begin{quote}
The savings represented by such stabilization must be of a nature and magnitude comparable to those hoped for under guaranteed wage plans when the latter have truly reduced costs for idle time by dampening the fluctuations in physical output and employment.\textsuperscript{135}
\end{quote}


\textsuperscript{135} Ibid.
If the employer enjoyed a very favorable experience rating, it is even conceivable that he would be reluctant to mar such rating, with its consequent tax savings, by allowing lay-offs to increase his tax rate. This would be especially true if his payroll were sizable in total amount. As Dr. Kaplan suggests, it might be a bigger net expense to the company to allow its unemployment compensation fund to be drawn upon than to pay the employees out of its own finances. The actual cost could be more accurately ascertained. Furthermore, he would certainly have the incentive to stabilize employment as far as possible, although this has most probably been done as a prerequisite to attaining the good experience rate.

The disparity between unemployment compensation provisions and those for annual guarantees regarding renewal of benefit rights would also result in a perplexing problem for the employer. Under the proposal of the Steelworkers' union, a worker would have to be re-employed for only 480 hours, the equivalent of twelve weeks, in order to be eligible for another 52-week period of guaranteed payments. If

136 A case in point may be that of the Hormel Company's experience. Because the firm had laid off nine men over a period of three years it was not eligible for the lowest contribution rate. It was estimated that about $900 in charges by former employees against the unemployment compensation fund cost the company about $150,000 in contributions to the fund. Guaranteed Wages, A Report to the President, Office of War Mobilization and Reconversion, op. cit., p. 329.
he worked 240 hours upon returning to the job, he would be eligible for 26 weeks of payments. In contrast, under the Ohio law, a worker would have to be employed in at least twenty weeks of a one-year period in order to be eligible for 26 weeks of unemployment compensation payments. Therefore, since the employee's eligibility is more easily attained under the guarantee plan than under the state system, the employer would be paying proportionately larger sums out of his own fund. This would no doubt be intended by proponents of the plan as another incentive to enroll support of the employer in effecting changes in the provisions of the state system which would be favorable to the employer's guarantee liability.

ASPECTS OF PUBLIC POLICY

From the point of view of public policy, an integration of unemployment compensation systems with annual guarantees would result in a re-appraisal of such policy, and the necessity to cope with some problems which would arise in that area. For example, it is a basic principle of unemployment compensation that there must be a significant difference between the amount the separated employee gets as unemployment compensation insurance benefits and his average earnings. He should, according to this principle, be unemployed and have suffered a loss of wages. This condition, it is assumed, will leave the employee with sufficient incentive to seek work and leave the benefit
rolls as soon as possible.

This principle appears to be in conflict with the effect which an annual guarantee plan integrated with unemployment compensation would have. Under this arrangement, the employee would have no strong economic inducement to seek work actively after completing his registration with the state employment office. The inducement would be almost completely on the side of the employer and the public employment office bringing the job to the worker. Since, as in the Steelworkers' plan, no individual should be required to make an independent search for work, that is, actively seek work, another point of conflict with public policy is revealed. Under such a plan, the employee could continue to draw benefit payments even while ill and unable to work, unless he were offered a job and had to refuse it because of such illness.

Dr. Kaplan has touched on another possible feature of an integrated program of public and private guarantees. If the employee were guaranteed an income equal to his past average earnings, his actual or real wages might even be in excess of wages earned by him while working. This might be so because unemployment compensation payments received are not subject to federal or state income taxes, nor to Social Security contributions. Furthermore, the recipient would

137Kaplan, op. cit., p. 226 (footnote).
also probably save money on meals eaten at home rather than at the place of employment, on expenses connected with transportation back and forth to work, and similar items.

Mr. William Papier suggests that, where guaranteeing firms and non-guaranteeing firms exist in the same community, legislation and practice might create dual patterns for handling benefit matters, one for workers under a guarantee and one for those not under a guarantee, one for guaranteeing employers and one for non-guaranteeing employers. It is not difficult to imagine that, if two employees with the same skills were registered at a public employment office as unemployed, one from a guaranteeing employer, the other from a non-guaranteeing employer, some discrimination might be shown in placement on job openings. To attempt to alleviate the hardship of the employee receiving only unemployment compensation, the state office may choose to place him first, leaving the guaranteed-covered employee on an idle status, since he will continue for some time to draw an amount more approximate to his pay while employed. This would in reality not be justified, since the responsibility of the state agency is to give first consideration to the skills of the unemployed, rather than to make the placement on the basis of need. The above

138Papier, William, Unemployment Compensation and Guaranteed Annual Wages, a paper presented before the Ohio College Association, Social Science Section, at The Ohio State University, April 10, 1954.
reaction would, however, probably be an understandable one under the circumstances.

It has been pointed out that under a guarantee of the integrated unemployment compensation-annual guarantee kind, the employer would be encouraged to work for higher state benefits, in order to minimize payments out of his guarantee fund. It has also been pointed out how costs of idle time could be partially shared with other employers. If state unemployment compensation laws were changed to liberalize payments from the state fund, those employers not operating under a guarantee would still be in the position of assisting in providing funds for employees separated from employers under a guarantee. The result, Mr. Papier feels, might be a uniform national guarantee contract for certain kinds of workers, such as steelworkers, with variations between states or even localities within a state in the way in which unemployment compensation would be supplemented. He feels further that if plans in major guaranteeing industries, such as steel and automobiles, were at considerable variance with each other, the result might be legislative battles among such employers as well as with non-guaranteeing employers.

This opinion appears to be a tenable one. Agreements reached through collective bargaining would very likely be followed by attempts to change existing legislation. Several observations are on record as to the effect of such
attempts. Papier is of the opinion that the legislative process in the field of unemployment compensation would give way to negotiation through collective bargaining.\textsuperscript{139} Sanford Cohen, in discussing some ramifications of the guaranteed wage issue, makes the comment that "the political implications of the current guaranteed wage proposals are as important as the economic."\textsuperscript{140} He feels also that where labor and management engage in controversy over negotiations such as the annual guarantee issue, negotiated agreements can condition as well as be conditioned by existing legislation. "In the matter of guaranteed wages," he states, "it is possible that we are about to witness the phenomenon of collective bargaining bypassing [in effect] the state legislatures."\textsuperscript{141}

The idea of joint administration of the guarantee part of the plan appears to be another feature which characterizes the proposals as an attempt to "bypass," in effect, state legislative procedures. If the unemployed worker were refused unemployment compensation, there would always be the jointly administered arrangement as an alternative

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{139}Ibid.
\item \textsuperscript{140}Cohen, Sanford, in a discussion of the paper by Papier, \textit{op. cit.} before the Ohio College Association, Social Science Section at The Ohio State University, April 10, 1954.
\item \textsuperscript{141}Ibid.
\end{itemize}
\end{footnotesize}
to provide the funds for payment. This would hardly be in the interest of either the employer, whose fund would be affected, or the public, since public policy as embodied in unemployment compensation regulations could be skirted more or less easily.

If the legislation concerning unemployment compensation in the various states needs to be changed with respect to benefits, it would seem that a more direct way of doing so (amending the state unemployment compensation law) should be resorted to than would be indicated by the steps involved in first securing a guarantee plan and then to "witness the phenomenon of collective bargaining bypassing the state legislatures." The defense -- that state legislatures have been influenced preponderantly against deserving recipients of unemployment compensation -- is not as yet a substantiated fact. The legislative procedure of the state should be a non-discriminatory mechanism for determining the level of unemployment benefits.

The Steelworkers union, in its brief submitted to the Wage Stabilization Board in 1951, also lamented the fact that employees under identical conditions might draw widely varying total benefit amounts, and suggested that a plan requires a formulation of a set of standards which can be applied uniformly, irrespective of varying state provisions.
More specifically, the view is stated thus:

58. Any scheme in which the total amounts received by the employees of a single company (including the state benefit) may vary widely under identical conditions may be a benefit arrangement; it can hardly be called a plan. A large part of the potential value inherent in a plan, as such, will be lost if all the irrationalities of the state laws are reflected in operations. This means, of course, that successful operation of a plan necessitates the formulation of a set of standards which will be applicable throughout, irrespective of what the particular state rules may be. It is necessary, in consequence, to accept some state actions as appropriate and reject others.142

This statement appears upon examination to indicate a desire to eliminate the "irrationalities of the state laws," which can be effected by formulating a "set of standards which will be applicable throughout." This could conceivably leave room for suggesting federalization of the state unemployment compensation systems. If so, Mr. Cohen may be correct in his observation that the political implications of the guaranteed wage proposals are as important as the economic.

Another aspect of the effects of integrating unemployment compensation with annual guarantees which requires some consideration is the factor of mobility of labor and utilization of personnel. A guarantee plan of the integrated type would tend to keep workers attached to the

142In the Matter of United Steelworkers of America-CIO and Various Steel and Iron Ore Companies before the Wage Stabilization Board, op. cit., p. 24, paragraph 58.
employer. Where there will no longer be use for the workers, that is, where their separation is permanent, full utilization of labor resources would of course not be realized. In fact, Dr. Slichter suggests that for such workers a severance pay is preferable to continued guarantee payments, since they would then be released for movement into another area of the economy.\(^{143}\) While it is true that some retarding of labor mobility would be encouraged, and measures of retraining for other occupations delayed somewhat, it appears that mobility would not be a major problem provided that the definition of suitability of work be fairly and clearly formulated and the suitability provision be enforced with a minimum of grievances or difference of opinion. Where the employer desires to minimize his own labor turnover, he is more concerned with providing for a permanent work force than he is with providing conditions for mobility of labor.

The administrative difficulties involved in an integrated plan would be multiplied as compared to those existing at present. They can best be expressed in the words of a public official cognizant of the various procedures which would be necessitated.

\(^{143}\)Slichter, op. cit., p. 8.
...supplementation of unemployment compensation by guaranty payments would complicate an already complex and cumbersome structure. In addition to the extensive information required under state laws to determine eligibility for benefits, it would be necessary to know whether or not a claimant had been employed by an employer with a guaranteed annual wage plan. The employer would have to be notified of the initial claim. The employer, in turn, would have to notify the state agency to the effect that the claimant is or is not eligible for guaranty payments....Assuming the worker is eligible for guaranty payments, then the state would have to notify the employer concerning each claim filed--name, social security number, week claimed, benefit rate, amount certified, potential duration, or reason for disqualification.

Presumably, the employer would keep the state agency informed concerning payments from the Guaranty Fund to the claimant....the state agency would doubtless want a record of each guaranty payment to each claimant. Both the state agency and the employer would have to maintain a detailed claim record for the claimant, each with essentially the same data.

This gives some idea of the mass of administrative detail which would be required to effectuate the plan. The cost of maintaining the necessary procedures would no doubt be a significant item. Promptness of payment, which is even now a cause for complaint at times when unemployment compensation machinery is heavily burdened, might be impeded even more under the additional load of work.

INCENTIVE TO STABILIZE EMPLOYMENT

Because stabilization is so vital to the ability to maintain an annual guarantee, and because the integrated

144 Papier, op. cit.
unemployment compensation—annual guarantee plans are intended by their proponents to provide the employer with the necessary degree of incentive to stabilize, that particular feature deserves perhaps special attention in a discussion of the integrated program that has been submitted.

Just how much incentive to stabilize such an arrangement would hold for an employer would depend on how much effort he has already expended in regularizing his operations; how much control he can exert over fluctuations, that is, whether they are frictional, seasonal, cyclical or secular in nature; and how much it would affect his willingness to undertake additional ventures which may involve irregular employment.

There is sufficient evidence to indicate that in many instances employers could regularize operations to a greater degree than they do now. This will be discussed in the following chapter. In order to do so, however, management would have to have the cooperation of worker groups. Although executive ability to effectively plan, organize, and control the operations of a firm would be a factor, labor would have to accept some modifications in existing agreements in order to effectuate greater stability in many firms. The need for concessions from labor along this line was pointed out in the conclusions to Chapter IV.

145 See page 223.
The incentive to stabilize could not be used at the optimum degree when flexibility of working conditions is a prerequisite to regularized operations.

It is also recognized, by the unions as well as by management, that the individual employer cannot be responsible for certain kinds of fluctuations, such as those of the cyclical variety. It is evident that the unions agree with this conclusion because they argue for a provision for reinsurance of the reserve fund which would help to spread the risks of unemployment "over the widest possible area of the economy." Many causes of cyclical employment are recognized as being economy-wide. The incentive to stabilize would obviously be of limited effect where cyclical employment is concerned. As Dr. Kaplan reasons, the idea of "combining unemployment compensation with the annual wage would appear to weaken the emphasis on regularizing production, and to put it on persuasion for a formal guarantee, where it cannot be supported on its own productive base."\(^{146}\)

Where the employer could see a way of conserving the fund which he set up for a guarantee, he would, of course, at least consider methods of stabilizing. If he felt that he had no significant ability to control fluctuations, he might assume there was nothing to be gained by trying, since he was paying anyway.

\(^{146}\)Kaplan, op. cit., p. 225.
An employer may also hesitate, in the interest of attaining a stable level of operations, to undertake new business ventures which may subject his operations to unpredictable fluctuations in employment. Operating under a funded arrangement would alleviate his reticence, perhaps, more than if he were liable for guarantee payments on a pay-as-you-go basis. Nevertheless, if such venture involved a possible drain on his fund, he might still prefer to maintain a status quo position over that of possible expansion. This could result in a decrease of economic expansion, with a resultant increase in unemployed workers who would apply for unemployment compensation, guarantee payments, or both. As Dr. Slichter observes, however, the funds of guarantee plans may also make finances available for further investment, which may in turn create additional jobs -- where entrepreneurs are willing to risk the ventures.

The employer could be expected to attempt to stabilize his operations to effect what savings he could under an integrated guarantee plan. The incentive to stabilize would not be as effective as proponents of the incentive features believe, however.

EFFECTIVE UNEMPLOYMENT COMPENSATION SYSTEM VERSUS AN INTEGRATED GUARANTEE ARRANGEMENT

One of the main causes underlying the development of plans for coordinating unemployment compensation with annual guarantees has been dissatisfaction of labor with the
present unemployment compensation legislation and practice. Pressure for guarantees can be expected to continue as long as unions do not realize their objective of more pay for time lost due to lay-off. It is their contention that benefits have not maintained the same relationships to earnings through the years. Management has pointed out generally that, although this may be true with respect to gross earnings, the relationship has been maintained with respect to net earnings, or take-home pay. Nevertheless, Papier quotes a report by the National Bureau of Economic Research which shows that unemployment compensation replaced only fifteen per cent of lost wages in two recessions since 1938.\textsuperscript{147} The question of how much of an unemployed person's lost wages should be replaced through unemployment compensation or annual guarantees, or both combined, raises a very important issue of what society's responsibility in the matter really is, and what is the individual's responsibility.

A number of the weaknesses and problems associated with a combined unemployment compensation-annual guarantee plan has already been revealed in the preceding discussion. It has been stated that integrating the two systems would "abort the benefits inherent in each one separately."

\textsuperscript{147} Papier, \textit{op. cit.}  
\textsuperscript{148} Berridge and Wolfe, \textit{op. cit.}, p. 82.
Berridge and Wolfe, in expressing such opinion, feel that unemployment compensation insurance has some important defects which need yet to be remedied, and that it would be unwise to impose these upon a guarantee plan which itself would be marked by hazards. That unemployment compensation has been subject to abuses is true. Such abuses should be corrected. However, even if the integration were perfectly feasible from the standpoint of the employer, one of the more flagrant inequities would be that imposed on some workers. Workers not covered by guarantee plans, particularly unorganized workers, would not have the same supplementary compensation benefits available to them at lay-off as covered workers would enjoy. This would be so because the plans of the major industrial unions call for pooling of reserves by employers who have negotiated with the same union. A large number of employers would be included. One employer in such a plan could probably give a greater degree of assurance of benefits than could an

149Various kinds of transgressions committed against the system are detailed in the recent study by Father Joseph Becker. Some of the abuses which the author defines more precisely in various parts of his book are: obtaining illegal benefit payments by employees while working; obtaining illegal benefits while laid off but not actively seeking work; obtaining payments while voluntarily unemployed; lack of employer cooperation in efforts to police the unemployment compensation program; collusion between employer and employees to obtain benefits illegally for the latter; a lax attitude toward claims in the administration of the law; and abuses of the law which occurred because of administrative burdens during periods of numerous claims. Becker, Joseph, *Abuses of Unemployment Compensation*, (New York: Columbia University Press, 1953).
employer operating under a plan confined to his own organization. As Slichter puts it, "Since pooling of reserves and liabilities is probably not feasible in the case of privately negotiated plans, the union plans are likely to result in the most adequate provision for unemployment compensation where the need is least and the least adequate provision where the need is greatest."150

If the adoption of guarantee plans on a widespread basis resulted in an increased liberalization of unemployment compensation provisions, which would affect all workers, the disparity would not be so great, of course, but would still represent a considerable margin of difference.

This would be an indirect way of increasing benefits under unemployment compensation. It would seem that if greater benefits were desirable, the decision on which would be for state legislatures to decide, the direct approach would be far more effective. Even if the major CIO unions which are now demanding guarantees of work or wages were to obtain such guarantees, the total number of workers would only be several million, out of a total number of more than sixty million in the labor force. Any liberalization of the present unemployment compensation program, however, would affect close to forty million workers.

150Slichter, op. cit., p. 12.
SUMMARY

Coordination of annual guarantees with the unemployment compensation system is a major feature of current proposals for guarantees. The stated objective is to bring the cost within reasonable limits to the employer, to offer him an incentive to stabilize, and to provide an effective income level for the unemployed worker.

Coordination of annual guarantees and unemployment compensation can be effected in several ways: (1) by payment of guarantees until expiration of eligibility, followed by payment of unemployment compensation for the regular benefit period; (2) by payment of unemployment compensation for the regular benefit period, followed by payment of the guarantee; (3) by rotation of employees between guarantee payment periods and unemployment compensation periods; and (4) by a system of integration by which guarantee payments will supplement unemployment compensation, permitting the employee to obtain an amount related more approximately to his earnings while working than unemployment benefits alone would provide.

The first three methods are somewhat minor in importance, since they contain features which would be unacceptable to either the employer or to the labor interests, although each has certain advantages. None has received much attention in the development of guarantee plans.
Of the four means of coordinating the two systems of idle time payments, the fourth, that of integration of the two on a concurrent basis, has been emphasized the most in union proposals. Under this plan, the employee would draw his regular unemployment compensation benefit upon being laid off, to which amount the employer would add payment up to a stipulated amount approximating the employee's regular earnings.

The two systems would be administered separately, with the employer's guarantee presumably being administered jointly by the union and the employer. One reason for this is that unions are dissatisfied with legislative provisions and practices regarding eligibility and disqualification conditions for benefits. Thus the union would wish to liberalize eligibility provisions and "soften" disqualification requirements. Whenever the employee would be denied benefits for unemployment compensation, but would meet the eligibility requirements to receive the employer's guarantee, he would draw his total benefits from the latter's fund.

In this sense then, annual guarantees would be a form of social insurance. Reference has already been made to the possibility of legislative processes in the field of unemployment compensation giving way to negotiation through collective bargaining (see page 189). Extending the social insurance aspects to the guarantees proper would appear to be imposing such cost-sharing without legislative sanction.
The question again arises as to how far the responsibility of an industrial enterprise for compensating lost income should extend, and also to what degree it should share such costs with other firms. Furthermore, how much responsibility should be borne by the individual and such groups as the union is also an issue which should be resolved. If the influence of the union in collective bargaining and in providing for the continued income of workers is to assume even greater proportions than at present, then should the union assume also some financial responsibility for the effective operation of the plan, such as assisting in providing funds for benefit payments?

While it is believed by some that unemployment compensation supplemented by a guarantee payment may be legally possible under most present state laws, it is doubtful whether this is so. At the present time legal decisions indicate that the state laws would require modification in order to permit integration, because the receipt of guaranteed wage money would preclude payment of unemployment compensation.

Proponents of the integrated guarantee claim that the employer would, upon accepting the plan, participate in an effective campaign to liberalize unemployment compensation provisions, thus reducing their guarantee costs through reduction of the drain on their guarantee reserve fund. It must be recognized, however, that the employer also pays
his unemployment compensation premiums. Since this is a form of social insurance, there is some possibility of an employer shifting part of his guarantee cost to other employers by means of higher unemployment compensation benefits. Also, an employer hiring a disemployed worker covered by a guarantee could afford to pay such a worker at a lower rate than the latter had been accustomed to receiving without the worker suffering a wage loss. The previous employer would be required to pay the employee the differential in wages. Thus one employer might be in effect subsidizing the payroll of a second employer in yet another way.

While unions have traditionally disagreed with the principle of experience rating in unemployment compensation systems, on the basis of its abuse by employers, they are not averse to having an experience rating provision in unemployment compensation when it is integrated with a guaranteed wage plan; since, they feel, employers would not be in a position to take undue advantage of employees under the arrangement. There is no doubt that the experience rating principle is a worthwhile one. If present laws permit its abuse, such corrections should be made directly, by amending unemployment compensation laws, rather than indirectly as the integrated plan would do.

Although some persons believe that a reduction in premiums through experience rating would be of little value
to the employer, this view is questionable. Even a small change of one per cent of payroll in the unemployment compensation tax might make an appreciable difference when figured as an addition to or deduction from the net profit figure of a concern.

A company, if it enjoyed a minimum unemployment tax rate, might even prefer to pay idle employees out of its own fund rather than to permit them to draw unemployment compensation benefits, which might increase the tax rate. It might be cheaper for the firm to do so.

There is also marked disparity between provisions regarding renewal of benefits in the unemployment compensation system and in the private guarantees, with eligibility being re-established much more easily under the latter. This might again open up avenues for the employee drawing his full guarantee from the guarantee fund before being eligible for unemployment compensation benefits.

There are aspects of public policy which would have to be considered under the operation of an integrated plan. The principle underlying the state unemployment compensation plan, that the worker must have suffered a wage loss, be seeking work, and be available for work in order to be eligible for payments, is in direct contrast to the principle of private guarantees. This is that the worker should not suffer a significant loss of wages or decrease in living standard, and that he should not be required to
make an independent search for work. The employee might even, if he were guaranteed full wages, be obtaining more real wages than while employed.

If guarantees were adopted in some industries or plants, but not in others, it is conceivable that practices of the state unemployment compensation system might vary with respect to guarantee-covered employees as contrasted with non-covered employees. It would be a natural reaction to attempt to place non-covered employees first, without regard to skill. This is contrary to the principle upon which the public employment system operates. As noted earlier, differences between guaranteeing and non-guaranteeing industries or plants might result in opposing pressures for legislation. It has been remarked that the political implications of annual guarantees may be as important as the economic.

The administrative problems of operating under a dual system of public benefits and private guarantees would be multiplied, because of the communications which would be necessitated between the company and the state unemployment compensation system.

While the employer would have some incentive to stabilize under the provisions of an integrated plan, there is some doubt as to how effective such incentive would actually be.
The integrated plan presents many perplexing problems. If the main reason for proposing it is to correct alleged inadequacies in unemployment compensation, it would seem more logical for the state legislatures to consider changes in unemployment compensation laws directly.
CHAPTER VII

STABILIZATION PROBLEMS AND PRACTICES

There is a relationship between the degree of stabilization which is possible in a firm and the extent to which that firm can afford to sustain a guarantee of work or wages. Since employment bears a relationship to the output of a firm, there must necessarily be a possibility of attaining reasonable regularity of output in order to regularize employment and income.\footnote{Regularization of income is possible with some irregularity of employment, through such methods as withholding pay for hours in excess of the standard amount during peak periods for disbursement during periods when total production time is less than standard. There must necessarily be a limit to the amount of hours in excess of standard which the employee can work during peak periods, however. Therefore, there must be a limit to the amount of short-work periods which can be compensated for through withholding pay for extra hours worked.}

The regularization of production schedules and the stabilization of employment has been the subject of a
number of studies and surveys. This chapter does not attempt to present a similar study. The function of this chapter is to point out the general problems associated with efforts to stabilize, and also some significant methods which have been employed by firms. Prospects for stabilization of operations have a direct bearing on ability to offer annual guarantees on a continuing basis.

The employer must anticipate being able to meet the costs of an annual guarantee if he expects to extend such an assurance. If the employer is requested, as an individual firm, to grant a guarantee, he cannot consider granting such a request unless he also expects to be able to meet costs on an individual basis. Sumner Slichter has been cited previously as being critical of those who

152 Cf. for example, Feldman, Herman, Stabilizing Jobs and Wages (New York: Harper and Brothers, 1940).


Brower, Beatrice, op. cit., pp. 29-35.


believe that a fairly extensive adoption of annual guarantees would stabilize employment. They do not realize, he feels, how wide an adoption would be necessary to produce a stabilizing effect, and furthermore, they do not give adequate consideration to the pioneering firms which risk adoption of guarantees on an individual basis.

The United Automobile Workers union explains that the employer has four possible ways in which to keep his guarantee costs "well below the maximum."

...He can minimize his wage guarantee costs (a) by stabilizing employment, (b) by working effectively to bring about improvements in unemployment compensation benefit, duration and disqualification provisions, (c) by cooperating in the development and establishment of a sound system of reinsurance, and (d) by supporting national economic policies designed to maintain full employment.

Only the first of these is an area in which the employer can expect to take direct action as an individual firm. The inference to be drawn is really the premise stated at the beginning of this chapter, that from the standpoint of the individual firm there must be a possibility of regularizing output, and employment, if the individual firm is to be able to sustain a substantial annual

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153 Slichter, op. cit., p. 5.
154 "Guaranteed Annual Wages," Economic Outlook, op. cit., p. 79.
guarantee.

A general picture of employment stability in an industrial community is presented in Table XXIV. Ranges of employment in each of the years 1947-1953 are presented for twenty-nine Toledo, Ohio manufacturing firms. The firms are representative of the types of industry as well as of the size of the industrial establishments to be found in that industrial community. In general there appears to be a marked degree of total employment change in most firms. Since the totals include all office and salaried employees, for which there is usually greater stability of employment, the change in the production force in a number of plants is probably somewhat greater than is apparent. Some firms show a reasonable stability of employment for any one year and even a dynamic stability from year to year, as for example Firm Number Three in the list. Other firms show a surprising fluctuation, such as Firm Number Five in 1948, (during which the range represents a decrease during the year), and Firm Number Twenty-four, which apparently enjoyed a tremendous increase in employment during 1951 but which saw a sharp drop in total employment during the following year.

Of the years for which employment data are shown in Table XXIV, 1949 was a year of mild recession generally.
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The table has limited value, of course, in that the degree of fluctuation within the year is not apparent, neither can the direction of the trend be observed in each instance. Furthermore, the reasons for changes in the totals are not known, for example, the proportion of the total change which is accounted for by quits and deaths. These would have to be known in order to use the data for cost estimates. The list does, nevertheless, supply an over-all picture of employment changes over a seven-year period in an industrial community.

Mr. John L. McCaffrey, president of the International Harvester Company, states that the three factors which have the greatest effect in preventing stability of employment are (1) strikes by labor unions, (2) technological development and progress, and (3) the market itself.  

The smallest factor in importance, according to Mr. McCaffrey, is that of strikes. It is significant, however, in that industries are so related today that a strike may set off a chain reaction which affects people considerably removed from the strikers, and in different industries.

Technological development is, of course, instrumental

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at times in displacing workers, even when regularization of output is not interrupted. Most generally, technological progress has been characterized by building into machines the skills of workers, with an improvement upon those skills, and at an accelerated rate of performance. The result is that there is decreased need for human effort and skill where the technical improvements have been effected. While such technological improvements eventually result in greater output and higher standard of living, the fact remains that some workers may be dis-employed on a localized basis, and find themselves incapable of being absorbed by the labor market, thus sustaining a loss of income.

The third major factor, in Mr. McCaffrey's opinion, is the market itself. This is probably the most influential. Since the customer exercises relatively free choice in the manner in which he disposes of his income, or whether he spends it at all, a firm may find itself subject to the effects created by the vagaries of the market. While this can be influenced to some extent by those seeking to sell their goods or services, it is also recognized that the wants and preferences of the customer must often be sought as a preliminary to determination of what and how much is to be produced. While customers' wants are, of course, influenced by developments
in pure and applied research, it is also true that applied research is often directed toward supplying those values for which the buying public has indicated a preference and buying power. This can be illustrated by the use of market research, product research, and customer research. Such factors as war, tariffs, and crop failures should also probably be mentioned as being causes of unemployment.

ECONOMIC CONDITIONS AND STABILIZATION

Several kinds of fluctuations confront the individual firm in its attempt to promote stability of output and employment. These may be secular, cyclical, or seasonal and other intermittent kinds.

Secular Movements

Whether secular changes will have any appreciable effect on the stability of the work force will depend on management's ability to adapt operations to those changes. Development of effective methods of long-range planning, and application of such methods and results, should minimize problems encountered through secular movements.\[157\]

Such variations usually come at a sufficiently slow rate to permit a change of company policy and objectives with

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\[157\] Whether minimizing of problems caused by secular changes through long-range planning would help to minimize cyclical changes is an interesting consideration. No conclusion with respect to this is attempted here, however.
respect to product line, expansion and contraction, and similar factors, so as to adapt to changing conditions. The instances of changes made by the Studebaker Corporation constitute a case in point. From the manufacture of wagons the firm altered its operations to the production of automobiles, and eventually effected a merger with another major automobile producer to meet the problems of an increasingly competitive market. Interspersed among these shifts, the company adapted its operations to various types of war production. The firm has evidently recognized that stability of the firm's operations requires flexibility with respect to long-term economic conditions.

Just how the ability of a firm to adjust to long-range trends of change, growth, or decline, would be affected by the general existence of a guaranteed wage or work arrangement is not clear. The fear has been expressed that since an annual guarantee would probably be viewed as a perennial guarantee, the problem of stabilizing employment might become most complex. Calder and Knipe have stated:

Even though some kind of a plan to take care of cyclical fluctuations might be devised by almost any company, the same cannot be said with regard to the problem of secular movements. The very heart of American progress is in secular uptrends, which are frequently associated with secular downtrends in competing industries. These long movements are even
harder to forecast than cyclical fluctuations. Unless it is clearly understood by all concerned that the annual wage really is an annual wage and not perennial, the job of figuring out guarantee limitations and restrictions so as to permit an orderly shift of human and material resources to the growing areas appears almost hopelessly complex.  

Cyclical Fluctuations

It is in the area of cyclical fluctuations that the individual firm is probably the most ineffective in influencing the trend so as to minimize their effect on sales, output, and employment stability. One conclusion of the Latimer Report with respect to such economic phenomena was that studies have not produced evidence that stabilization by an individual firm can affect the cycle. This has not been challenged to any great extent.

Perhaps if efforts to even out seasonal fluctuations, over which employers individually have a greater degree of control, were to be successfully undertaken, a more favorable experience with cyclical changes might result. If year-round employment were made possible where interruptions had occurred previously due to seasonal factors, the leveling out of income on a year-by-year basis might have at least some effect on the rate and amount of change of cyclical periods. According to one study, the

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reduction of seasonal fluctuations in employment has reduced production costs which permit expansion of sales and thus provide more work during depression periods. This would, of course, not be the answer entirely. The particular methods used to regularize seasonal changes, and the product, for example, would partially determine how much regularization of the cyclical variations could be accomplished. Nevertheless, elimination of much of the seasonal variations could encourage the ameliorization of adverse cyclical effects.

Summer Slichter holds hope for at least some firms being able to reduce unemployment due to cyclical fluctuations. This may result from the increasing importance of industrial research. With developments already attained forming the basis for ever new and more promising ones, and with an increasingly competitive market to cope with, the tempo of industrial research has been accelerated, with more skills and finances being allocated to it than previously. It is Professor Slichter's contention that many companies refrain from introducing new methods and products, developed through industrial research, during periods of high economic activity because

159 The W. E. Upjohn Institute, Full Employment in Your Community, op. cit., p. 23.
160 Slichter, op. cit., pp. 9-10.
their plants are already operating at capacity. Any major improvements would only disrupt production and result in lost sales. The firm therefore may accumulate a reserve of newly-developed methods and products. If the management were to follow a policy of introducing such improvements when economic activities showed signs of going into a decline, the effects of contraction might be held to a minimum by being halted or at least considerably decelerated.

Such a solution might indicate an oversimplification of the problem. If the firm in a declining period did not expect sufficient sales volume to write off the cost of such improvements it would hesitate to introduce them. The possibility that competitors will bring out improved products as the economic trend is upward, thus perhaps competing so successfully that the first firm would not be able to write off the costs, cannot be ignored. (The probability that all firms would act in unison to bring out improvements at the outset of a decline, so that none would have a competitive advantage is, of course, worth little consideration.) As the cycle begins an upward trend the firm is more willing to bring out its improvements because of improved prospects for writing off cost of development and introduction.

Professor Slichter qualifies the remedial (or
preventive, if referring to future cyclical changes) measure to which he alludes. He points out that management may be reluctant to introduce such developments, where considerable expense is involved, if circumstances indicate that a strong need for liquidity exists. He furthermore concedes that the effect of such managerial action may not be very great, and that it may be limited for the most part to industries which produce rather specialized products.

There are, however, two ramifications of Professor Slichter's reasoning. In the first place, if an industry were considering attempting to stabilize through a contracting cycle by the above means while under a guarantee, it is very likely that the precise circumstances would arise which would make a liquid position necessary. If the firm anticipated expenditure of guarantee funds, the inevitable question of guarantee liability or replenishment of fund reserves would arise. If the firm expected that liability would be so great as to require considerable of the firm's available finances to make the guarantee meaningful in the future, management would hesitate to allocate much of the decreased income to improving capital equipment in a declining market.

One other question arises as to the impact of such measure as suggested by Dr. Slichter. It concerns
whether such innovation, introduced at a time when a
cyclical decline has commenced, might not result in a
displacement of workers temporarily, if such innovations
are technological laborsaving devices, at a time when
the outlook for conditions is already pessimistic. It
would seem, therefore, that while Professor Slichter's
suggestion is not to be ignored, its value is limited by
at least the conditions which he himself recognizes,
plus the two possible consequences just mentioned.

Unions have generally not held the employers re­
sponsible as individual firms for cyclical unemployment.
When the United Auto Workers' Guarantee plan proposes
reinsurance of the guarantee reserve fund the objective
is stated to be a reduced reserve amount and a distri­
bution of the "risks of abnormal unemployment over the
widest possible area of the economy." Reinsurance
recognizes, the union states, that the causes of cyclical
unemployment are economy-wide.\footnote{161 Economic Outlook; op. cit., p. 79.} Broad economic poli­
cies must then be looked to for any significant measures
of cyclical stabilization.

\textbf{Seasonal Fluctuations}

Seasonal variations constitute the area in which the
functions of management can often be exercised to secure a greater degree of stabilization in employment. Some industries must find means of regularizing distribution. Other firms may find their irregular procurement of raw materials to be the cause of irregular operations. In others a combination of several factors may be obstacles in the evening out of the employment curve. The illustrations of effective regularization of ordinarily seasonal or spasmodic employment are numerous. They provide a strong argument against the arbitrary attitude sometimes taken that a firm is unique in its characteristics, or requirements for stable operations, or that any experimentation with other than its present policies and methods is too hazardous.

On the basis of the various studies and surveys on employment stabilization programs, and techniques used to implement them, it appears that most employers can take some effective steps toward reducing seasonal employment; many have already done so.

The various surveys and studies on how to stabilize, while they have on the whole made sound contributions to the problem of stabilization, have perhaps left an

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impression which needs some clarification, or adjustment. The various techniques which are observed in stable firms are too frequently offered with the implication that they are specialized means which should be considered by those firms which have the particular problem of unstable operations. Perhaps more emphasis should be placed upon the fact that these various measures are simply representative of sound management functions in action. They are the result of effective planning, organizing and controlling of the enterprise, both on administrative and operative levels. They will be utilized by a firm which wishes to ameliorate short-term fluctuations. The firm will be able to reach that objective by more attention to improvement of its policies and procedures in the functions of production, distribution, finance, personnel management, research, and others, rather than to concentrate on special stabilization techniques per se. This premise is substantiated by an authority who has consulted in a number of firms for the purpose of improving stability of operations. His conclusion, as he states it is "Always the story has been the same: the important changes needed are improved policies and procedures in production, sales, research, personnel, control, and finance; and the importance of these changes far outweighs the importance
of measures aimed directly at stabilization." Thus stabilization can be considered a problem in economic balance for the firm. The business firm's primary objective is to supply goods or services for an increasingly higher standard of living to a growing society. The problem is therefore one of maintaining a dynamic balance within the organization and the industry.

In the following paragraphs are given those practices which have been followed or advocated most generally for the stabilization of employment due to seasonal fluctuations.

Distribution Practices

1. Off-season buying has been increased by a number of techniques which are of a merchandising nature. These consist of:

   a. Advertising to increase customer demand during slow seasons. Sales-promotion advertising might be included here as an aid to bringing about an even flow of business.

   b. Promoting sales campaigns and sales

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164 For references used in this list see footnote 152, p. 209.
incentives for salesmen, distributors, and dealers, with emphasis on slack periods.

c. Giving price concessions and special discounts to dealers during slack seasons.

d. Guaranteeing against price declines on goods bought during slow seasons.

e. Postdating orders placed for shipment ahead of season.

f. Encouraging distributors and dealers to stock for inventory.

g. Providing storage facilities for purchasers of off-season goods.

h. Instituting new packaging to stimulate customer interest.

i. Introduction of new models or styles at times of decline in buying.

2. Development of new markets. Export markets, and the government as a market, have been utilized by some firms. Selling in several geographical markets with different seasonal buying patterns has been found effective.

3. Diversification of products. The adoption of new products which dovetail with products or services presently produced has been found to be practical.

4. Encouraging the modernization of existing
installations in outlets of the firm.

5. Arranging long-run contracts in addition to regular business.

Production Practices

Among practices in the field of production which have been engaged in with the objective of stabilization in mind, the following have been utilized by management.

1. Production planning and control, based upon effective sales estimates and plant capacity.

2. Subcontracting work during peak periods which would otherwise require the employment of additional temporary workers. (This may, of course, result in passing instability to the sub-contractor.)

3. Use of slack periods to do maintenance which can be deferred, or to make other improvements which are necessary or which will improve operational stability.

4. Simplification of product line and standardization of product in order to make possible conditions for regular operations.

5. Company-wide scheduling of production and transfer of work between plants, where a multi-plant firm finds it possible and feasible to do this.

6. Installation of new equipment or improved layout in order to improve methods of production and achieve a dynamic balance as against a static balance. This allows
for stable operations even when production operations are revised upward, for example, as against a condition where any significant change in production necessitates interruptions. This would include mechanization, and where feasible, automation may be considered increasingly.

7. Manufacturing for stock during slack season.
8. Improvement of methods for storing perishable products of materials.

Procurement Practices

The procurement function may often be performed so as to facilitate stabilization, both of the firm and also of its suppliers, under certain conditions.

1. Use of storage and long-term purchase contracts for procurement of materials, particularly raw materials, in order to insure steady supply for production.

2. Informing supplier firms of production plans as far in advance as feasible, including information on sales expectations for future periods.

Personnel Practices

Personnel practices can to some extent be utilized to even out the employment fluctuations, even where it is not always possible to regularize employment in all departments of the firm. Some of the procedures which have been found effective in stabilization are as follows.

1. Forecasting of personnel requirements based on
sales and production budgets.

2. Development of a centralized and flexible employee-transfer system.

3. Training of employees for versatility so as to utilize employees whose basic skills are not applicable when their jobs are eliminated.

4. Use of utility crews or labor pools for temporary work at peak periods or in operational bottlenecks.

5. Developing exchange arrangements with firms whose peak periods dovetail with the firm's own peak periods.

6. Use of overtime work in preference to adding extra workers when production requirements dictate increased hours.

7. Arranging vacations during slow periods of the firm.

8. Use of spread-the-work arrangements, whereby the work week is shortened so as to maintain jobs for all workers in the face of a total decreased work schedule. While this may prevent lay-offs it also has the effect of sharing idle time or partial unemployment. It is not always considered as a genuine stabilization technique. Such spread-the-work arrangements are sometimes formulated as provisions in collective bargaining agreements.

By listing the above techniques it is not implied that they can all be utilized by all firms. They merely
indicate measures which have been found, at various times, to be effective by different firms. Furthermore, it is not always possible for a company to adopt one technique as an individual measure and apart from all or any of the others. Indiscriminate utilization of methods, such as, for example, production for stock or diversification of product, might result in eventual difficulty of a greater magnitude than that for which a remedy is being sought. Certainly the accumulation of items in stock beyond the limit which can reasonably be sold without danger of spoilage or unfavorable price change, may become a financial hazard of real proportions.

The various measures of stabilization must be considered in the light of a number of factors, such as the type of industry and product, the size of the firm, and others.

The Latimer Report states in its findings that the firm which is in a position to allocate products among a number of plants also has the greatest opportunities for stabilizing. But even this conclusion does not necessarily hold. It is often difficult in a multi-plant firm to achieve diversification naturally because the plants themselves are specializing in particular products.

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165 Guaranteed Wages, Report to the President, Office of War Mobilization and Reconversion, op. cit., p. 133.
Therefore, if the products of one particular plant do not lend themselves to steady production, the proper diversification or other measures of stabilization must be practiced with respect to each particular plant.

If the various stabilization techniques which can be applied in the areas of production, sales, procurement and personnel are studied as a body of policies and procedures especially for stabilization, it would be logical to inquire as to (1) their extent of use, and (2) the contribution which each makes to the total amount of stability achieved in the individual firm. The extent of use varies, of course, with the industry, product, size of firm, location, and other factors, as has already been pointed out. The contribution which each makes to stabilization of the plant as a whole is impossible to measure with any degree of practical precision, because it is practiced as a part of a whole program and administered as a part of the function of effective management.

For the firm which successfully applies techniques in the course of effective management, certain financial rewards can be expected to accrue. In the various studies which have been made, the most important economies experienced were lower overhead unit costs, higher individual productivity, lower training costs, and lower unemployment compensation taxes. These are expected
results of good management.

It may be argued that the total stabilization in the economy would not really be altered at all by the stabilization achieved in individual firms. This point of view is based on the premise that stability in one firm would be achieved at the cost of instability in another firm. This may be, but is not necessarily so. It would seem to be based on the assumption that a demand-fund exists, or that a total-work fund exists, which although it can be divided up in various ways, cannot be altered in toto. There is no reason why a net gain in the economy could not result if stabilization were possible in many more firms than where it now exists. As pointed out before, lowered costs due to stabilization may permit more effective distribution methods, which through lower prices could tend to increase sales and thus make more production possible.

Obviously the firm which earnestly proposes to make such changes in its management as will facilitate a greater stability of operations will find it necessary to incorporate into its management functions a sound approach to the problems of instability. This will require an analysis of the amount of employment instability existent, past experience with respect to such instability, and the causes of such instability. The policies and procedures
necessary to attain a more stable level of operations must then be formulated and installed, where feasible. Of course, the mere fact that these steps are taken does not insure a stable level of operation. It is an attempt to provide it, based on a sound approach.

INTER-COMPANY COORDINATION AND COMMUNITY ACTION

Although the individual firm may at times not be in a position to take effective action to stabilize employment as an individual firm, there are ways in which it may find help in the local community. A program of stabilization might be developed jointly by a number of companies. It would require a high degree of inter-company coordination. The idea of dovetailing employment

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One firm reports having guaranteed a fixed weekly wage in 1936 to employees in one of its plants, after it had apparently achieved a satisfactory degree of stabilization in that plant. Despite the apparent stability achieved by conservative sales forecasting and production control, the division of which the plant was a part fared adversely. Sales prediction for 1936 were 35,000 units (fractional horsepower motors) weekly, while actual orders received amount to 48,000. In 1937, sales predictions were for 50,000 units weekly, while 80,000 orders were received; while for 1938, total sales of 90,000 units per week were predicted, but orders dropped to one-third of the forecast figure. The result was a costly inventory and discontinuance of the plan after it had been determined that the market predictions for such a plan were impossible. The So-Called "Guaranteed Annual Wage" Demand, op. cit., pp. 6-7.
where possible is not new. However, there has usually been little analysis of employment needs at different times of the year for one firm as compared with others to determine whether such dovetailing can be effectuated and employment kept steady even if jobs are alternated. It provides fertile ground for additional investigation.

Planning of entry into the community of firms with employment on a different pattern than already exists in the community can also be done on a community basis. Other measures that have been suggested to effectuate a more stable employment on a community basis are the following.

An example of dovetailing employment needs is that of the reciprocal arrangement between Underwood Elliott Fisher Company and Pratt and Whitney Corporation in 1940. The defense preparation decreased the need for employees in the former but increased worker requirements in the latter firm. Inter-plant coordination was effected to achieve a satisfactory labor supply condition. Scott, Walter Dill, et al., Personnel Management, Fourth Edition (New York: McGraw-Hill Company, Inc., 1949), p. 57.

The Toledo Industrial Development Commission of Toledo, Ohio, has for one of its functions the planning for an industrial community which will encourage entry of firms with different seasonal patterns of employment than those of firms already there.

Establishing community or local industry hiring centers has been suggested. The objective of this would be to provide a central placement agency for industries or firms which operate on an unavoidably intermittent basis.

Related to the preceding suggestion is that of improving the effectiveness of the local public employment offices in the placement of laid-off workers in suitable jobs, through cooperation of area firms.

In order to encourage and implement the development of more than one occupational skill of the type that can be utilized by firms in the locality, local industry and local government have been urged to establish vocational training facilities to develop these skills.

Organizing community conferences for the exploration of the problem of unstable employment and improved policies and procedures which will effectuate greater stabilization has been advocated.

Another general approach to development of stable measures on a community basis is that of designating to community agencies, either public or ones representative of private industry, the responsibility for appraisal of present community facilities and services, and making recommendations for their improvement. A study of the community warehouse facilities might be made with the
objective of sufficient community storage space to encourage firms to produce for inventory where erection of their own warehouse facilities might be financially prohibitive. The agency might direct its attention to a study of the community transportation service and public utilities so as to determine whether conditions are favorable for encouragement of industries which will contribute to industrial balance, both seasonal and cyclical. A study of the community labor supply relative to the local needs for various skills would also be a logical assignment for such a body.

SUMMARY

There exists a direct relationship between the degree of stabilization which can be achieved in a firm and the extent to which the firm can guarantee work or wages. Numerous studies have been made with respect to efforts made and the possibilities for stabilizing production and employment. One conclusion of the studies has been that most firms can make some improvement in the stability of their employment. There are a number of causes of unemployment over which the individual firm management has no control, such as major strikes, war, tariffs, crop failures, and general depressions. There are other causes which can be acted upon within limits by individual
managements, namely, those factors which cause seasonal variations or other intermittent interruptions.

Secular movements allow sufficient time to make adjustments in objectives, policies, and procedures so as to accommodate the firm operations to the requirements for change. Some hold the belief, however, that a guarantee would not permit such orderly adjustments, since the annual guarantee might be regarded as a perennial guarantee, and would impede the gradual shift of human and material resources necessary. It would seem that a gradual change even under a guarantee would be possible, however.

The individual firm has little influence over unemployment due to cyclical fluctuations. It is probable that the leveling out of seasonal fluctuations would have some salutary effect on cyclical stability. Cost savings due to short-term stabilization could result in more effective sales efforts in such a manner as to decrease the buying decline which occurs at long-term intervals. Also, income of workers would be leveled out to a greater degree, and this might contribute to more even purchasing power.

Industrial research might be used in overcoming cyclical unemployment partially, if products and methods developed through such research could be introduced
effectively at the time of an economic decline. There is the possibility, however, that the firm might find the need for liquidity at such time so great as to preclude going to great expense to introduce such innovations. Under guarantee conditions, such need for liquidity might be even more acute. Furthermore, the introduction of technological developments derived through industrial research may result in further displacement of workers, as it often does, at the time when a condition of unemployment already exists or is developing. At any rate the suggestion that improvements in products or methods be introduced at the beginning of a decline is an oversimplification of the solution to the problem. A firm would hesitate to introduce such improvements at a time when it could not fully expect enough sales volume to write off the cost of such improvements. More probably it would wait until an upturn in the cycle, when prospects for writing off cost of the improvements would be favorable.

Seasonal fluctuations and other intermittent interruptions of employment in some firms often lend themselves to partial, if not complete, regularization, although not necessarily by all firms or to complete stabilization of employment. Studies and surveys have resulted in a general list of techniques or measures in
the areas of distribution, production, procurement and personnel management, which have been effective in regularizing employment. Such techniques are not special means to be applied only by firms with irregular employment. They are simply representative of sound management functions being performed, and should be included in the policies and procedures of any firm wherever feasible.

Inter-company coordination of effort to stabilize employment is an area which could be explored to the advantage of individual firms.

Although it may be argued that total instability is not actually decreased when one firm stabilizes, since such instability is transferred to another firm, it does not necessarily follow that this is true. Such view appears to be premised on a total-demand fund, or total-work fund, concept which is not tenable. Lower costs achieved through stabilization can result in greater sales efforts, greater competition, lower prices, more goods sold, which can have a salutary economic effect if it exists generally.

In order to give any kind of assurance of employment or wages, stabilization must be an immediately attainable objective. If the firm cannot achieve stabilization of this kind, it is hardly possible to guarantee regularized income on the same basis as where full stabilization is
in effect. Nevertheless, the possibilities for stable operations should be exhausted by the firm which is faced with the problem of instability. Any wage guarantee which the company might adopt would make such effort imperative.
CHAPTER VIII

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Proposals for annual guarantees of wages have been made which would have a pronounced effect on industrial management. They represent a departure from established plans, in which a relatively high degree of security has been achieved. The latter are in the form of guarantee plans, some on an annual basis, in a limited number of firms in which employment stabilization has been possible. The argument for adoption of proposed plans is not necessarily predicated on a prior condition of stabilization of employment as being necessary. Their provisions differ very considerably from established plans, also. Plans for guaranteed annual employment or income, therefore, would give rise to a number of basic management problems which go far beyond actual wage costs.

Business firms are economic enterprises, the activities of which are related to the direction of the entire economy. For that reason and others, the effects of annual guarantee plans on management functions, particularly with respect to certain organizational and operational factors, are the objective of this study.
Definitions and Classification of Guarantee Plans

The term "guaranteed annual wage" has frequently been applied to plans which do not actually involve a guarantee, or which are not made on an annual basis at all, but are rather in the nature of regularized income plans. In a broad sense guarantee plans are classified either according to amount of work guaranteed or amount of income guaranteed. They can also be classified on the basis of whether they constitute a full guarantee for the period or a partial guarantee. A full guarantee must in turn be qualified as to whether it refers to a guarantee for continuous time or simply a total number of time units guaranteed.

An annual wage implies assurance of wages in a specified amount for the period of one year. A standard of measurement must be established indicating whether the year is a calendar year or a year's period after layoff, and whether the year is to be composed of fifty-two 40-hour weeks or some other unit. An annual work guarantee assures an amount of work equivalent to one year. Specification of the guarantee time units must be clearly stated. The annual work guarantee does not necessarily guarantee a specified level of earnings, and is more common than the annual wage guarantee.

A limited wage guarantee is properly a minimum
guarantee of less than the standard rate of pay, while a limited work guarantee holds for less than the standard guaranteed time period. Wage regularization plans provide for advancing to an employee the difference between his earnings and the specified sum guaranteed in periods when the former is less than the latter. The worker repays the loan in work during periods when more than the standard hours are available, except that obligation to repay does not go beyond a specific period, such as the guarantee year.

**Development of Annual Guarantee Plans**

Annual guarantee plans, as they are understood today, date back to the late nineteenth century with the development of a twelve-month guarantee (but equivalent to forty-eight weeks) in the wallpaper industry. Other early plans varied as to type, and were found in the textile and brewery industries and in retailing.

Since the early part of the century economic interest in guarantee plans has varied somewhat directly with occurrence of recessions, and has been positively influenced by development of more effective methods of management. The largest concentrated acceleration of their development occurred in the 1930's as a result of the major depression of that time. The current interest in guarantees has its origin in demands for a guaranteed
annual wage by labor interests in the steel industry during World War II. Additional efforts have been made since. Some adoptions have been made recently in certain areas of business in which the AF of L teamsters' unions operate, and which call for guarantees to a fixed number of employees. Adoption of guarantee plans has also taken place in the sugar industry. The most significant developments have been the proposals made by major CIO unions, specifically the United Automobile Workers, the International Union of Electrical Workers, and the United Steelworkers.

The governmental influence in development of guarantee plans has not been highly significant to date. Some incentive for establishment of guarantees was included in the Fair Labor Standards Act and the Social Security Act, but the effect was not great upon industry in general. Action in the executive area of government has been in the form of decisions of various governmental boards, mostly, with respect to cases presented which involved demands by unions for guarantees during periods of government-controlled wages. While no such demands were approved, the Office of War Mobilization and Reconversion did initiate a comprehensive study of guaranteed wages, known popularly as the Latimer Report, and which was completed in 1947.
**Objectives and Theories Related to Annual Guarantee Plans**

The objectives of guarantee plans which have been cited are numerous. Objectives of management are those of assuring security for the worker, improvement of morale, lower employee turnover, increased efficiency and lower costs of operation. Objectives of labor are a regular annual income as a means of attaining security, attainment of status more equal to salaried employees, provision of incentive for stabilization of production and employment, and stabilization of the economy.

Certain theories concerning the operation of annual guarantees have been used as the rationale for arguing the practicability of the objectives. In general they are the worker security theory and the general stabilization theory. The worker security theory holds that the stability accompanying the annual guarantee will help to satisfy important psychological and economic needs of workers. Increased morale and general integration of interests of employees with that of the organization would result in advantages to the firm in the form of increased productivity, lower labor turnover, lower training costs and preservation of skills. The necessary stability would, however, not be provided simply by initiating a guarantee. Probably not all workers would be covered, thus increasing hazards to uncovered workers. If the
guarantee had to be discontinued, the effect on workers would be much more adverse than if no guarantee had existed.

The economic stabilization theory holds that a guarantee would stabilize income, and therefore buying power, which would furnish the market for regular production and employment. The effect is, however, exaggerated, since it is not probable that sufficient incomes and purchasing power would not be involved to make the difference claimed for it. Furthermore, deficiency of consumer spending may not necessarily be the cause of unemployment, but it may indeed be a symptom instead. Even where employees were receiving guarantee payments, they might not be disposed to part with it readily if they anticipated termination of income before the end of the recession or depression period. Annual guarantees have been claimed to be capable of stabilizing the economy to such a degree that even cyclical fluctuations could be leveled out. The claim has not been substantiated, however; cyclical movements are the greatest obstacle to successful operation of annual guarantee plans.

Distinctions Between Established and Proposed Plans

There are certain general distinctions to be drawn between traditionally established plans together with more recently adopted plans, and those which have been proposed
by major unions in mass production industries.

Except for recent plans initiated in the sugar refining industry and those granted to certain teamsters' unions, most plans in existence were employer-initiated. Eligibility generally is based on length of service, the usual minimum being one year. Benefit provisions vary. They may be a regular weekly amount, reimbursement for a certain number of weeks without specifying the number of hours assured, a balanced income with an overtime offset feature, or a predetermined percentage of wholesale value of output. Generally, management reserves the right to modify benefit amounts if necessary, and some plans provide for payment of benefits only at the end of the year. Administration is in most instances a company responsibility. Financing is usually the direct or out-of-pocket type with no reserve funds established. Traditional plans include escape clauses which may exempt the employer in case of certain circumstances beyond his control, such as strikes, disasters, riots, unavoidable loss of markets, or governmental restrictions. Liability is also limited by eligibility provisions. Established plans are characterized by a flexible transfer system.

Proposals made by major unions in mass production industries are much more comprehensive and limit employer freedom of management much more than the established plans.
Two of the three major proposals include employees with less than one year of service, one stipulating a guarantee for full work-weeks for all employees, regardless of seniority. Benefit amounts range in the proposed plans from seventy-five per cent of weekly wages to an amount equivalent to past earnings. Benefits are payable for fifty-two weeks after layoff and eligibility may be renewed by working a limited time after return to work. In addition, one plan calls for additional severance pay if the employee is not re-employed after one year of lay-off. Unemployment compensation drawn could be deducted from guarantee payments due.

Two plans provide for joint union-management administration. Since eligibility provisions for unemployment compensation benefits are considered by union interests to be too restrictive, provisions in the private plans are to be liberalized so as to insure that no worker is required to take a job not sufficiently suitable to his skill. This restriction could result in an employer paying guarantee benefits to an employee being laid off, and at the same time hiring a new employee, thus paying for two jobs while only one is being performed.

Financing is to be done by means of a reserve fund, built up by employer contributions. One plan provides for additional out-of-pocket financing for guarantee of short
work weeks. Liability of the firm is limited to the amount of reserves in the fund. Whether such liability could be observed as a practical one is doubtful. Younger laid-off workers may be able to exhaust the fund by the time older workers, who may claim greater entitlement to benefits, are laid off. The firm may feel obligated to pay them benefits. Demands for greater contributions by the employer may result. In the plan guaranteeing full work weeks, liability is unlimited with respect to this clause. In the proposed plans, as well as those recently initiated in the sugar refining industry and in the teamster plans, the employer inability to cope with economic conditions is not considered. The business firm is expected to sustain the costs of unemployment, no matter what the cause. Flexibility of employee transfers is limited rather closely by provisions requiring jobs to which employees are transferred to be sufficiently suitable to their skills; otherwise the employee may choose a lay-off without losing eligibility.

**Forms of Partial Pay Assurance**

Recognition should be given to forms of partial guarantees other than guarantee plans, which have come to be a part of the remuneration in some firms or in industry generally. Such partial guarantees include guaranteed hourly and day rates, reporting time and call-in pay,
guaranteed pay for lost time, vacation pay, holiday pay, sick pay, severance pay, and unemployment compensation payments.

Factors Affecting Success of Guarantee Plans

There are many factors which may affect the success of an annual guarantee plan. The more significant are the (1) kind of industry, (2) type of industry and method of manufacture, (3) product classification and characteristics, (4) method of distribution, (5) ability to forecast market demand, (6) number of employees and average employment, (7) fluctuations of employment and labor turnover, (8) employee representation, (9) ratio of labor costs to total costs, (10) ratio of labor costs to net sales, (11) possibility of instituting stabilization procedures, and (12) possibility of introducing labor-saving equipment.

Effects of Guarantees on Organizational Morale

An annual guarantee plan would have effects on managerial factors and functions. Organizational morale generally would be favorably affected if such plans could assure sound regularized income on a continuing basis. Some elements of the work force may not be favorable to such guarantees, however. Older workers may not be favorable toward having money which might have been paid them in wages allocated for idle time payments to laid-off workers with less service. Workers not yet eligible for
guarantees may feel less secure than where no guarantee exists, since they may be laid off at early prospects of production decline in order to keep guaranteed workers employed.

The ability to increase productivity through increased morale has limitations. While it will have a positive effect on the workers' contribution to productivity, the worker effort is only one factor in productivity. It is often less important than other factors such as technical knowledge or technological developments.

**Effects on Executive Ability to Manage**

The annual wage guarantees as currently proposed would probably have their most serious effect on executive ability to manage. Greater union participation in management functions would be a consequence, since the more aggressive proposals provide for joint administration of the plan and limit the liability of the management only to the amount in the reserve fund, with few other escape clauses for limiting liability. The result could be limitation of executive ability to manage beyond any limits now in existence. Management may find itself responsible for management of an enterprise without the requisite authority to do so.

**Effects on Public Relations**

The influence of guarantees on public relations would
generally be very favorable, particularly where the firm is among the first in the area or industry to initiate a guarantee plan.

Effects on Costs and Price Policy

Just how a guarantee would affect costs and price policy of a firm is not easily determined. It is impossible to generalize on the ability and tendency of profits to absorb cost increases, particularly since the proportion of total costs which is borne by wages varies considerably among industries and among firms in an industry. Total fixed costs would be increased, thus tending to raise the break-even point. Benefits which might accrue from guarantees would not always offset such increased costs. A firm would naturally consider passing along added costs through higher prices. If the guarantee liability becomes effective during a period of economic decline, the management feels pressure to keep prices down even though costs have increased. If guarantees were in general existence, costs would be more likely to be passed along in the form of higher prices. Taking all of the above into consideration, however, the general rate of profits probably would be lowered.

The establishment of a reserve fund for guarantee payments may reduce the hazard of guarantee commitments to pay benefits over a period of declining economic
activity. Establishment of reserve funds involves the timing and rate of payments into the fund and the source of such funds. The financial position and policy of the firm would be affected. Building of the fund would be better effected in prosperous periods. The sources of funds would have to be undistributed profits, dividend reserves, wages, employee contributions, higher prices, or savings from tax deduction, if tax exemptions were allowed on such funds. Tax exemptions are not now permitted. Cost studies indicate that a reserve fund to cover total potential liability might have to be equivalent to a considerable proportion of the annual payrolls. The fund may require either a long period of building, or a high rate of contribution which may be difficult to make. The suggestion of employee contribution to the fund has merit, and needs further study, since some responsibility for making guarantee plans effective should be assumed by employees themselves.

The competitive position of the firm might be affected. In a high-wage cost firm, and in an industry where guarantees were not widely prevalent, the competitive position of a guaranteeing firm might be weakened. Price competition would be particularly acute during a period of economic instability. Whether ability to compete on a non-price basis would be possible is also
difficult to predict.

Effects on Industrial Relations and Personnel Policy

Under proposed annual guarantee plans management would be faced with a number of problems in operating under current industrial relations and personnel policies and procedures. Management has in the past favored departmental seniority over plant-wide seniority because a considerable amount of flexibility of transfer would be necessary to prevent layoff of employees in one department while hiring in another. Yet complete flexibility would not be desirable, because certain skills cannot be transferred, for efficiency reasons. Craft unions have been careful to preserve skill classification of employees, and do not look kindly upon transfers to keep employees on the payroll if it means loss of skill classification. They have been less active, generally, in arguing for guarantee plans. Yet to prevent management from getting into an untenable position with respect to this situation, employees would have to give up seniority rights which have been acquired over many years. Seniority would become more and more a management problem. The prospect of a reverse system of seniority in layoff, whereby older workers could choose to be laid off first and draw idle time benefits (even though their skills may be most valuable to the firm), is another example of seniority
problems which would need to be solved.

Selection procedures would be sharpened so as to prevent marginal workers from being hired. The conditions for layoff and discharge would have to be very precisely defined. Since both labor and management would have an increased interest in employee separations and in rights to benefit payments, more collective bargaining would no doubt follow.

Training would receive even more emphasis than now is given it, this being necessitated by rapid and numerous transfers necessary and the need for developing output ability on new jobs as rapidly as possible. Effectuation of the necessary transfers would depend on the type of work, the training time and expense, and willingness of workers to take the training. Workers would expect to improve their position or pay after taking training, and if this were not possible, would register disapproval.

Management would be faced with complex wage problems. The value of job evaluation and scientific determination of wage rates would be lost if employees were entitled to receive past average earnings when moved to jobs paying less than those formerly held. Wage incentives applied to a distorted wage structure would serve to distort it even more. One suggestion is that workers be put on a salary basis as rapidly as possible. This would possibly add to their feeling of status, but would not necessarily
Distribution of work policies exist in a number of firms. They could result in a decrease in cost liability, but there is a limit to which distribution of work can be effected before layoffs are necessary. Their effect is really to spread the idle time among more employees.

Grievances would no doubt be increased by the operation of the proposed annual guarantees. Administrative machinery necessary for operation of the plans would be complex. Industrial relations may become more legalized than previously.

Results of Cost Studies

Specific studies of potential guarantee liability point out how costs would vary with different firms. When seniority is taken as the base for determining eligibility there is little uniformity of costs among firms. The firm having a work force composed in the majority of long-service employees would have relatively greater liability than would the firm with many new employees.

Detailed studies in several individual firms indicated that economic conditions, length of service, and product line were the most significant factors in the varying cost picture for a firm over the period of years. Among the firms studied there is not too much similarity in the
cost patterns over the years. For any one firm some consistency of cost relationships was evident for several consecutive years, but not for all the years in the period of study. The occurrence of high-cost years is apparently an unpredictable phenomenon, coming suddenly and varying sharply from preceding and succeeding years. In one firm gross guarantee costs ranged from zero per cent to 13.5 per cent of total payroll for a one-year eligibility plan. If unemployment compensation benefits drawn by recipients would have been deducted from total liability, the guarantee costs would have been reduced by approximately one-third. A constant relationship of unemployment compensation to total liability is not discernible for the several plans, however. Neither is there a consistent decrease for the various years when the two-year and the three-year plans are considered. For the two-year plan, total liability ranged from zero per cent to about 13 per cent of payroll while for the three-year plan the liability was exactly the same, reflecting the fact that all employees in the work force had sufficient service time to qualify for either type of guarantee.

For the second firm studied, total liability under the one-year plan ranged from zero to nearly 40 per cent of payroll; under the two-year plan total liability ranged from zero per cent to 21.5 per cent of payroll; and under the three-year plan liability ranged from zero
per cent to approximately 15.6 per cent of payroll.

For the third firm, in which computations were made by a somewhat different method which produced a relatively more conservative figure, the range of liability under the one-year plan was from a negligible amount (less than one-tenth of one per cent) to slightly over six per cent of total payroll. In the two-year plan, total liability was limited to a range of a negligible amount to nearly two per cent of total payroll; in the three-year plan, total liability ranged from a negligible amount to approximately seven-tenths of one per cent of total payroll.

There is little possibility of finding a typical firm for cost studies, and the above studies do not readily lend themselves to drawing precise conclusions which may be applied to all firms in industries represented by these firms. However, certain generalizations about the nature of the cost problem are derived from these studies. They indicate, among other things, that a wide range of potential liability is represented by the seniority patterns in two firms (in the general seniority study) which make the same kind of product. They indicate the unpredictable behavior of cost liability from year to year for a firm, however. They indicate how the cost would be affected by plans with differing benefit and eligibility provisions. They also
indicate how total liability may constitute a relatively wide range of proportion of total payroll in a firm, and the effect which unemployment compensation benefits would have on decreasing guarantee liability if there were an integration of the unemployment compensation system and guarantee plans.

It should be recognized, however, that under experience rating the firm would also be paying a sizable amount of the unemployment compensation costs which are drawn by laid-off workers. The methods used to calculate guarantee costs suggest one procedure which, although detailed, is believed to be sound.

**Coordination of Guarantee Benefits with Unemployment Compensation**

Under current guarantee proposals costs are related to unemployment compensation benefits. The stated objectives of integrating guarantees with unemployment compensation are costs reduced to within limits which the employer can afford, provisions of an incentive to stabilize, and provision of an adequate income level for the unemployed worker.

Coordination of guarantees with unemployment compensation can be effected in several ways, (1) by payment of the guarantee until the benefit period is exhausted, followed by payment of unemployment benefits for the
regular benefit period, (2) by payment of unemployment compensation for the regular benefit period, followed by payment of the guarantee, (3) by rotation of employees between guarantee payment periods and unemployment compensation periods, and (4) by supplementation of unemployment compensation with guarantee payments, permitting the employee to obtain an amount approximately equal to his earnings while working. The first three methods have not received much attention in the development of proposals because they contain features which would be unacceptable to labor interests, although certain advantages also accompany each. The fourth method, that of integration of the two on a concurrent basis has been advocated in recent union proposals. The two systems would be administered separately, with the actual guarantee plan being administered jointly by the union and the employer. One of the union interests is liberalizing eligibility provisions. Thus an employee who was not drawing unemployment compensation benefits might still draw a full guarantee amount from the employer. The legality of an integrated system has not been established.

There is some possibility of shifting part of the employer cost to other employers by means of higher unemployment compensation benefits, since unemployment compensation is a form of social insurance. An employer
who hired a disemployed worker covered by a guarantee could afford to pay such worker at a rate lower than the total benefit amount drawn by the worker. The guaranteeing employer would have to make up the difference, thus in effect subsidizing the payroll of the second employer in another way.

Although unions advocate including the experience rate principle in the current guarantee plans, they have historically disagreed with the principle in the unemployment compensation system on the ground that it has been subject to abuse by employers. The experience rate principle is a worthwhile one. If present legislation permits its abuse, such corrections should be made directly, by amendments rather than indirectly as the integrated plan would provide.

While it is alleged by some that a reduction in contribution through an improved experience rate would be of little value to an employer, and the incentive to stabilize is small, therefore, the point is questionable. A change in the unemployment compensation costs might make an appreciable difference when considered as an addition to or deduction from the net figure. It may even be preferable for a company to pay idle employees out of its own guarantee fund, if it enjoyed a minimum tax rate, rather than permit withdrawals from unemployment
compensation which might increase the tax rate.

Certain aspects of public policy are involved in an integrated system. The principle underlying the unemployment compensation plan, namely that the worker must have suffered a wage loss and be actively seeking work in order to be eligible for benefits, is not subscribed to in the guarantee plans. Rather the principle is that the worker should not suffer wage loss or a decrease in living standards, neither should he be required to make an independent search for work. Under a full guarantee provision he may be in a position to receive more income than while working, when his full wage is subject to taxes, and the worker also has additional expenses such as transportation costs and perhaps a greater expenditure for food to maintain.

If guarantees were adopted in some industries or plants, but not in others, it is conceivable that practices of the unemployment compensation system might vary with respect to guarantee-covered employees as contrasted with non-covered employees. It would be natural to attempt to place non-covered employees first, without regard to skill. This would be contrary to the principle upon which the public employment system operates. Differences between guaranteeing and non-guaranteeing industries or plants might result in opposing pressures for legislation.
It has been observed that the political implications of annual guarantees may be as important as the economic.

Administrative problems of operating under a dual system of guarantees would be multiplied, because of the communications which would be necessitated between the guarantee plan and the unemployment compensation system. **Possibilities and Advantages of Stabilization**

There is a direct relationship between the degree of stabilization which can be achieved in a firm and annual guarantee costs, and therefore also the extent to which the firm can guarantee work or wages. Studies indicate that most firms can make at least some improvement in stability of their employment. There are some causes of unemployment over which the individual firm has no control, such as major strikes, war, tariffs, crop failures, and general depressions. Other causes, such as seasonal variations or other intermittent interruptions, can be influenced within limits by individual managements.

Major economic changes which may pose obstacles to stabilization efforts are secular movements, cyclical changes, and seasonal and other intermittent fluctuations. Secular movements allow sufficient time for adaptation of objectives, policies, and procedures of the firm to the requirements for change. Long-range planning is necessary for such adaptation. While the efficacy of making such
change under conditions of a guarantee is doubted by some, it would seem that a gradual change even under a guarantee would be possible, however.

The individual firm has little influence over unemployment due to cyclical fluctuations. Some progress may be made by leveling out of seasonal fluctuations. Cost savings due to short-term stabilization could result in more effective sales efforts in such a manner as to decrease the buying decline which occurs at intervals. Income of workers would be leveled out to a greater degree also, and some contribution may be made toward more even purchasing power. This type of stabilization could not be expected to regularize cyclical fluctuations in all durable goods or producers good industries, however. Another increasingly important factor which may be instrumental in ameliorating effects of cyclical changes is industrial research. If firms could find it feasible to introduce technical innovations at the time of a decline, cyclical changes might be somewhat decelerated. However, the need for liquidity may discourage management from making expensive changes at a time of financial stress. The need for liquidity may be even more acute if a guarantee is in effect. Also such installation of technical developments may displace workers at a time when a general condition of unemployment already
threatens.

For the firm which was subject to cyclical fluctuations, the building up of a reserve fund of the size necessary to pay for much unemployment would be a heavy financial burden. It is improbable that this and other management problems would be capable of solution simply by putting a guarantee plan into effect.

Seasonal fluctuations and other intermittent interruptions often lend themselves to regularization, although not necessarily by all firms or to complete stabilization of employment. Studies and surveys have resulted in a general list of practices in the areas of distribution, production, procurement and personnel management, which have been effective in regularizing employment. Such practices are not specific remedial techniques, applicable especially to firms experiencing irregular employment. They are simply representative of sound management functions being performed effectively, and should be included in the policies and procedures of the firm wherever feasible.

It does not necessarily follow that increased stability in one firm results in instability in another firm, and that the total instability in the economy cannot be reduced. Such view appears to be premised on a total-demand fund, or total-work fund, concept. Stabilization
can result in lower costs of operation, greater effectiveness in distribution, greater competition, lower prices, and generally more work in total, which can have a salutary economic effect if it exists generally.¹

In order to give an assurance of continuing employment or wages, considerable stabilization must be an attainable objective. The advantages credited to annual guarantee plans are—indeed the advantages accruing as a result of stabilization. The firm cannot for long afford to pay sizable idle time benefits. The existence of a reserve fund will of course help to regularize payments and the impact of such payments on the firm. From indications of studies, such as are made in the Latimer Report and in this research project, the costs may be a very considerable sum which could hardly be covered by a reserve fund, even when built up over a long period of time. Therefore if a firm cannot achieve stabilization of this kind, it is hardly possible to guarantee regularized income on the same basis as where full stabilization is in effect. Reinsurance of reserve funds would lead to sharing risks of unemployment among employers. The private guarantees would assume aspects of social insurance.

Some effort has been made to make guarantees on a weekly basis, that is, to guarantee a full week of work
in any week in which work is commenced. This is a magnified extension of report-in pay. It bears further study as a means of assuring income to some degree, showing management sincerity in attempting to provide security, and as a means of further studying efforts to stabilize on at least a short-term basis.

Some management problems in connection with an annual guarantee plan would be incapable of solution. That each firm is not in a position to take action with respect to certain conditions of unemployment to which it may be subject is agreed to generally. To make the firm responsible in large part or entirely for the burden of compensating for such unemployment implies that, in order for it to continue to operate, public policy must be designed so as to furnish some relief to the firm. It cannot be expected that every firm can pass along the costs involved to the consumer directly through higher prices. A market would have to be assured for continued sale of output. Since this can really only be done through some means of subsidy, public policy would have to provide for such continued production. Stabilization of employment and annual guarantee plans would in that event lose their status as economic problems for the enterprise, and take on predominantly political aspects. The objective of the firm as an economic enterprise, of
providing economic values which the customer desires, could hardly be sustained under such conditions.

CONCLUSIONS

In view of the foregoing summary statements, the following conclusions are drawn.

1. The theory that guaranteed wages would result in a sufficiently stable economy in which employment could be stabilized does not hold.

2. Established plans for annual guarantees are sufficiently distinct from currently proposed plans that the former cannot be used to any great extent to evaluate the impact of proposed plans on industrial management.

3. Organizational morale would generally be favorably influenced except where a guarantee commitment could not be met by reason of conditions beyond the control of management, or where certain groups of workers might feel discriminated against. The ability to increase productivity through increased morale brought about by guarantees is limited by the fact that technological developments contribute more to increased productivity than do worker efforts.

4. Executive ability to manage might be seriously limited by wage guarantees, to a point where management could not satisfactorily perform its functions of planning,
organizing, and controlling the organization so as to accomplish its primary objectives. Personal and collateral social objectives might be permitted to supercede primary objectives. The ultimate consequences could well be a shift away from the principle that the right to manage is derived from the right of ownership, or the right to private property.

5. Public relations of a firm would be enhanced, where guarantees could be put on a sound basis, particularly where the firm is among the first in the area or industry to initiate a guarantee plan.

6. While the ability of profits to absorb guarantee costs cannot be determined generally, the break-even point of the firm would tend to rise under guarantee payments. Costs could not always be passed along in the form of higher prices; they more likely could be passed along if guarantees were in general existence throughout an industry. The competitive position of a firm with a guarantee might be affected, particularly when it anticipated heavy idle time costs during a declining economic period, at which time it might also be even more difficult to pass along costs in the form of higher prices.

7. Reserve funds to cover all idle time which might be anticipated would often be difficult to accumulate. Research shows that such idle time might be a very
considerable sum. Finances for reserves would have to come from higher prices, undistributed profits, wages, cost savings, employee contributions, or savings from taxes, if such funds were made tax-exempt.

8. Industrial relations and personnel policies as they exist now might work unreasonable hardships to firms under guarantees. Unions would have to accept a number of changes in existing policies and practices.

9. Cost studies indicate that wage guarantee plans based on seniority would have a varying effect on liability as among different firms. The results of such findings indicate the necessity for individual firms making studies of their own conditions to determine their potential liability.

10. Integration of unemployment compensation with guarantees is probably not possible under existing legislation. Even if such arrangement were possible the employer's problem would not be appreciably lessened. Contributions to the unemployment compensation fund are paid by employers, and are determined, where experience rating is in effect, in rather direct relation to past layoff records.

11. Some socialization of unemployment costs takes place under unemployment compensation. Under present proposals additional socialization would occur, since an
employer laying off workers might be in the position of subsidizing an employer who hired those workers, if the latter employer paid a lower wage rate than the former employer.

12. Public policy would be contradicted by an integrated system of unemployment compensation and proposed guarantee plans. The principle that the employee must have suffered loss of wages and be seeking work actively would be contradicted.

13. While most firms can make some improvement in stability of operations and employment, not all causes of unemployment are within the control of the firm. Long-range planning can minimize effects of secular movements, good management policies and practices can level out much seasonal and other intermittent fluctuations; but cyclical changes are the greatest obstacle to continuing stability.

14. Increased stability in one firm does not necessarily increase instability in another firm. Attainment of a higher degree of general stability is possible.

15. To make a firm completely responsible for causes of instability which are beyond its control is not logical. Such a condition could lead to financial hazards which might endanger the continued operation of the firm.

16. Inter-company coordination of effort to stabilize
employment is an area which could be explored to possible advantage of individual firms.

RECOMMENDATIONS

In view of the impending role which proponents of annual wage guarantees intend for them in the near future, management should take cognizance of the potential effects of such plans on the firm, and consider the approach which should be taken with respect to the problem of guarantees.

1. A study should be made of the stability of employment which has been characteristic of the firm's operations over a period of years. This study should cover a sufficient period of years so as to include both normal and abnormal years. The extent of involuntary idle time incurred by employees and reasons therefor should be determined.

2. Analysis of production and sales performance for years and for time periods within years should be made to determine the degree of their stability and reasons therefor. Cyclical, seasonal and intermittent changes should be taken into account. The degree to which production and sales performance have caused irregular employment should be ascertained.

3. Determination should be made of the feasibility of regularization of production and sales activities. Where this is possible, employment regularization is a
logical consequence. Where stabilization of production and sales is not possible, consideration should be given to methods of employment stabilization.

4. A thorough review and evaluation should be made of current policies regarding personnel, production, sales, finance, research, procurement, inventory and other functions which affect regularity of operations. The various practices which are listed in Chapter VII (pages 225-229) are indicative of those which may be provided for in company policies.

5. Where employment regularization cannot effect a regularization of wages to a reasonable degree, the feasibility of regularizing worker income through funding pay for overtime for withdrawal during short-work-weeks should be explored.

6. The cost of idle time should be determined in terms of probable guarantee provisions which might be proposed. It would be helpful to determine the potential effect of such costs on expected profits, and probable increase in sales necessary to cover added costs at the present rate of profit.

7. Management must determine the extent to which it must require employees to assume responsibility for making guarantees workable through accepting changes in seniority provisions, transfer provisions, maintenance of base rates,
protection of job skills, and similar items which are usually specified in the labor contract.

8. Management should determine at an early stage the extent to which the union should be permitted to have a voice in the development and administration of the guarantee plan, if a guarantee is found to be feasible. Any degree of authority assumed by the union should be accompanied by responsibility for effectuating the guarantee, perhaps even by assisting in providing funds, or by other means. The primary authority and responsibility for planning, organizing, and controlling the operations of a business and rendering of economic services to the public must remain in the hands of executive personnel. This does not deny the possibility of conferring with the union in regard to such matters.

9. Management should determine the degree to which it can assume responsibility for irregularity of employment where conditions beyond its control develop. Provisions for protection against excessive financial commitment must be made.

10. Because planning for short-run periods is more readily possible than for longer periods, management may be in a position to plan for employment for minimum periods of at least a week. It should study the possibility of guaranteeing a full work-week.
11. Management should explore the possibilities which inter-company coordination offers for regularization of employment. Contacts directly among firms or through the medium of community agencies should be sought for exploring the prospects for such action.

12. Management should assure itself that adequate steps are taken to communicate to employees the efforts and progress which it is making toward regularization of operations and employment. Employee understanding results in employee cooperation in the solution of problems.

AREAS FOR FURTHER STUDY

Several areas for possible further study are suggested as a result of the foregoing research.

1. Additional research needs to be done in determining potential costs under various types of guarantees. Information available thus far is still very limited.

2. The social aspects of guarantee plans need to be examined further. The factors involved in the possibility that one employer may be in effect subsidizing another both through unemployment compensation and through private guarantees needs to be further studied.

3. The possibility of a firm being able to grant guarantees on a weekly basis bears further study.

4. The extent of what should be the union
responsibility as well as authority in development and administration of guarantee plans needs to be clarified.

5. Additional research should be done to determine whether inter-company coordination can be developed to an effective degree for stabilization of employment.
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UNPUBLISHED MATERIALS


MISCELLANEOUS


In the Matter of United Steelworkers of America, CIO and Various Steel and Iron Ore Companies, before the Wage Stabilization Board. Statement of the Union in Case No. D-180.


I, William Elmer Schlender, was born in Sawyer, Michigan on October 28, 1920. My secondary school education was completed in the public school system of New Troy, Michigan. My undergraduate training was completed at Valparaiso University, from which I received the Bachelor of Arts degree in 1941. From 1941 until 1943 I was employed in industrial relations work with the United States Rubber Company. From May, 1943 until December, 1945 I was on leave of absence for service with the United States Army, and returned to my position with the United States Rubber Company in January, 1946. In September of 1946 I enrolled for graduate work in the field of management at the University of Denver, and received the degree Master of Business Administration in 1947. While in residence at the University of Denver, I acted as a teaching assistant for two quarters and for a similar period as assistant to the chairman of the Division of Production and Management. From 1947 until 1953 I held a teaching position in management on the faculty of Bowling Green State University. In the summer of 1950 I enrolled for one quarter in the Graduate School of The Ohio State University. I returned in 1951 for my residence study, and was admitted to candidacy for the doctoral degree upon completing the general examinations in the summer of 1952. In September, 1954 I began my current duties as instructor on the faculty of The Ohio State University.