SUMMER MANAGEMENT CONFERENCE

YOSEMITE 1954

WORKBOOK 6 . . .

INSTITUTE OF INDUSTRIAL RELATIONS
BERKELEY AND LOS ANGELES

SCHOOLS OF BUSINESS ADMINISTRATION
BERKELEY AND LOS ANGELES

UNIVERSITY EXTENSION
UNIVERSITY OF CALIFORNIA

UNIVERSITY OF CALIFORNIA
Institute of industrial relations (Berkeley)
Los Angeles and Berkeley

SIXTH ANNUAL SUMMER MANAGEMENT CONFERENCE

Ahwahnee Hotel

Yosemite National Park

September 15 - 18, 1954

Presented by: The Institute of Industrial Relations, The Schools of Business Administration, and University Extension.

We cordially welcome you to the Sixth Annual Summer Management Conference of the University of California.

In past years these annual conferences have provided an excellent opportunity for exchange of information and opinions about current problems and developments in the fields of industrial relations and economics. We are confident that this year's conference, focused on the theme "Today's Problems - Tomorrow's Plans", will be equally valuable in this respect.

The topics included in this year's program were chosen by the Conference Advisory Committee and are of vital concern to today's businessmen. Negotiation and administration of health and welfare plans and problems of employment security will be two of the specific subjects considered in the general area of collective bargaining. In addition, we will explore current trends in collective bargaining in order to identify major developments of recent months and those that may be expected in the near future.

Recognizing the crucial importance of taxation, debt management and credit in the maintenance of economic health and stability, the economic workshops will consider the effects of various fiscal policies on the total economy. As a third general area for exploration, we will examine critically some of the current applications of psychology to industrial problems, with particular attention to human-relations training and executive development programs.

Leaders from industry, government, and universities will meet with us at the conference to share their experiences and views on these problems. Their varied backgrounds and your own experience should make the sessions exceptionally worthwhile. You will find ample opportunity for informal discussion and we urge you to participate fully.

We are very happy that you have been able to join us here and hope that you will find the conference a stimulating educational experience.

E. T. Grether,	Dean, School of Business Administration, University of California, Berkeley
George Robbins,	Acting Dean, School of Business Administration, University of California, Los Angeles
Arthur M. Ross,	Director, Institute of Industrial Relations, University of California, Berkeley
Edgar L. Warren,	Director, Institute of Industrial Relations, University of California, Los Angeles

CONFERENCE ADVISORY COMMITTEE

In planning this Conference, the University had the valuable assistance of the following business leaders:

PAUL BELL, Personnel Director, Times-Mirror Company, Los Angeles

REGINALD H. BIGGS, Vice-President and General Manager, Emporium-Capwell Company, San Francisco

G. D. BRADLEY, Personnel Manager, Air Research Manufacturing Company, Los Angeles

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DAVID P. EVANS, Industrial Relations Attorney, Consolidated Western Steel Corporation, Los Angeles

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NEAL HAMMOND, Manager, Industrial Relations, Ford Motor Company, Richmond

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R. G. KENYON, Vice-President, Southern California Edison Company, Los Angeles

CHARLES LUCKMAN, Pereira & Luckman, Los Angeles

H. C. MC CLELLAN, President, Old Colony Paint Corporation, Los Angeles; President, National Association of Manufacturers

CHARLES METCALF, Resident Manager, Fisher Body Division, General Motors Corporation, Oakland

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T. R. SANDBERG, Director of Manufacturing, Cutter Laboratories, Berkeley

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WILLIAM SMITH, Director of Research and Analysis, Federated Employers of San Francisco, San Francisco

E. D. STARKWEATHER, Director of Industrial Relations, North American Aviation Incorporated, Inglewood

WILLIAM G. STORIE, Executive Vice-President, San Francisco Employers' Council, San Francisco

R. C. THUMANN, Director of Labor Relations and Personnel, Pabco Products Inc., Emeryville

RAYMOND H. TISCH, Industrial Relations Manager, Nordstrom Valve Division, Rockwell Manufacturing Company, Oakland

OSCAR TRIPPET, Senior Partner, Trippet, Newcomer, Yoakum and Thomas, Los Angeles

W. G. TUTTLE, Industrial Relations Director, Hughes Aircraft Corporation, Culver City

E. A. WOODSIDE, Vice-President and General Manager, United Employers Incorporated, Oakland

Special thanks are extended to those who served on the Program Sub-Committee in the Northern area:

C. P. BURNETT

LOUIS H. ERB

NEAL HAMMOND

T. R. SANDBERG

RAYMOND H. TISCH

CONFERENCE STAFF

BENJAMIN AARON, Associate Research Economist, Institute of Industrial Relations, University of California, Los Angeles

RICHARD BAISDEN, Institute of Industrial Relations, University of California, Los Angeles

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MASON HAIRE, Visiting Professor of Psychology, Swarthmore College

EDWARD L. HEARSEY, Assistant Director, Management Programs, Institute of Industrial Relations, University of California, Los Angeles

FRANK L. KIDNER, Professor of Economics and Director, Bureau of Business and Economic Research, University of California, Berkeley

MARCIA LIEBERMAN, Extension Representative, Institute of Industrial Relations, University of California, Berkeley

DOUGLAS MC GREGOR, Professor of Industrial Management, School of Industrial Management, Massachusetts Institute of Technology

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VIRGINIA B. SMITH, Principal Extension Representative, Institute of Industrial Relations, University of California, Berkeley

EDGAR L. WARREN, Lecturer in Economics and Director, Institute of Industrial Relations, University of California, Los Angeles

We are fortunate in having the following people as general session leaders and keynote speakers:

EWAN CLAGUE, appointed August 20, 1954 as Special Assistant to the Secretary of Labor, was Commissioner of the Bureau of Labor Statistics of the U. S. Department of Labor from 1946 to the time of his present appointment. Mr. Clague has held other important government posts: Commissioner of Conciliation of the Bureau of Labor Statistics, 1926-28; Associate Director and then Director of the Bureau of Research and Statistics of the Social Security Board, 1936-1940; and Director of the Bureau of Employment Security of the Social Security Board, 1940-1946.

Mr. Clague has also taught at the University of Washington and the University of Wisconsin, and was Director of Research and Professor of Social Research at the Pennsylvania School of Social Work.

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ROBERT W. CONDER, Vice President and Director of Industrial Relations of Chrysler Corporation, is in charge of industrial relations activities for all Chrysler employees in the Company's United States plants.

Mr. Conder has been associated with Chrysler Corporation since joining the Company in 1936 as a member of the staff of its Resident Attorney. For the next three years Mr. Conder was active in labor negotiations between the Corporation and unions representing the organized employees.

In May, 1939, he was made Director of Labor Relations, a position he held for the next twelve years. He was appointed Director of Industrial Relations in February, 1951, and was elected a vice president of Chrysler Corporation in September, 1952. Before joining Chrysler Corporation, Mr. Conder was associated with the Detroit law firm of Dickinson, Wright, Davis, McKean & Cudlip.

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MASON HAIRE, on leave from the University of California where he holds the position of Associate Professor of Psychology and Research Associate in the Institute of Industrial Relations at Berkeley, has been appointed Visiting Professor of Psychology at Swarthmore College for the year 1954-55.

Before coming to the University of California in 1949, Mr. Haire taught at Swarthmore, Harvard, and the Massachusetts Institute of Technology. He also held the position of psychologist with the United States Air Force, and has served the Air Force as a consultant on utilization of human resources. Mr. Haire has also been active as a consultant to many industrial firms throughout the country.

ALEXANDER R. HERON, Vice President and Director of Industrial and Public Relations of Crown Zellerbach Corporation, has been with that organization since 1930. Mr. Heron has been active on various government boards, having served in the past as an industry member of the National Wage Stabilization Board and as Director of Reconstruction and Reemployment for the State of California. At present, he is a member of the Board of Advisors of the Industrial College of the Armed Forces, and of the Business Research Advisory Committee of the United States Department of Labor. Also active in industry organizations, Mr. Heron now holds the position of President of Federated Employers of San Francisco.

Mr. Heron is noted as a teacher and author. He is Consulting Professor of Industrial Relations at Stanford University, and Lecturer in Industrial Relations at the University of California. Author of a series of books, "Toward Understanding in Industry", Mr. Heron's latest book, No Sale, No Job, has just been published.

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FRANK L. KIDNER, Professor of Economics and Director of the Bureau of Business and Economic Research at the University of California, Berkeley, has been on the staff of the University since 1939. During that period he has taken leaves of absence to serve as Assistant Price Executive of the Regional Office of the Office of Price Administration, as Chairman of the Permanent Trucking Panel of the Regional War Labor Board in San Francisco, and as Assistant Executive Officer at the United Nations Conference on International Organization in San Francisco. During 1950-51 he was Guest Professor of Economics at the University of Leiden in Holland.

For several years Mr. Kidner has been participating in the educational program of the San Francisco banking community under the auspices of the American Institute of Banking and University Extension.

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DOUGLAS MC GREGOR, President of Antioch College from 1948 to 1954, left that post to accept an appointment as Professor of Industrial Management at the Massachusetts Institute of Technology.

Before going to Antioch, Mr. McGregor taught Psychology at Harvard and M.I.T. and was one of the founders of the Industrial Relations Section at M.I.T. in 1937. Mr. McGregor is well known as an expert in the psychological aspects of industrial relations, particularly as related to problems of managerial leadership and line-staff relationships. He has been consultant to a number of eastern and midwestern firms, among them the Dewey and Almy Chemical Company, a firm which figured prominently in the National Planning Association's study of the "Causes of Industrial Peace."

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ARTHUR M. ROSS, Professor of Industrial Relations at the University of California in Berkeley, has just been appointed Director of the Institute of Industrial Relations, Northern Division. Prior to coming to the University of California in 1946, he taught at George Washington and Wayne Universities.

Mr. Ross has served with a number of government agencies, including the Office of Price Administration, War Manpower Commission, and National War Labor Board. In 1951 he was Regional Chairman of the Wage Stabilization Board and subsequently Public Member of the National Wage Stabilization Board. He has acted as consultant to many other agencies; among them were the President's Commission on Migratory Labor and the California State Department of Employment. He is now a member of the President's Atomic Energy Labor Panel.

In 1949-1950 Mr. Ross was Associate Umpire for the General Motors Corporation and the United Automobile Workers. He has also acted as arbitrator for many other industries, and is on the Board of Governors of the National Academy of Arbitrators.

Very active in the field of labor economics research, Mr. Ross is a frequent contributor to industrial relations and economics publications, and is the author of Trade Union Wage Policy. He is presently a member of the Executive Board of the Industrial Relations Research Association.

EDGAR L. WARREN has been Director of the Southern Division of the Institute of Industrial Relations at the University of California in Los Angeles since 1947. Before joining the University staff, he was an economist and sales supervisor in private industry, and an economist for the Departments of Agriculture and Labor. During the Second World War, Mr. Warren served on the National Labor Board and later became Director of the United States Conciliation Service, a post he resigned to accept the appointment at the Institute.

Well known in the field of arbitration and mediation, Mr. Warren is a past President of the National Academy of Arbitrators. His writings have appeared in several industrial relations and economics journals.

P R O G R A M

WEDNESDAY, SEPTEMBER 15

3:00	Registration
5:30	Reception
6:30	Dinner Meeting
	Speaker: Ewan Clague "Significant Economic Trends"
9:15	Informal discussion with Mr. Clague

THURSDAY, SEPTEMBER 16

9:00	General Session on Monetary Policy and Economic Stability
10:30	Coffee
11:00	General Session on Collective Bargaining
12:30	Lunch
2:00	General Session on Psychology
3:30	Recess
6:30	Dinner Meeting
	Speaker: Alexander Heron "Management's I.O.U.'s"
9:15	Informal discussion with Mr. Heron

FRIDAY, SEPTEMBER 17

9:00	Concurrent Workshop Sessions
	Negotiation and Administration of Health and Welfare Programs
	Are we Getting What we Want from Human Relations Training?

	Bank Credit -- Effects and Controls
10:30	Coffee
11:00	Concurrent Workshop Sessions
	Employment Security Problems
	Adapting Management's Function in a Growing Firm
	Government Taxing, Borrowing, and Spending Policies
12:30	Lunch
2:00	Concurrent Workshop Sessions
	Current Collective Bargaining Developments
	Pros and Cons of Executive Development
	Management of the Public Debt
3:30	Recess
6:30	Dinner Meeting
	Speaker: Robert Conder "The Opportunity of Industrial Relations to Contribute to Company Success"
9:15	Informal discussion with Mr. Conder

SATURDAY, SEPTEMBER 18

9:00	Summary Session
10:30	Coffee
11:00	Summary Session and adjournment
12:30	Lunch

PRINCIPLES OF HEALTH ORGANIZATION

Recommendations of the President's Commission on the Health Needs of the Nation

The provision of adequate health services at reasonable cost to all American citizens is clearly a problem of national importance. With this in mind, President Harry S. Truman appointed, in December of 1951, a Commission on the Health Needs of the Nation. The task of the Commission was to survey the present and prospective health needs of the United States, and to make appropriate recommendations. The Commission reported back to the President in December of 1952. Its findings and recommendations are of fundamental importance to those interested in improving, in particular, the health plans to which they are presently committed, and in general, the health standards of the American people.

Prepayment

The Commission accepted the principle that all persons should have access to comprehensive health services of high quality. Popular demand for such services is, in fact, constantly increasing. They are available to most people, however, only through special financial arrangements. The old system of direct payment from the patient to the physician is therefore rapidly being replaced, because of the high costs of medical care, by prepayment plans. These plans have, indeed, been the medical success story of the past fifteen years.

Hospital insurance plans are by far the most prevalent form of medical insurance in the United States. As of July, 1953, they were subscribed to by about 87.4 million people; 43.3 million were in individual and group insurance company plans; 41 million were in Blue Cross plans; 10 million subscribed to other plans. Some 74.5 million also had surgical or medical insurance with varying degrees of coverage. Only about 5 million people were covered by comprehensive prepayment plans, although many of the plans so described did not really provide comprehensive coverage.

The Commission concluded that the present system of payment for medical care is deficient. Voluntary insurance has solved some but by no means all problems in the field. The gains in enrollment have been impressive, the extension of services less so. The average coverage provided is inadequate: in one study made in New York, 1/3 of the families questioned reported that they had paid medical bills of $100 to $400 <u>above</u> the costs of their insurance; some families reported <u>additional</u> expenditures of over $600. As already shown, only a fraction of the people are covered by comprehensive prepayment plans.

The Commission recommended that prepayment be accepted as the most feasible method of financing the cost of medical care. Prepayment plans must, however, demonstrate their ability to provide comprehensive health coverage. This can best be done through the association of prepayment plans with group practice, where the system of cash indemnities is replaced by that of service benefits. Under this system, a group of physicians would provide comprehensive health services to a group of patients, receiving a fixed amount per patient at regular intervals irrespective of the services rendered.

Group Practice

Group practice is the association of a number of physicians to use their combined skills and resources in the provision of health services. The group practice of medicine is a long-established institution in the United States. It is, according to the Commission, "a curiously American phenomenon," almost unique to this country.

Medical groups vary in size, organization and purpose. The number of physicians in a group ranges from two to several hundred. Some groups are operated by one individual who employs the other physicians in his group; many groups are partnerships, sometimes hiring extra physicians as employees; other groups are set up by consumer organizations, employers, and/or unions. Some groups provide comprehensive medical care, involving all or most of the major specialties; some consist of physicians all engaged in the same field of work, such as radiology or internal medicine; other groups are purely diagnostic; most, however, provide fairly comprehensive services.

There is a sharp division of opinion on the value of group practice. Its supporters say that no individual physician can master all the complexities of diagnosis and treatment; that many sick people, if they are to receive the best care, must be seen by more than one physician; and that group practice is the only way to do this efficiently and economically. Groups of physicians, by pooling their financial resources, can maintain equipment for diagnosis and treatment that none of them could provide as individuals. The incomes of physicians in group practice are more stable and in many cases higher than incomes in individual practice; financial security enables the physicians to concentrate more on their work. The patient receives better service at lower cost through group practice. Group practice, in general, raises community health standards by good example, frees the physician of all but medical duties, provides better preventive medicine, and assists in the development of prepayment plans.

The opponents of group practice assert that most of its 'advantages' are theoretical only. The primary criticism is that most patients can be adequately treated by an individual practitioner, and that group practice in this respect is "inefficient, time-consuming and unduly expensive." The physician loses some of his independence of judgment and action in a group, and his development is retarded by constant supervision. Group practice isolates members of the groups from the profession as a whole; the individual physician, associating with the profession in general, receives more stimulus through contact with his colleagues than the member of a group. Higher incomes in group practice are earned only by inferior physicians who could not succeed in individual practice. The ability of the group to provide expensive equipment is becoming progressively less important as regional specialist, hospital and laboratory services expand. Group practice results in excessive referral to specialists; the important patient-physician relationship is impaired. Many groups employ inadequately trained physicians as "specialists," thus lowering professional standards.

The Commission, while admitting the possibilities of abuse, supported group practice. Group practice is, the Commission states, a practical answer to the problems of complexity and high cost in modern medicine. Groups can give more comprehensive and specialized care than the individual physician; they provide better value for the dollar. The concentration of health services in one place gives greater unity and continuity to the care of patients, encourages consultation and minimizes travel. Physicians working in groups receive continuous stimulation from their colleagues, have immediate access to a wide field of specialized knowledge, and are able to devote more time to study. Financially, group practice provides stable incomes generally higher than those in individual practice; this financial security enables physicians to concentrate more on their professional work.

The Commission applauded the recent trend of combining group practice with prepayment, and suggested that it be further developed. In particular, the system of per capita payments for service benefits through group practice offers many advantages. As the physician receives the same income irrespective of the number of patients he treats, an incentive is provided for preventive medicine and thorough care; unnecessary operations and treatment, often given for financial reasons under other systems of payment, are eliminated. Fee-splitting and overcharging are no longer possible. The heavy administrative expenses of the cash indemnity system are greatly reduced. Above all, specialized medical care is continuously available to the patient at a predictable cost.

Some opposition to the spread of prepayment-group practice plans may, the Commission observed, be expected from the medical profession.

The Commission suggested that organized medical bodies review their attitudes towards group practice in a spirit of tolerance. On the other hand, proponents of group practice should pay careful attention to the objections of the medical profession; the Commission noted that there had been a high mortality rate amongst medical groups, and that special care should be taken to ensure sound financial and administrative arrangements to preserve high medical standards. Group practice should, however, be encouraged, and the Commission recommended the provision, where required, of federal loans to local organizations for this purpose.

Regional Organization

The report of the Commission stated that present-day deficiencies in health organization cannot be met by prepayment and group practice alone. These deficiencies are said to be considerable. They begin with the general, severe shortages in modern equipment and trained personnel. Personnel and equipment are, in turn, inefficiently used. Public health services, medical schools and research are all inadequately provided for. Medical centers, especially those in rural areas, are too often isolated from the mainstream of medical developments. Health education of the public is inadequate. The existing pattern of health services in many areas tends to confuse the patient and leads to much delay and unnecessary expense.

These deficiencies in the organization of health services have prompted many health agencies to cooperate on an area basis. Regional cooperation has emerged as a definite trend in the organization of health services. Regional organization—in which prepayment, group practice plans would clearly play an important part—is recommended by the Commission in the provisions of more comprehensive health services.

The regionalization of health organization, the Commission adds, "means cooperation between all responsible agencies in ways that best meet the needs of each region." The Commission goes on to emphasize that:

(a) One of the best, least radical and least expensive ways of improving medical care is to organize better what we already have. We should therefore get all local health agencies and personnel to work more smoothly together.

(b) Regionalization does not discourage individualism in the practice of medicine. It actually enhances individual effort.

(c) Regionalization preserves the American tradition of local autonomy, customs and characteristics, while seeking greater comprehensiveness and efficiency in medical services.

Regionalization of medical services has been widely discussed throughout the nation, although its application has been "slow and fragmentary." Progress has been slow for several reasons: lack of general knowledge of the problem, the misgivings of the medical profession, the difficulty of adopting new organizational and administrative methods to cope with the complexity of regional health services, and the problem of obtaining adequate finances.

Several regional programs appear to have been successful. The reasons given for their success are that regional programs improve health organization by integrating hospitals, medical schools and personnel over a wide area. The joint use of resources reduces costs and helps to avoid duplication and waste. Improved organization equalizes the standard of treatment throughout the area, this being particularly important in outlying districts. More post-graduate training and education for the individual practitioner is made available, enabling him to keep abreast of medical developments. Preventive medicine is practiced on a wider scale.

Provision can be made in all regions for the initial and continuing education of all health personnel. Advisory services can be provided for those institutions unable to afford them. Services such as blood bank operations and the purchasing of hospital supplies might best be conducted on a regional basis. Research already being carried on by other institutions should not be duplicated, but regionalism may offer excellent opportunities for first-hand appraisal of large-scale health organization.

Comprehensive Health Services

The Commission's report thus advocates three principles which it considers vital to the provision of more comprehensive health services. The principles are prepayment, group practice, and regional organization. The first puts adequate health care within the means of the average citizen. The second is to provide the care on a basis which combines high professional standards with personal service. The third is to supply the scale of organization necessary to cope with the increasing cost and complexity of health services while retaining local independence.

Recognizing the financial and organizational problems involved in establishing new health programs, the Commission recommended the institution of federal-state cooperation to assist in health planning. A single health authority would be set up in each state, and would draw up a plan for comprehensive health services within the state. Existing resources would be used where possible. Federal funds would be provided if state plans complied with broad federal standards, but actual federal supervision would be minimized. Where there was no federal-state cooperation, federal grants would be made direct to local or regional organizations for the establishment of pilot health plans.

The Commission, however, laid constant emphasis on the need for flexibility and variety in organization according to local circumstances. In his final letter to the President, the Chairman of the Commission stated the belief of himself and his associates that "good health care starts at the grass roots." The report itself said that the local community or regions should be the focus for the administration of health services. Local voluntary action should provide much of the initiative for the planning of adequate health organization. Federal and state funds should be used to encourage rather than administer, to promote rather than control, the local and regional organizations to which they are given. In every case, the final form of organization should be determined by local needs and desires.

"We believe," said the Commission, "that access to the means for the attainment and preservation of health is a basic human right." Throughout the report, the Commission worked on the assumption that the goal should be comprehensive health care for all. According to the Commission, the achievement of that goal depends in large measure upon the widest possible application, preferable in concert, of the three principles—prepayment, group practice and regional organization—here discussed.

MAJOR TYPES OF HEALTH AND WELFARE PLANS*

Insurance company, Blue Cross, and Blue Shield programs provide most of the protection that exists today against medical and hospital bills. These programs were originally designed primarily for coverage of hospitalized illness, therefore affording little opportunity for health education, early detection of disease, and treatment in the early stages of an illness. Unions have recognized these limitations and have worked with varying degrees of success with the voluntary programs in an effort to secure greater benefits through them.

In some instances, coverage under health and welfare plans has been obtained from cooperative prepayment organizations and from group-practice clinics. As a rule, these programs provide some preventive and diagnostic services and often physicians' services in the office and the home as well as in the hospital. The Kaiser Foundation Health Plan and Ross-Loos Medical Group are examples of group-practice programs serving union groups in California.

A limited number of union groups handle their own benefits. In some instances, reimbursement is made in cash, either from a fund or from an insurance company set up by the union; in others, the unions have established health centers to provide preventive, diagnostic, and various other services to their members. Services at the center are usually supplemented by some form of voluntary health insurance covering hospitalization and physician's care during hospitalized illness.

The selection of a particular type of program depends on many factors, including age, sex, marital status, geographical distribution, and socioeconomic characteristics of the employees to be covered, the amount and types of benefits to be provided, and the method of financing the program. These same factors influence the cost of the program as well.

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*Adapted from Management and Union Health and Medical Programs, published by the Public Health Service of the U.S. Department of Health, Education, and Welfare, 1953.

INSURANCE COMPANY HOSPITAL AND MEDICAL CARE CONTRACTS

With only one or two exceptions, insurance-company contracts provide indemnity benefits. The provision of such benefits and the large areas covered by the companies have made it possible for them to assure uniform coverage to large and scattered union groups. Policies are adapted to meet the needs of special groups, and "package contracts" offer unions and other employed groups a chance to purchase hospitalization and medical coverage along with life insurance, sickness and accident, and various other health and welfare benefits. The fact that insurance-company plans may be administered in a union or trust-fund office has provided an additional advantage.

Insurance-Company Hospitalization Plans

When the insurance company underwrites a hospitalization plan, it issues a group policy to the trust fund, setting forth in detail the terms of the contract. Each employee who is covered by the group policy receives a certificate summarizing the provisions of the group policy that principally affect him.

Daily benefits. The policies provide for reimbursement to the insured of a flat daily benefit for a stipulated number of days for continuous hospital confinement or for each admission for a different period of disability. Any daily benefit desired by the trust fund is available; the daily benefits may run for any number of days. Usually the payments range from $8 to $14 per day for 31 days for any one hospitalization period. There is usually no limit to the number of days that benefits are payable during the year if each hospitalization is for a different illness. A few policies provide for reimbursement up to a certain amount, the rate per day and the duration not being specified. The trend is to increase the benefits to meet union demands.

Special hospital services. Cash-indemnity plans make a specific reimbursement for additional hospital charges. The amount is usually based upon the daily benefit, ranging from 5 to 31 times the daily indemnity.

Choice of hospitals. The insured may be hospitalized in any legally recognized hospital located anywhere in the United States or Canada.

Exclusions. Insured plans exclude hospitalization for industrial injuries or diseases for which the employee is entitled to benefits under workmen's compensation laws; hospitalization for military-service-connected disabilities; and for plastic operations for cosmetic or beautifying purposes. Maternity benefits are often not payable if pregnancy exists on the effective date of the policy.

Dependents. Under almost all cash-indemnity plans, the daily-benefit allowance for dependents is less than that for the insured employee.

Termination. All hospital-expense insurance underwritten by a regular insurance company automatically ceases on the date of the termination of employment.

Insurance-Company Surgical and Medical-Care Plans

These policies vary widely in scope of benefits. The features that require special consideration are:

Benefits. The indemnity policy most commonly written reimburses the insured for surgical expense only. The insured employee is reimbursed for the surgical fee up to the amount listed in the fee schedule, but in no event is the allowance more than the actual fee charged by the doctor. Typical schedules are the $250-maximum plan and the $350-maximum plan. Each specific operation in the higher-maximum plan is increased proportionately. The policies also specify a maximum amount that will be paid during any one continuous period of disability, should more than one operation be required.

Among the plans that provide reimbursement for medical nonsurgical expense, some are limited to reimbursement of costs of physician's visits while the employee is in the hospital, or to "in-hospital" benefits. Others provide for reimbursement of the cost of a physician's visit at the home of the insured, at the physician's office, or in the hospital. Under a cash-reimbursement program providing nonsurgical care, payments to employees usually do not exceed $3 for a hospital or office visit and $5 for a home visit. Limitations are usually made on the number of such visits. Coverage usually excludes the first two or three visits in illnesses, but includes the first treatment in accident cases. Some policies also provide limited reimbursement for additional costs such as x-rays, electrocardiograms, laboratory analysis, etc.; but hospitalization is normally a condition of such coverage.

Exclusions. Medical-expense insurance written by insurance companies generally excludes occupational injuries or illnesses that entitle the insured to benefits under workmen's compensation or occupational-disease laws. It also excludes plastic-surgical operations for cosmetic or beautifying purposes if the condition existed at the time the policy was written. The coverage in the policies written by the large insurance companies is otherwise usually all-inclusive, even covering chronic conditions, alcoholism, heart disease, and nervous breakdowns. Some small companies, in an effort to get business, offer very limited policies for low premiums. In some cases, the exclusions in these contracts permit the carrier to evade almost any claim. Groups should study the exclusions in a policy very carefully so that they will not be tempted by a cut-rate premium to buy a policy that is not satisfactory.

Choice of Physician. The employee may choose any legally qualified physician or surgeon.

Maternity benefits. The indemnity policy reimburses the insured up to the amount listed in the schedule of operations for surgical fees for delivery, Caesarian section, abdominal operation for extrauterine pregnancy, and miscarriage. There is sometimes a waiting period before maternity benefits will be paid.

Uniformity of benefits. Insurance companies will underwrite surgical care plans or surgical and nonsurgical medical care plans with any reasonable benefits desired by the trust fund.

INSURANCE COMPANY MAJOR MEDICAL (CATASTROPHIC ILLNESS) CONTRACTS

Insurance companies have recently begun to issue group major medical expense contracts (usually referred to as "catastrophic" coverage) to cover unusually expensive or long-term illnesses. The contract is similar to other group-insurance contracts in that a master policy is issued to the employer and certificates are issued to the insured employees. No physical examination is required. The policy is designed to meet major costs (usually above $300). It is anticipated that other health plans will cover the deductible amount, or that the employee will pay it himself.

The distinctive features of catastrophic health contracts are:

Deductible Amount. A deductible amount of $300 to $500 is paid by the insured individual.

Coinsurance Clause. The insurance company pays, for each separate illness or injury arising out of any one cause, 75 per cent of the expenses in excess of the deductible amount, to the maximum stated in the policy. The purpose of the coinsurance clause is to serve as a check on incurring needless expenses.

Maximum Amount. The maximum amount of the policy varies between $2,000 and $5,000.

Income Limits. Major medical policies once tended to impose a minimum-income limit for eligibility instead of a maximum-income limit. Early experience had suggested that employees earning less than $5,000 were rarely interested in major medical policies; enrollment was mainly confined to personnel such as department heads, managers, executives and salesmen. Recent experience now suggests that increasing numbers of employees earning less than $5,000 per annum are interested in subscribing to plans providing major medical expense coverage. The minimum-income limit is thus being imposed with less frequency.

Benefits. Deductible and coinsurance factors have already been mentioned. Each new injury or illness is entitled to its own maximum. Coverage usually includes expenses for the diagnosis, treatment or care of nonoccupational, accidental bodily injury or disease. This covers fees charged by physicians, surgeons and nurses, hospital and clinic charges, X-ray examinations and treatments, laboratory tests, anesthesia, drugs and medicines, and all other therapeutic services and supplies.

Exclusions. All policies state that the charges must be reasonable and the services necessary. The reasonability of charges is gauged by comparison with practices by reputable persons and organizations in the area. Policy coverage is broad; only workmen's compensation cases are not covered. Preexisting conditions are covered, provided the employee is at work when the policy is written. Psychiatric treatment is covered, and also dentistry if directed by a physician.

Choice of Physician. The insured may choose any physician licensed to practice medicine.

Waiting Period. There is no waiting period. All conditions are covered from the day the policy is written, provided the employee is at work that day.

Dependents. The plan may or may not cover dependents. The charge for each dependent is usually higher than that for the original subscriber.

Uniformity of Benefits and Premiums. Major medical plans are highly flexible. Coverage, premiums and deductibles vary considerably with particular needs.

Claims. Major medical plans are indemnity plans, but companies will pay hospital and doctors' bills directly, if requested by the insured. In cases of prolonged illness, bills are paid from time to time as received.

Termination and Retirement. Group catastrophe insurance terminates with employment. Unlike the usual group policy, a retiring employee may remain within the insured group and continue to pay the regular premium through the employer. The employee also has the opportunity of converting to an individual policy within 31 days.

Interest in catastrophe coverage is growing. General Motors, Sears, Roebuck and Company, and Socony-Vacuum Oil Company are among the large business concerns which have recently adopted catastrophe policies for those of their employees earning $5,000 or more a year. President Eisenhower, in his recent insurance proposals to Congress, recommended the establishment of a limited Federal Reinsurance Service to assist private companies in offering broader coverage than is now generally available. If the Service were set up, extended coverage would be available first to middle-income groups; then, as participation increased, at lower rates to lower-income groups. The President's proposal, however, seems unlikely to be accepted by the Congress.

BLUE CROSS HOSPITAL PLANS

Blue Cross plans in California are almost entirely service programs. Outstanding features of Blue Cross contracts are summarized as follows:

Daily Benefits. Blue Cross plans usually provide for room and board, including special diets and general nursing, in a semi-private room or ward in a member hospital. Benefits are provided for a stipulated number of days, ranging from 35 to 120, for each separate period of disability. Blue Cross pays the ward allowance toward the room charges to subscribers who take a private room in the hospital.

Special hospital services. Blue Cross plans provide for room and board, general nursing care, use of operating room, laboratory service, and medication and dressings. In addition to these basic services, plans provide for specified extra hospital charges, which vary with the plan. There is no limit on the cost of the services provided, but only those specified in the contract are allowed. Services usually allowed are the following:

Oxygen and use of equipment for administering oxygen.
Anesthesia supplies and use of anesthesia equipment--administration of anesthesia only if administered by an employee of the hospital.
Dressing and plaster casts.
Use of cardiographic equipment.
Basal metabolic examinations.
Use of physiotherapeutic equipment.
Laboratory and x-ray examinations consistent with the diagnosis and treatment of the condition for which hospitalization is required.
Use of cystoscopic room and equipment.

Choice of hospital. Blue Cross plans require hospitalization in a local member hospital, that is, one with which the hospital association has a working contract. Almost all legally recognized hospitals are member hospitals. If all of these are occupied, the subscriber is put on a waiting list, or occupies a private room and pays the additional cost. Through reciprocity of services, Blue Cross plans provide hospitalization in member hospitals located out of the area covered by the hospitalized subscriber's plan.

Waiting period. Maternity care requires a waiting period of nine months. In all other cases, benefits are available immediately after employment.

Maternity benefits. Blue Cross plans offer indemnity benefits (instead of service) only in maternity cases. Limitations exist on the number of days for which daily benefits are available, as well as on the total amount allowed.

Out-patient service. Benefits for out-patient service are provided only in the case of emergency service obtained within 24 hours after an accidental injury.

Exclusions. Broadly speaking, Blue Cross covers any illness that is treated in a general hospital. Benefits are not provided for workmen's compensation cases; hospitalization furnished under federal, state, or other laws; rest cures; and admissions primarily for diagnosis or physical therapy.

Dependents. A family contract entitles dependents to the same benefits as the subscriber, except maternity benefits.

Transfer and termination. When a subscriber changes his job, he may continue his membership by making payment directly to the plan at a slight increase in rate, or he may apply for a transfer to an existing Blue Cross group at his new place of employment. There need be no lapse of coverage. If the subscriber moves to another community, he may enroll in the Blue Cross plan there without a waiting period. He may continue his membership after retirement and after he reaches the age of 65, although he cannot enroll after the age of 65, except in large Blue Cross groups where the age limit is waived.

Claims. A member need only show his Blue Cross identification card to be admitted to the hospital. No questions are asked; no financial references, no employer-verification of illness, no other claim forms are necessary. The member pays only the portion of his bill that is not covered by his contract; Blue Cross pays the balance directly to the hospital.

CALIFORNIA PHYSICIANS SERVICE (BLUE SHIELD)

Blue Shield has three classes of contracts: (1) individual, which cover only one person; (2) husband-and-wife, which cover the employee and his or her spouse; and (3) family, which cover the employee, his or her spouse, and all unmarried children under 19. The benefits under each are the same, except that the family contract offers maternity benefits. Features of these contracts are summarized as follows:

Benefits. Hospital benefits are provided by C.P.S. Blue Shield in any licensed hospital in the world. In California, hospitals are paid directly their retail rates for listed services and for the three-bed ward rate. Benefits vary from 25-day contracts to 100-day contracts. In some contracts there is an additional rider for $300 to provide for certain other hospital extras.

Surgical plans provide professional services in or out of the hospital. Surgery includes any cutting or incision, care of fractures or dislocations, suturing of wounds and lacerations or destruction of diseased tissue by such things as cautery, etc.

Ambulatory medical care is available to the employed member only. However, in-hospital medical care can be made available to all members. Most ambulatory medical contracts provide that the first two visits are deductible except in accident cases. There are no visits deductible on in-hospital medical-care contracts. In complicated and serious illnesses there is no limit to the amount of service being rendered, or to the number of doctors necessary for the care.

Claims are paid from a fee schedule developed for C.P.S. by the California Medical Association and is administered on a service basis, which means that the fee schedule is not governed by flat fixed amounts.

In ordinary procedures wherein the postoperative course is normal, a total item is paid. In cases where it is anticipated that normal after-care is a matter of about two weeks, the fee for the procedure is total, except that, when the after-care extends beyond this period, all services are paid for additionally. In cases where the postoperative course is completely unpredictable--such as the treatment of certain traumatic wounds, fractured skulls, burns, etc.,--the fee schedule provides payment for the primary procedure, and all after-care is paid for additionally.

The services of certain other doctors, such as assistants, anesthetists, and surgical consultants, are also provided.

Income limits. Doctors belonging to Blue Shield agree to accept the fees paid by the plan as total payment for professional services if the patient's income falls below a certain limit. The usual limit in California is $3,600 for a single person and $4,200 for a family. The physician may charge an additional fee to patients whose income exceeds this limit.

Some efforts are being made to increase the income limit to a higher figure or to eliminate the limit altogether. The last convention of the California Medical Association authorized the individual county medical associations to increase the family-income limit to $6,000 if they so wished. Recently, the doctors in the San Pedro-Wilmington area of Los Angeles agreed to abolish the limit entirely for groups enrolling in C.P.S. in that area.

Choice of Physician. The subscriber may choose either a "participating" or a "nonparticipating" physician (either doctors of medicine or doctors of osteopathy). A participating physician is one who has entered into a service agreement with the organization. A nonparticipating physician is paid the same allowances, but he may make an additional charge to the subscriber, regardless of the income status of the subscriber. Many of the best physicians in a community participate in C.P.S.

Exclusions. Allowance is not made for the first two visits to the doctor, even in plans including medical coverage. Some plans exclude all medical care, or require that the patient must be hospitalized to receive benefits for nonsurgical medical treatment.

Plans exclude industrial injuries or diseases that are covered by workmen's compensation laws and care furnished under federal, state, or other laws. Also excluded are functional disorders of the mind or nervous system, rest cures, cosmetic surgery, etc.

Maternity benefits. Although most plans provide a nine-month waiting period for maternity cases, this may be waived. Maternity cases are given virtually the same benefits as other conditions.

Transfer and termination. Blue Shield plans have generally the same provisions for transfer of membership and change of contract as do Blue Cross plans.

Claims. Blue Shield pays the doctors the scheduled allowance directly, and the subscriber pays any difference between the doctor's fee and the allowance.

THE KAISER FOUNDATION HEALTH PLAN

The Kaiser Foundation Health Plan was started during the 1930's for the purpose of providing health care to employees in the Hoover Dam and other Kaiser projects in that area. Later, the Plan was extended to cover Kaiser employees in the Grand Coulee Dam project and in the Oakland shipyards. At the end of World War II, the Plan was made available to the public through both group and individual family enrollment. The Plan has now been extended to other areas along the West Coast, with a total enrollment at the present time of about 450,000.

The Kaiser Foundation Health Plan is a group practice, service benefit organization. Health services are rendered by Permanents Medical Groups, which are partnerships of general physicians and specialists organized on a regional basis. All the major specialties are represented in each group. Hospital care is provided through hospitals built and owned by the Kaiser Foundation; the hospitals are operated by the Kaiser Foundation Hospitals, a non-profit organization.

The Kaiser Foundation Health Plan has the following general characteristics:

<u>Income Limits</u>. There are no income limits.

<u>Benefits</u>. This is a service benefit program. Service benefits are provided in greater or lesser degree, depending on the type of contract taken out by the subscriber. In the most comprehensive type of contract, complete medical, surgical and hospital care (with certain customary exclusions) are provided without extra cost to the subscriber. Other types of contract entail supplemental payments by the subscriber at the time he receives the services, such as a fee of $1 for each office visit, or payment of a sum roughly equivalent to one-half the cost of X-ray and laboratory services. Among the total membership in Southern California, about one half have the type of contract covering all costs; the rest are enrolled under contracts with several different types of supplementary payment arrangements. Cash benefits up to a maximum of $250 are awarded in the event of accidental injury, sustained more than 30 miles away from a Kaiser Foundation Health Plan center, to cover emergency expenses.

Exclusions. Exclusions from benefits are the same for all contracts, and are generally as follows: attempts at suicide and other intentionally self-inflicted injuries or illnesses; tuberculosis; alcoholism; conditions covered by Workmens Compensation; service-connected conditions; dental care; corrective appliances; conditions resulting from a major disaster or epidemic; contagious diseases and diseases requiring isolation; mental disorders. The Plan formerly exdluded poliomyelitis, but with the development of the Kabat-Kaiser Institutes, which furnish special physical therapy care, the Plan has been able to provide rehabilitation services for polio victims among its subscribers.

Choice of Physician. This is one of the most controversial aspects of the Kaiser Plan. Some other health organizations contend that the medical group aspect of the Plan prevents true or effective free choice of physician. The attitude of the Kaiser organization is that the Plan provides as effective free choice of physician as is available anywhere.

Waiting Period. The only waiting period requirement in the Kaiser Foundation Health Plan contracts is that related to maternity care. A higher supplementary payment is required from the member receiving maternity care benefits during the first ten months of membership.

Maternity Benefits. Full coverage is provided, subject to the extra charges mentioned above.

Female Employees. There are no special rates for female members of the Plan. Equal services are provided for equal premiums.

Dependents. Services are offered in all contracts on the same basis as those for the employee. There are reduced rates for families.

Rates. There are, as previously mentioned, a number of variations in Kaiser Foundation Health Plan rates, depending on the coverage provided and the size of enrolling groups. Individuals may also enroll. Large groups may also negotiate special contracts whereby the Kaiser Plan will supplement Blue Cross or insurance company benefits.

Transfer. Any subscriber leaving his place of employment may transfer from a group contract to an individual contract. There are no obstacles to the transfer, upon moving from one area to another, of a subscriber from one Kaiser group to another.

Procedure for Receiving Service. A subscriber needs only to show his health plan identification card to the doctor and to medical center or hospital staff where extra charges are made.

THE ROSS-LOOS MEDICAL GROUP

The Ross-Loos Medical Group is a co-partnership of physicians and surgeons licensed to practice in the State of California. The plan has been in operation for over 25 years. At the present time, a full-time staff of 125 doctors is providing health care for over 125,000 persons in Los Angeles County. The Group occupies a 13-story building in downtown Los Angeles and has 13 offices in outlying areas of the County. The plan has the following general characteristics:

Income Limits. There are no income limits, no extra charges because of income.

Benefits. The Group provides such medical care and treatment as is necessary in the case of injury or illness, including necessary office consultations, house calls, physical examinations, eye examinations and refractions for glasses. The Group also provides all such surgical operations necessary in the case of illness or injury, including the services of an assistant and anesthetist; pre- and post-operative care is also provided. In maternity cases, complete pre-and post-natal care is given, including office and home calls, all necessary tests during pregnancy, delivery and associated surgical procedures, and other services required in the event of miscarriage, ectopic pregnancy or Caesarean birth. Laboratory procedures, X-ray examinations and physiotherapeutic treatment are given when ordered or approved by the attending Ross-Loos physician.

World-wide hospital benefits for Ross-Loos subscribers and dependents are provided by the Independence Insurance Company on an indemnity basis. An amount, not in excess of a specified amount per day is payable for room and board for each day of confinement and continues for a specified number of days. The same is true of charges made by the hospital for necessary services and supplies, as well as charges made for ambulance transportation to or from the hospital. The plan also provides emergency accident out-patient coverage.

Exclusions. There are some customary exclusions from the benefits provided to Ross-Loos subscribers and their dependents. They include service-connected disabilities, mental illness, and conditions arising from acts of war or catastrophes. Medical care and services for which the subscriber or dependent is not entitled as a regular service may be rendered in certain cases, when ordered by the attending physician, on a fee basis.

In the case of individual policies, all individuals are required to undergo a physical examination prior to enrollment; coverage for pre-existing conditions is then sometimes waived. In group enrollment, the physical examination is frequently omitted, and pre-existing conditions frequently included in the benefits. Pregnancy is never treated as a pre-existing condition.

Choice of Physician. The subscriber may choose any Ross-Loos doctor when service is required within the Ross-Loos service area. Supplemental benefits are provided outside this area by the Independence Insurance Company.

An alternative arrangement is also available to all groups who wish it. In order to give groups a choice between a service type and an indemnity type plan, the Independence Insurance Company usually provides the same hospital plan for each member of the group and also provides indemnity type medical and surgical coverage for those employees who do not desire the Ross-Loos service.

Waiting Period. There are no waiting periods.

Maternity Benefits. As previously mentioned, complete maternity coverage is provided, even when the subscriber is pregnant at the time of enrollment.

Female Employees. Female employees receive the same benefits as male employees for the same monthly payment.

Dependents. Dependents are entitled to receive the same care and service as is available to subscribers at special rates and fees prescribed in advance.

Rates. All group contracts in Ross-Loos offer identical coverage at varying rates depending upon the average age of the group. All individual policies are offered at the same rate with varying coverage depending upon age and other factors.

Transfer. When a subscriber is no longer eligible through his group he may transfer to an individual policy and continue the combined plan at a slightly higher cost.

Procedure for Receiving Service. In the case of medical and surgical care provided by the Ross-Loos Group, the patient is provided with an identification card; the presentation of this card, or a check with the Group records, is sufficient so far as the provision of service benefits is concerned. In the case of hospitalization and other benefits by the Independence Insurance Company, the patient signs an authorization whereby the hospital or other agency providing the care is authorized to bill the Company for the services; no other action on the part of the patient is required.

Selected Material On

GUARANTEED WAGES

Joseph W. Garbarino

The following material has been assembled to give a quick survey of the guaranteed wage picture and to give examples of various viewpoints on the subject.

Summary of a guaranteed wage plan negotiated by Local 688, Teamsters-AFL with Brown Shoe Company, St. Louis, January 1953. (By August 1953 Local 688 had similar agreements in 20 of the 300 contracts it handles. About 3000 of the 10,000 workers represented by Local 688 were under these 20 contracts but only about 2200 of these are covered by the guarantee. These plans are in 5 year contracts, with a quarterly escalator (cost-of-living) clause and annual wage increases provided for.)

Coverage:

A number of employees equal to the smallest number on payroll during the previous year (1952) are guaranteed 40 hours work for 50 weeks annually. Overtime hours do not count toward guarantee. At time of contract signing the 425 workers with top seniority (out of 475 then employed) were covered. The 425 figure doesn't change - if one of the 425 leaves the firm the next highest seniority man is added.

Contract allows workers to refuse to handle hot cargo and to respect picket lines of a legal strike with no effect on guarantee.

Summary of the guaranteed Wage Plan presented to Alcoa by United Steelworkers summer 1953. (Apparently noserious bargaining occurred.)

Coverage:

All employees with "three or more years of service."

Benefits:

Weekly minimum payment of 30 hours standard hourly rate up to a maximum of 52 weeks from beginning of unemployment. Unemployment compensation payments actually received by any employee may be deducted from the guarantee by the company.

Reeligibility:

If after exhausting 52 weeks benefits an employee should be reemployed for 480 hours, the guarantee is renewed in full. If between 240 and 480 hours are worked before a second layoff occurs the guarantee shall run for 26 weeks.

Financing:

Company to pay into a trust fund 10 cents for each hour worked. The company's liability shall be limited to payment of this sum to the fund.

The UAW - CIO's "six principles" of the guaranteed annual wage: (from UAW's "Progress Report on the Guaranteed Annual Wage).

The UAW Study Committee then reported to the International Executive Board which approved the following six principles, which were subsequently endorsed by the Convention of our Union in March, 1953:

(1) The primary goal of a guaranteed annual wage plan should be to stimulate management to provide steady full-time employment, week by week, the year around.

(2) Guaranteed annual wage payments should be made to workers for whom management fails to provide work, in amounts sufficient to insure take-home pay adequate to maintain the living standards which the worker and his family enjoyed while fully employed.

(3) All workers should be guaranteed employment or guaranteed payments from the time they acquire seniority. The guarantee should assure protection against a full year of lay-off for all eligible workers and for shorter periods on a graduated basis for those who have not worked the minimum qualifying period.

(4) 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.

(5) The plan should be administered by a Joint Board of Administration having equal representation from the Union and from management, with an impartial chairman to break deadlocks. Decisions of the Joint Board with respect to eligibility and disqualifcation should be made independently of decisions made by state agencies with regard to unemployment compensation.

(6) Financing should combine pay-as-you-go, to provide employers with incentives to stabilize employment, with a reserve trust fund to meet abnormal costs. Provision should be made for reinsurance to reduce the size of the required reserves and to spread the risks of abnormal unemployment over the widest possible area of the economy.

The following is taken from <u>The Guaranteed Annual Wage: An Active Issue</u>, published by Industrial Relations Counselors, Inc., October 1953, pp. 19-20. IRC is a management consulting organization.

"On the other hand, the reasons for exercising caution are weighty - and even compelling. They may be stated as follows:

1. This particular issue confronts industry with a new and more formidable fringe demand, which is exceedingly costly and from which, once granted, any return will be extremely difficult, if not impossible. Current proposals for supplementation of unemployment compensation benefits suggests some recognition that the original concept of guaranteed employment or wages was impractical. The proposal that company unemployment benefit funds be reinsured is also tacit admission that many individual companies cannot support an effective guarantee.

2. Wage guarantee demands involve a request for contract commitments in areas over which the employer has no control. These areas include: the general level of

economic activity; conditions of partial or large scale war, with accompanying government controls or material allocations; shortage of raw materials or specialized skills; changes in tariffs; and strikes within the company or among the company's suppliers. An example in point was the layoff of 122,000 employees in the automobile industry in May, 1953, because of strikes which shut off the flow of parts to the automobile manufacturers. If unemployment due to factors beyond the control of the employer are excluded from the guarantee, the value of the guarantee becomes questionable.

3. Most negotiated guarantees are limited either as to the number of proportion of employees covered, or the number of hours per year for which pay is guaranteed. Guarantees limited to a relatively small proportion of employees may be worse than no guarantees, since they serve to emphasize the vulnerability to layoff of those employees who are not covered by the guarantee. Moreover, excluded employees may view their exclusion as discriminatory.

A serious and special problem exists for companies in seasonal industries. Most workers who customarily accept seasonal work are not regularly in the labor market, and many of them never have wanted year-round employment. Stabilization of employment under such circumstances could apply to only the permanent work force.

4. No matter how limited the guarantee, it establishes the principle of employer-financed supplementation of unemployment compensation.

5. There is real danger that concessions once made on a minimum basis become a precedent for further bargaining to augment and liberalize the original concessions. Unions are not likely to accept a highly restricted guarantee as a permanent policy.

6. Preliminary estimates of the cost of a guarantee may be very mis-leading. In this connection, it should be remembered that the employee welfare royalty per ton in the bituminous coal mining industry started in 1946 at 5 cents. In 1947 it was increased to 10 cents. The 1948 negotiations resulted in a boost to 20 cents. The royalties for the years 1950-1952 were 30 cents, and the present royalty is 40 cents. It is 50 cents a ton in the anthracite industry.

7. With a guarantee in effect, every additional employee represents a commitment to continue pay whether or not there is work for him to do. In that case the employer may be reluctant to increase his employment even though current business warrants it. Multiplied by many companies, such a condition may result in reducing the total number of employment opportunities.

8. If companies undertake commitments beyond their financial capacity they may find the government becoming deeply interested in the company's operation. Referring to the CIO, A. D. H. Kaplan suggests that "it looks to the government as a rear line of defense to come to the rescue of business that cannot by itself make good the guarantee."

9. Formal contract negotiations in this area could well open the way to demands for joint-union management action in vital areas of management functions, such as sales, plant expansion, subcontracting, production schedules, etc.

The following statements are taken from a speech by Prof. Sumner H. Slichter, Harvard University, to the American Management Association, February 1954.

Let us examine the two conditions that must be met for annual guarantees of the traditional sort (the guarantee of some minimum amount of income or employment for a period of a year) to be practicable. The first condition is that the employer can control in considerable measure the number of jobs in his plant. This is true of many successful enterprises in non-cyclical industries. Note carefully that I said "successful" enterprises and "non-cyclical industries". The enterprise must be a successful one -- not one of the marginal concerns that has trouble getting business and that is the first to feel any drop in demand and one of the last to feel a pick-up in demand. And the industry must not be subject to violent cyclical ups and downs.

The view that widespread adoption of the guaranteed annual wage would stabilize employment is correct under some conditions and incorrect under other conditions. The two conditions that would need to be met for widespread adoption of the guaranteed annual wage to stabilize employment are (1) that employers accumulate reserves to meet their liabilities for wage payments under the plan of the guaranteed annual wage, and (2) that the liability of employers be limited to the amount in the reserves or some small additional amount. If reserves were not accumulated in advance, even a small drop in employment would impair the liquidity of some employers and cause them to cut non-payroll expenditures, thus producing layoffs in other plants which, in the absence of reserves, would find their liquidity seriously reduced and would also cut their non-payroll expenditures. Furthermore, in the absence of a limit on the employer's liability, any dip in employment would seriously impair the credit of the weakest firms.

The necessity of making large payments for work not done would be greatest in the very firms which could least afford to make such payments. It is unnecessary for me to discuss at any length the grave consequences of the impairment of the credit of the weakest firms. These firms would be pressed to pay their debts to banks and suppliers, and would be forced to cut their postponable non-payroll expenditures (outlays for replacements for inventories and equipment and for various contractual services) to a minimum. In short, the widespread adoption of the guaranteed annual wage of the traditional type without the accumulation of reserves and without limiting the employer's liability to the amount of his accumulated reserve plus a small additional amount would not stabilize employment.

Which is preferable -- the traditional type modified by reserve funds and limited liability, or the supplementary unemployment compensation proposed by the unions? The answer depends on the nature of the industry. For relatively non-cyclical industries in which employers have considerable control over the volume of employment, the modified traditional plan seems preferable for the prosperous concerns. This plan would be more effective in sustaining personal incomes well into the recession -- in fact, in the prosperous firms in such industries the reserves might not be exhausted even late in an extended recession. For weak firms in such industries, the supplementary unemployment compensation proposed by unions would be preferable. For cyclical industries in which the employer's control over the volume of employment is quite limited and in which recessions are likely to produce extended periods of cyclical unemployment, supplementary unemployment compensation of the sort now proposed by unions would be preferable. It would interfere less with the movement of labor out of the industries and it would be more likely than the traditional kind of guaranteed annual wage to give workers in cyclical industries some income right through the recession.

Would some form of guaranteed annual employment or wage or supplements to unemployment compensation such as the traditional guarantee plans modified by the addition of reserves and limits on liability, or plans of the general sort now proposed by some unions be good for the community? I think that the answer is "Yes". Either arrangement would be a useful form of built-in stabilization. But it should be borned in mind that the building up of reserves should be provided for and the liability employers should be limited. Otherwise, the plans would do more harm than good. And unless the guaranteed annual wage plans or supplementary unemployment were widely adopted, their stabilizing influence would not be great. Even the extension of such plans to 10 million employees (more than all of the employees in the steel industry, the automobile industry, the electrical products industry, and the meat packing industry would have only a moderate effect upon the size of personal incomes in periods of recession and upon the ratio of saving to incomes during booms.

The principal objection to the union proposals for supplementary unemployment compensation is that it makes quite uneven provision for unemployment. The supplementary unemployment compensation is not available to unorganized workers. 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.

Far preferable to a spotty extension of supplementary unemployment would be a broad liberalization of the state unemployment compensation schemes. But the unions are performing an important public service in calling attention to the great need for substantially liberalizing the present unemployment compensation schemes. And until employers make an effort to persuade legislatures to liberalize unemployment compensation schemes, they are not in a good position to oppose the efforts of the unions to accomplish the same results by collective bargaining.

United Steelworkers of America

GUARANTEED ANNUAL WAGE PLAN

As Submitted To Aluminum Company of America*

. . . . . .

First, the focal point of the plan was our proposal that the company should guarantee to every employee with three or more years of service a minimum weekly pay equal to 30 times his standard hourly rate(incentive earnings not included) for each week of layoff (or termination) for a maximum of 52 weeks. The union also made certain proposals to Alcoa under which such employee, by working a certain number of hours, might be requalified under the guarantee after 52 weeks.

Second--and this is an important factor--in the Steelworkers' proposal the weekly guaranteed lay-off payment was to be geared to the federal-state unemployment compensation system, just as at present our pension program is tied in with federal old-age retirement benefits.

Third, the union proposed that the company should pay into a trust fund, set up for the GAW, 10 cents per hour for each hour worked by each employee in the bargaining unit. Liability of the companies would be limited to this cents-per-hour contribution. Only such guarantees as it will provide were proposed.

These three provisions formed the heart of the Steelworkers' GAW program as it was presented to Alcoa. Let's examine each of them more fully and--as we do so--answer some of the typical objections that some management spokesmen have made against the plan.

. . . . . .

A typical . . . objection to the GAW goes something like this: "Why, that's nothing but pay for not working! People are so lazy that they'll just sit down, do nothing, and collect their guaranteed wage!"

Well, aside from the fact that most people would rather work and make their own way than do nothing, there are further good answers to this "objection." The chief one, of course, is that under the union proposal the laid-off worker does not receive his full on-the-job income, but what would amount to somewhere between 60 and 70 per cent of his normal earnings.

Further insurance against the GAW being used as "pay for not working" is the proposed contract stipulation that an employee may be disqualified from receiving his lay-off pay if he does not register with a public employment office or if he refuses to accept suitable employment, when and if offered.

. . .

In short, the Steelworkers' approach to the GAW is not at all the silly notion of "pay for not working," but the opposite and highly important goal of regular work at good rates of pay--in other words, full, year-round employment and stable prosperity.

This was put quite clearly by USA research director Brubaker in an article in the "Labor Law Journal" for June, 1953:

"First and foremost, organized labor is seeking the goal of full-time employment all the year round. Work is sought--not idleness. There is no attempt being made to increase paid leisure time by means of guaranteed wage plans. In fact, the reverse is true. It is the firm expectation that the achievement of meaningful wage guarantees in a substantial part of our economy and will result in more work opportunities and less idle time than could otherwise be anticipated. . . ."

Thus, the Steelworkers' concept of the GAW and its value to industrial workers and the national well-being is that it should serve as a counter-force against any downward spiral in the economy.

. . . . . .

Now, while this is not to claim that the GAW alone is a sure-fire preventive of an economic depression, it is to state the conviction that a guaranteed wage program, if widespread in American industry, would sustain the flow of purchasing power to help keep the business cash registers ringing and the wheels of industry turning.

This--which is really only the provision of more adequate unemployment compensation benefits--along with government-sponsored public works and similar measures, would be a strong antidote to depression. This belief in the GAW as insurance against depression is not limited to organized labor. The eminent Harvard professor of economics. Sumner S. Schlichter--who certainly has no pro-labor bias--has written that if the unions can negotiate wage guarantees in the form of "supplemental unemployment compensation," for even as few as 10,000,000 workers, it will be an important contribution toward preventing depression.

Furthermore, Mr. Schlichter stated that most employers could guarantee an annual wage to a very large proportion of their working force in the form urged by the Steelworkers; that is, through payment of supplemental unemployment compensation out of funds accumulated in good years.

And this brings us to the second-named factor in the Steelworkers' proposals for the GAW--one that provides a sound answer to another typical objection, which is the cry of management that they "can't afford it."

For it is to forestall this objection, and to face realistically the fact that "money makes the mare go," that the Steelworkers propose that the wage guarantee made by the company shall be geared into the existing unemployment compensation system.

What this means, in practice, is that the company would only have to put enough money into the GAW trust fund so that the fund could make up the difference in weekly benefits between what the laid-off worker receives as state-federal unemployment compensation and what he is guaranteed under the plan.

On this point, some of the critics of the Steelworkers' GAW plan have said that it is not so much a guaranteed wage as a supplement to unemployment compensation. Names mean little; the result of the plan, much. The supplemental nature of the union's proposal is designed to give an answer to the "objection" of cost in two ways:

1--It makes use of the existing unemployment compensation system to keep within reasonable limits the amount of benefits which must be provided from the GAW fund;

2--It leaves open the possibility that the amounts paid out of the fund--and, therefore, the cost to the company of maintaining such a fund--can be reduced even further as improvements are made in federal-state unemployment compensation.

. . . . . .

Another good reason for gearing the GAW payments to unemployment compensation is that the United Steelworkers want to see the benefits of that system preserved and improved, for the protection of all working people.

. . . . . We can expect . . . to see greater support from business for an improved unemployment compensation system--at both the national and state levels--once we establish a GAW program geared to the federal-state benefits.

The third-named proposal in the foundation of the Steelworkers' GAW plan as proposed to Alcoa--10 cents per hour per employee to be paid into the trust fund--also meets the "objection" of cost by providing for a fixed amount to be set aside for the payment of guarantees during layoffs. When the Steelworkers put forth their proposals to the steel industry in 1951-52, Mr. Latimer reported that his studies indicated that something in the neighborhood of seven cents per hour would pay for such a wage guarantee for the steel industry as has been outlined here for the aluminum industry.

. . . . . .

On this matter of the company's per-hour contribution into the GAW trust fund, the union's proposal gives a further answer to the cost question. It provides for a regular annual review of the fund and the outlays from it, with reductions to be made in the company's per-hour contribution if the record shows that such reductions are practicable. In other words, there is a "built-in" incentive to encourage management to schedule its operations so as to provide steadier, year-round employment and thus, by cutting lay-offs to the minimum, save money on the cost of the GAW.

. . . . . .

So the Steelworkers' proposal for the GAW does not demand of industry a "blank check" of unlimited obligations and unknown quantity, but sets the following reasonable bounds as a basis for negotiations: (1) it fixes the amount of the company's contribution on a per-hour basis, with this amount subject to reduction (but not to increase) in relation to the way the plan actually operates; (2) it ties the program in with the unemployment compensation system, and thereby allows for reduction of cost in proportion to improvements in that system; (3) it encourages the company to save on the costs by scheduling operations to give steadier employment; and (4) it sets a maximum time-limit on the obligation to guarantee unemployment benefits for 52 weeks, one year.

All of this is in line with the union's view of the GAW as a support to full-time employment and a stable economy.

. . . . . .

Nowadays many people subscribe to a special kind of insurance that guarantees to pay a man's salary--or a decent percentage of it--whenever he is unable to work because of illness. The GAW is proposed as a similar insurance policy to sustain both the individual and the nation against the stultifying effects of economic illness.

* Abstracted from Steel Labor, Western Edition, Volume XIX, No. 2, February, 1954 Pages 8 and 9.

Industry's View ON

THE GUARANTEED ANNUAL WAGE

The words "guaranteed annual wage" have a strong emotional appeal to employees. They symbolize, to many, a fundamental human desire: economic security. Industrial management fully understands the natural striving of employees for economic security and of course is in complete sympathy with it. But guarantees that purport to assure year-'round wages involve heavy risks and burdens which well might endanger both our potentials for business expansion and prospects for continued high levels of employment. However, industry has not been content merely to reject the guaranteed annual wage as an unsound approach to the common goal of steady work and pay. There is another approach—the widespread, growing campaign for employment stabilization—which industry believes to be a far more realistic way to achieve steady work and pay than negotiated "guarantees."

THE guaranteed annual wage carries with it an illusion of security—an illusion because nobody can foretell future business developments nor how the rigid liability of a guaranteed wage agreement might threaten the very solvency of a business.

The dangers inherent in a guaranteed annual wage largely have been ignored in recent years. This is due to the fact that we have had a "seller's" market—for labor as well as for goods and services. There was a huge increase in the money supply, arising chiefly from federal government deficits during and after the war.

There was enough money in the pockets and bank accounts of the people to support the price increases which were due to successive increases in labor costs. The economy was able, under the existing conditions, to bear the load without serious curtailment of the rate of production.

There are signs that the period in which we could absorb the market-restricting action of higher costs and prices is ending. If so, this would be the very worst time to impose higher costs on production.

Increases in labor costs cannot increase employment, although in a period like that of the recent past they may not appreciably reduce employment. In a period of lessened demand and keener competition, higher labor costs could have very damaging effects on sales, production and employment.

This is not to say that industry does not recognize its responsibility in providing regular employment and pay to the utmost of its ability. And industry has made heartening progress in achieving an increasingly greater degree of steady work and pay in every major industrial classification.

Manufacturers have long realized that business methods which result in stability not only afford the basis for sound and more efficient operation, but make possible the security of job and income which looms so importantly in the mind of every employee.

Toward Steady Work and Pay

With management's concern for job security, and its determination to level out as many fluctuating elements as possible, have come great strides in regularizing sales, production, work and pay. This is often a difficult task, since it depends on a wide variety of factors, both within the company and outside of it. Solutions which are successful in one company may not always be practicable in another. The problems involved in stabilizing employment are unique in each business.

Experience has, however, brought into focus the importance of certain basic methods and techniques for reducing fluctuations in production and employment. Their relative importance, and means of application, timing and emphasis must of course be tailor-made to fit the needs of each company.

The Sales Volume

One of the primary causes of seasonal unemployment stems from the ups and downs in sales volume. Therefore a study of how to stabilize employment logically begins with a survey of the fluctuations in sales, and a thorough exploration of all possible methods by which such swings can be avoided. These include:

1. Analyzing the causes of sales fluctuations.
2. Diversifying the business—through multiple products, improved distribution methods, and market expansion.
3. Developing new products or new markets through research.
4. Balancing sales between markets so that seasonal sales peaks for one may offset seasonal losses for another.
5. Planning introduction of new products at a time when they can be used to bolster a falling sales trend.
6. Introducing new styles to coincide with seasonal loss in sales.
7. "Off-season" selling efforts through sales promotion, advertising, and salesman incentives.
8. Educating customers to buy during the "off-season" or to use the product on a year-round rather than seasonal basis.
9. Providing incentives for "off-season" buying through special discounts, delayed billing, improved service, temporary warehousing for customers.

The Production Curve

Another major cause of irregular work relates to the peaks and valleys in production. It should be possible to stabilize production to at least the same extent as sales, and to a greater extent in certain cases. Some of the methods are:

1. Stockpiling raw materials which can be purchased only on a seasonal basis.
2. Building inventories as a means of leveling out production—using sales estimates, planned production, producing goods for inventory, both parts and finished stock.
3. Subcontracting production during seasonal peaks.
4. Using air conditioning or refrigeration to overcome production difficulties arising from varying atmospheric conditions which would normally contribute to fluctuations in production.

Personnel Techniques

The primary and direct causes of instability in employment are sales and production, respectively. To the extent that fluctuations in production cannot be avoided, what can be done to soften their impact on employees? Successful techniques include:

1. Centralized control of hiring, transfers, promotions and discharges.
2. Flexible work schedules.
3. Interchangeable use of production personnel for plant maintenance and repairs.
4. Planned vacations.
5. Diversification of skills of workers.
6. Plant versus departmental seniority.
7. Flexible overtime rules for averaging work hours.
8. Community interplant cooperation.
9. Controlled hiring.
10. Planned introduction of technological improvements.
11. Encouragement of outside seasonal work such as farming.

Benefits Impressive

The benefits which flow from stabilized production are impressive, and steady operation brings production economies, making possible savings in purchases and in plant investment. Profits are not consumed by overhead expense on idle plant and equipment. Turnover among employees is markedly reduced—and the feeling of security which employees enjoy prompts them to cooperate with, rather than to resist, new methods for increasing productivity.

Informing Employees

An important part of any employment stabilization program is a thorough employee communications project, to let employees know exactly what is involved, and in what ways they can cooperate. Without frank and full information about the methods and techniques to be adopted in the plant in order to regularize employment, there is bound to be uncertainty and resentment on the part of employees when new practices are instituted.

It is true, for example, that an employment stabilization program may bring changes in job requirements, seniority rules, transfer policies and training programs—and in general, employees do not like change.

Thus employee cooperation must be cultivated, by keeping employees informed about management's sincere concern for steady employment, and about the practical efforts being made to that end. Employees need to understand the benefits that will result from a successful stabilization program.

Also, employees should know of the obstacles to be overcome, and be reassured that no one will lose his job because of the stabilization activities.

Where employees are fully informed of the plan, they become actively interested. Their uncertainties and apprehensions vanish or dwindle. Moreover, they tend to identify themselves more closely with the company, to recognize the mutuality of interest, and cooperate more effectively in the achievement of the common goal of greater job security.

The Guaranteed Wage Debate

• It is argued by proponents of a guaranteed annual wage that workers, assured of steady income, would use the purchasing power on which industry and the community rely.

But wage guarantees for a fraction of the nation's employees would in themselves contribute little to over-all purchasing power—and by itself, consumer purchasing power is not sufficient to sustain production. Production depends also on purchases of capital equipment and durable goods. Such purchases are postponable, and often depend on the optimism or pessimism of industry.

Industry is not likely to be optimistic if it is saddled with a wage guarantee in a declining market. And even with a wage guarantee, a family head is not likely to be optimistic about long-term commitments for consumer-durable goods when he is laid off. Sustained production depends on many factors, some of which are outside the orbit of management.

• Since a company has such fixed costs as interest, preferred dividends, staff salaries and depreciations, why should it not plan to pay wage earners by the year, as an annual cost?

Interest, dividends and depreciation are relatively minor costs that safely can be provided for in advance. Large fixed costs contribute to the instability of a business. Introducing the rigidity of financial liability for the guarantee into production costs might make jobs less, not more, secure.

Popular Fallacy

• Guarantee advocates say that by thrusting the cost of unemployment on employers, a guarantee will provide employers with an incentive to regularize employment.

The major fallacy, in the first place, is the false assumption that unemployment compensation is a "government bounty." Every dollar of unemployment benefits paid to employees comes out of the employer's till. Therefore, if the company is burdened with the further and even more far-reaching financial liability of a guarantee, it may well avoid further investment and job-producing expansion.

• It is said that an annual wage guarantee will reduce labor turnover and training costs.

True, the tendency of a guarantee is to reduce labor turnover. But when each new hiring represents a long-term financial commitment, a company will hold its employee force to the minimum. Thus newcomers who would be employed under normal operation of a free enterprise economy would be deprived of employment opportunities.

From a national viewpoint, some employee turnover may be beneficial when it moves workers from a declining company, industry or area to one that is growing. A guarantee may retard such a healthy trend and impair the flexibility of an expanding economy.

• It is argued that a guarantee will make workers more efficient; that they will not indulge in make-work practices, nor in slowdowns, and will not oppose technological improvements in fear of losing their jobs.

These suppositions do not take realistic account of human behavior. Assurance of income may just as readily make employees lax, and steadiness of pay may not preclude dissatisfaction with other factors in the job.

• Guarantee advocates point out that hourly-paid employees are subject to the hardships of being laid off on short notice.

A guarantee may delay the hardship of a layoff, but if it weakens the financial structure of a company it can do more harm to employees in the long run. The danger of insolvency is real, in a declining market or industry. The only satisfactory answer to the problem of layoffs is stabilized or expanding employment in a free and flexible economy.

Implications to a Free Economy

Labor leaders recently have been expressing some doubts as to the nation's ability to maintain a high level of employment. Whether the present business outlook justifies these doubts, it is natural that labor should be continually concerned with this problem. A business man must always reckon with the possibility of a falling-off of demand for his product—and if he is wise, plans measures to maintain and possibly expand his market. It must be expected that labor likewise will seek means for maintaining the market for its services.

But at that point the parallel ends. Most of the measures proposed by union leaders to maintain high employment—including the guaranteed wage—tend to restrict rather than to expand the market for labor's services.

No business man, facing a decline in demand for his product, would meet the problem by raising his prices —nor would he exact new obligations from his customers. He would try to make his product cheaper and easier to buy, in every way possible.

But certain labor proposals would have the effect of making the services of labor more expensive—especially the guaranteed wage proposal. The guarantee would impose a new labor cost on the employer and require him to assume a new element of risk when he hired employees.

Thus the guarantee might restrict the market for labor and hence increase unemployment.

Purchasing Power

If "purchasing power" is taken to mean the rate of income flow, then the belief that the purchasing power concept holds the key to economic stability rests on a fallacy. The fallacy involves failure to recognize the fact that income flows are simply the other side of market purchases of goods and services.

When a product is sold, at its final state, for $1.00, then precisely $1.00 of income has been created in all the prior stages. This results from the simple fact that if wages, interest, rents and the other forms of income flow which are accounted for as costs amount to $.80, then profits amount to $.20. Since profit is another form of income flow, the total of all forms of income flow must be $1.00.

Thus the total of all income flows is identical with the total value of all goods sold. This is true whether the economy is at full employment or at only half of full employment.

An increase in wage costs—even assuming it did not reduce the rate of production in the economy—would inevitably have one of two effects: either prices would increase (leaving the real purchasing power of wages where it was before) or profits would be reduced (leaving the total of all forms of income flow unchanged). In either case there is no net surplus of new income coming on the market to increase the demand for goods.

Impact of a Guarantee

If a guaranteed annual wage were to become widely fixed in our economy, its impact would be felt not only by employees and employers, but to a great degree by the consuming public and by the economy as a whole.

The employee would be apt to lose his individual flexibility; the temptation to remain in a job where pay or work was "guaranteed" would dissuade people from taking better jobs elsewhere. Fewer jobs would be available if employers had to consider annual wage commitments whenever they wanted to hire.

The employer committed to a wage guarantee would be hesitant about taking the risks which are essential to business growth. Paying employees when not working would decrease total volume of production and increase unit cost of production. Companies could be forced out of business by the existence of a guarantee, through jeopardy to the financial soundness of the enterprise. Nothing which subtracts from the security of the company can add to the security of its employees.

As for the consumer, all the costs of the guarantee would filter down to him. Imposition of higher labor costs for work not performed would exert upward pressure on prices. The so-called security and purchasing power guaranteed to the small but powerfully-organized group of union members would be achieved at the expense of other groups.

A guaranteed wage would have adverse effects on the national welfare and economy as a whole.

Venture capital—already far below a satisfactory level—would be even further discouraged, to the detriment of business expansion and job opportunities. New businesses would probably decline with the loss of incentive, on the part of those whose wages were guaranteed, to go into business on their own—especially if they had to guarantee wages to their employees.

Rigid cost structures would restrict the freedom, incentive and initiative so essential to a dynamic, expanding economy.

Some Inescapable Conclusions

Our industrial history shows that a steady or upward trend in jobs and wages is encouraged by the application of all possible efficiency and ingenuity to increasing productivity, so that more and better goods are available at lower prices.

The demand for a guaranteed annual wage has a strong emotional appeal to employees and the public. Unfortunately, neither employees nor the public in general understands the far-reaching implications involved. Management has the responsibility of giving employees and the community a far better understanding than they now have of the problems and the economic risks of a guarantee.

In certain industries where guarantees might be more feasible than in others, due to continuous demand or stabilized employment, guarantees are not needed. In companies subject to cyclical declines they are not feasible, since no one can foretell future business developments.

Should guaranteed wage plans take root, even in a few basic industries, their effect will permeate the entire economy. The costs involved in a guarantee will add to the price which the consumer must pay. It has long ago been demonstrated that lower prices tend to expand markets while higher prices shrink them.

A guarantee faces a roadblock in that the flexibility required to make such a plan work within a company might upset internal relationships to such a degree that it might not be acceptable to either management or labor. Yet without flexibility the plan could not work at all.

If tied in to the present State Unemployment Compensation Program, a guarantee would threaten the present standard of safeguards written into the state system, such as standards of eligibility and willingness to accept other work. Furthermore, the employer would be paying not only for the benefits paid out by the state, but also for the supplemental amounts required under the guarantee. These additional layoff benefit costs would quickly find their way into consumer prices.

A Common Motivation

It is evident that the guaranteed annual wage proposal and the continuing voluntary efforts of industry to provide greater employee security have a common motivation: a search for avenues which will bring a more stable level of work and pay.

The goal of steady work and pay calls for the highest degree of management resourcefulness and determination. Management must show not only the will to achieve steady work and pay, but a record of real progress—if it is to have the support of employees and the community.

In the objective of stabilized employment, labor organizations have the responsibility to help maintain and strengthen the competitive enterprise system through support of an industrial climate which will permit the nation to deliver to the next generation the same dynamic, free-market mechanism which has performed so spectacularly.

The outcome of the debate on the guaranteed annual wage will directly affect the functioning of our economy—and therefore may well affect the life of every American.

MONETARY POLICY AND ECONOMIC STABILITY

Frank L. Kidner

This discussion is designed to show the ways in which variation in national monetary policy affect the total level of output and of income and affect the stability of employment and of income. We shall discuss the major questions which relate to monetary policy to the attitudes of the business community, to the powers of the monetary authority, to the fiscal policies of the federal government, and to the growing importance of problems respecting the management of the public debt.

1. BANK CREDIT--EFFECTS AND CONTROLS

The first workshop will be devoted to a consideration of monetary policy and the banking system. In this connection we will discuss the ways in which the business community through its use of bank credit and the banks through the extension of bank credit substantially affect the quantity of money in the economy. We will consider thereafter the consequences of changes in the quantity of money produced by changes in the volume of bank credit, and we will consider in detail the means by which the monetary authorities, that is the Federal Reserve System, may undertake to control within limits the changes in the supply of money.

2. GOVERNMENT TAXING, BORROWING, AND SPENDING POLICIES

In Workshop No. 2 we will be concerned primarily with the relation between the fiscal policy of the federal government and the objectives of monetary policy. By the term fiscal policy we refer to that whole range of problems having to do with the relationship between the revenues of the federal government and the expenditures of the federal government; the means by which deficits are financed; and the means by which surpluses can be employed to reduce the public debt. In each of these several cases, we will be concerned with the impact of varying kinds of fiscal policy upon the quantity of money, and upon the need to coordinate fiscal policy with monetary policy in the interest of economic stability.

3. MANAGEMENT OF THE PUBLIC DEBT

In Workshop No. 3 we will be concerned with problems having to do with the management of the public debt. Even if over a considerable period the public debt were neither to increase nor to decrease the problems of management which the constantly maturing bond issues present is an important one. Here we will be concerned with the impact of policies respecting the management of the public debt upon the fiscal policies of the government and upon the policies of the monetary authorities, and again we will be concerned essentially with problems of economic stability.

MONETARY POLICY AND ECONOMIC STABILITY

Recommended Readings

1. The Federal Reserve System: Its Purposes and Functions (available from the Board of Governors, Federal Reserve System, Washington, D.C.)

2. Joint Committee on the Economic Report, United States Congress, Monetary Policy and the Management of the Public Debt (Government Printing Office, Washington, D.C., 1952)

3. Recent issues of the Federal Reserve Bulletin, the Survey of Current Business, and Business Week.

4. Bowman and Bach, Economic Analysis and Public Policy, Chapters 9, 10 and 11.

5. Harriss, The American Economy, Chapters 14 and 43.

6. Steiner and Shapiro, Money and Banking, Chapters 6, 12, 13, 14, 15, 24-26.

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Employment Stabilization

INDUSTRY'S PROGRESS TOWARD STEADY WORK AND STEADY PAY

AN EXAMINATION
Of Management's Problems in Providing Regular Work and Pay;

Of Workable Methods and Techniques for the Reduction of Fluctuations in Employment;

Of Successful Experience in Making Steady Employment Possible

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Industrial Relations Division, National Association of Manufacturers
14 West 49th St., New York 20, N. Y.

EMPLOYMENT STABILIZATION

Industry's Progress Toward Steady Work and Steady Pay

Industrial management has long had as a primary objective, a high level of regular employment and regular pay for the men and women in its plants and offices.

In fact, industry was the first to recognize and consciously strive to level out fluctuations so that the benefits of regular employment would bring --

To employees: steady work and steady pay; a high degree of job security; greater employee satisfaction; a growing spirit of cooperation and teamwork

To employers: better employee relations; lower employee turnover; reduced operating cost; more efficient production

To the public: more and better goods at lower prices

In the pursuit of this goal, the NAM, as long ago as 1936, got under way with a program of practical suggestions to employers showing how to modify factors within management control which traditionally were thought to stand in the way of steady employment. Over the years, manufacturing industry has reduced - and in many cases - eliminated causes of temporary layoffs.

While industry has made substantial progress toward regular work and pay for employees, there are serious problems beyond management's control which retard progress toward stability and employment:

1. Major business cycles are influenced by government policy, international relations and many other factors and therefore, are beyond the ability of the individual employer to modify.

2. Even such factors as seasonal and style variations present formidable problems to those industries which normally have to cope with the changing demands and customs of the buying public. But these are the very industries where employees show the greatest concern about the security of their jobs and their wages.

3. Employment guarantees have been tried on a limited scale, but there has been little understanding that such arrangements have a far reaching impact on the public. No company can long afford to pay for work that is not performed without --

    .... endangering the financial soundness of the enterprise
    .... limiting the employer's willingness to take the risks which are an integral part of business growth
    .... contributing to inflation through wage maintenance in the face of lowered output
    .... reducing employees' incentive to produce

From 1946 to 1950, NAM engaged in a major campaign which urged employers across the nation to study past sales, production and employment records, as a basis for improving employment stability. State and local employer associations co-operated in the more than 400 "clinics" which were held. Joseph L. Snider in his "Guarantee of Work and Wages"* characterizes this effort as "the most significant current action by businessmen with regard to the stabilization of business and employment".

One of the results of this campaign was the publication of a study examining the problems and techniques of stabilization - a study which clearly demonstrated that industry's will to surmount the costly losses of irregular work had already resulted in solid achievements.

This study - reprinted in the light of revived attention to the problem - is offered as a contribution to greater understanding of this important and complex field, and as a stimulant to ever-greater leadership and action to achieve better employee relations and public confidence, but as a matter of sound business policy.

Leo Teplow, Associate Director
Industrial Relations Division

* Harvard Graduate School of Business Administration, Boston 1947, p. 119

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CHAPTER I

THE SEARCH FOR SECURITY

The American people have been faced, especially during the past 15 years, with a timeless paradox: How to attain security and still maintain and promote the incentives inherent in a competitive system.

The achievement by industry in America of creating the highest standard of living in the history of the world could not have been accomplished under a system of regimentation and a governmentally dictated economy. It is directly traceable to individual enterprise in a highly competitive economy. It is the result of the courage, ingenuity and initiative of industrial leaders in engineering, finance, commerce and management, frequently working for survival against heavy competitive odds. It springs from the dynamic combination of free management and free labor.

But our high degree of industrialization necessarily results in large numbers of people whose security depends in considerable measure upon the strength, stability and continuity of production of the companies in which they are employed. Many companies, similarly, are dependent upon larger companies which purchase most or all of their products. Even the largest corporations are subject to the vagaries of consumer choice, as well as fluctuations of the nationwide or world-wide business cycle.

No Security Without Production

Real security depends upon a maximum production of goods and services; and such production in turn, depends upon the vitality of the business system and the companies which furnish a livelihood for the great mass of people. Whatever threatens the strength of the economy or of a company threatens the security of employees.

Employee need for regular work is recognized by many company employment policies, in some cases embodied in union-management contracts, which recognize seniority (as well as ability, skill and other factors) when layoffs become necessary because of technological changes or lack of business.

Other "security" movements rising out of the depths of the great depression, have developed in recent years, typified by government social programs for old-age pensions and unemployment compensation.

Demands by Organized Labor

A further indication of the growing desire for individual security was the demand by the United Steel Workers, CIO, upon the basic steel industry for a guaranteed annual wage, made in a dispute case before the National War Labor Board in 1944. Consequently the President designated the Advisory Committee of the Office of War Mobilization and Reconversion to survey "the whole question of guaranteed wage plans and the possibility of their future development in American industries as an aid in the stabilization of employment and the regularization of production." Thus, the Guaranteed Annual Wage was launched as a goal for labor unions to seek.

Since the end of the war, other matters such as wage rates and weekly earnings have overshadowed the annual wage as a union platform plank. But attention is turning again to the Guaranteed Annual Wage as indicated by the action of the 1947 CIO convention in Boston. This convention included the following statement among its resolutions -- "the CIO recognizes that if it is to truly serve its members, it must conduct a vigorous collective bargaining program to bring to its members a coordinated program of security and economic benefits. Increasing real wages, shortening of weekly work hours with no cut in take-home pay, security of the worker in his old age, the guaranteed minimum annual wage, adequate sick benefit plans, hospitalization programs and pension plans are all within the scope of collective bargaining."*

Similarly, the American Federation of Labor, meeting in convention in San Francisco in 1947 declared that it is "unalterably committed to the goal and objective of the establishment of a comprehensive program of social security." Their program covers old age and survivors' insurance, health insurance, unemployment insurance and public assistance "revised and extended in view of the needs of those who work for their livelihood and in a manner consistent with the resources of the wealthiest and most powerful nation on earth."**

Employers are faced with a serious situation. On the one hand, they must have flexibility in order to survive in an individual competitive economy. On the other hand, they are faced with urgent demands by large groups of employees, encouraged by the government, for guarantees of wage payments. Such guarantees would impair freedom of action and thus, in many cases, would destroy the very jobs which were to be safeguarded. The problem is to retain the necessary freedom of action to meet economic and competitive factors and at the same time furnish regular employment and steady pay to employees.

"Guarantee" No Answer

The guaranteed annual wage does not supply the answer to this problem. Reports by Murray Latimer of the Advisory Committee to the O.W.M.R., Professor Joseph L. Snider of Harvard University, A.D.H.Kaplan of Brookings Institution, and others, are filled with cautions about instituting guarantee plans in the absence of stabilized productive employment. Nevertheless, the Latimer Study is used by the CIO to bolster its annual wage program. It is fairly obvious that the current campaign for employee security by means of guaranteed wages is a political misuse of an appealing but misleading slogan. Guarantees are no better than the guarantor. (See Chapter V for a more complete discussion of these studies.)

Most impartial students of the guaranteed annual wage agree that no such guarantee should be made if it would impair the financial strength and stability of the employing company. This means that such guarantees are not feasible or practical, since no company can foresee its future with accuracy. For example, the withholding of stock by farmers during the last days of the O.P.A. resulted in a shutdown of George Hormel and Company (meat packers) while, under their plan, the payment of wages without productive employment continued. The shutdown was not and could not have been anticipated. Similarly, the 60-day shutdown of the

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* CIO Convention Resolution as reported in the Daily Report on Labor-Management Problems, Oct. 15, 1947, Bureau of National Affairs, Washington, D. C.
**AFL Weekly News Service, October 21, 1947.

distilling industry at the request of the government in order to save grain could not have been predicted far in advance. The fact that the distilling industry will survive or that Hormel continues to operate does not offset the argument that guarantees are dangerous.

Hazards of Guarantees

Not only can guarantees result in serious financial hazards for individual employers, they may decrease employees' incentives to produce in the same manner that hourly rates of pay yield a lower productivity than do incentive systems. Full pay for not working decreases total volume of production which is the only basis for stable employment. At the same time, it increases unit cost of production which means higher prices. The practice of pay for no work is bound to discourage some people from looking for available job openings.

Most guarantee plans recognize their inherent risk by providing that they are subject to termination or withdrawal, either at the option of the employer or when business conditions indicate that they cannot be carried out. In short, the Guaranteed Annual Wage is no guarantee. It is a high sounding slogan which ignores the basic factors of competition essential flexibility of operations, and individual productivity in the creation of wealth and security.

Regular Jobs Provide Steady Pay

Employers, however, cannot minimize the problem of greater job security for employees by denying the validity of the guaranteed annual wage concept. Steady jobs and steady pay are a very real need of American employees. Failure by employers to give regular full-time work to the men and women of America under the individual enterprise system may mean that government imposed "security," with complete control and regimentation of industry, stagnating as that is, will result. While industry has made much progress toward that goal, much yet remains to be done and employers as a whole must tackle the problem with renewed vigor and management ingenuity. Not to do so is to lose by default.

There appears to be one sound basis for the solution to the problem of employee job security -- employment stabilization, based on regularized production and sound purchasing, merchandising and research programs. This is a realistic and practical approach which is consistent with individual competitive enterprise. In fact, there are few steps that employers can take which would bolster our economic system to a greater degree that to develop and institute sound, practical programs to stabilize employment throughout industry.

Industry has been acutely aware of the desirability of steady sales, steady production, steady pay and steady work. And giant strides have been taken by many companies in the direction of employment stabilization -- much more than is generally known by the public.

Many companies which would normally be characterized by seasonality now offer steady work and steady pay, not because at some particular time they instituted a formal stabilization program but because they found long ago that good business methods naturally include methods of sales, production and employment, which result in stability. The position taken by the NAM on tnis subject in 1938 and repeated with emphasis in 1946 is a straight-forward statement of the thinking of American manufacturers.

NAM Advocates Stable Employment

In 1938 the Employment Relations Committee of the NAM spoke as follows: "We feel that the whole problem of stabilizing production is one of great importance. For various reasons, individual companies may not be able to adopt plans guaranteeing employment. We, however, would urge all employers to give careful consideration to this and any other methods of reducing fluctuations in production which have been successfully applied by many companies."

The NAM published a report of its investigations entitled "Employment Regularization", in 1940.

With the termination of the war and the beginning of peacetime production, the NAM again tackled this problem. In fact, the Industrial Relations Program Committee of the NAM made Employment Stabilization its No. 1 project for 1946-1947. That committee adopted a resolution --

> "that the NAM stimulate management to give more aggressive attention to ways and means of stabilizing employment as the soundest approach to steady work and steady pay."

And on December 3, 1946, the 51st Annual Congress of American Industry adopted a resolution as part of its policy statement on labor-management relations which reads as follows:

> "To develop sound and friendly relations with employees, to minimize the number and extent of industrial disputes, and to assure more and better goods at lower prices to more people, American employers should see that their policies encourage employment that is stabilized to as great a degree as possible, through intelligent direction of all the factors that are under management's control."

The NAM Employment Stabilization Program

The NAM program was designed primarily to arouse employers to act on the basis of their own problems and operations. Since a program of stabilizing employment must be designed to fit the particular circumstances of each company, no attempt was made by the NAM to supply ready-made plans or programs. Techniques which many different companies have used were collected and brought to the attention of interested companies, and the most common obstacles and methods of approach were outlined.

The basic method used by the NAM, where such work has not already been undertaken by employer organizations, is to interest local, state and industry associations, affiliated with the National Industrial Council, to initiate employment stabilization programs covering the association, area, or industry. The program may be spearheaded by arranging a pilot clinic at which small groups of employers meet to discuss the problem in general and where they are encouraged to exchange information with each other. Such initial clinics usually result in the creation of a committee to carry on a permanent employment stabilization campaign. This program has been extended by local, state and industry employers associations throughout the country.

Good Business Practice

The clinics which have been held to date testify to the fact that great progress has been made by many companies and communities in stabilizing employment. A number of companies have achieved a high degree of stability without the establishment of a "formal" stabilization program -- by the development of good merchandising, purchasing and production policies. Others have assigned the responsibility for regularizing production and employment to top executive personnel.

Much yet remains to be done, however. Only relatively few of the many and varied techniques now in use in industry have been uncovered and publicized. The smaller employers of the country appear to have a tremendous storehouse of ingenious ways to stabilize employment. These techniques cannot be discovered through the use of questionnaires or occasional conferences. They generally are found only after careful investigation of the business methods used by the small employer, frequently without realization on his part that he is doing anything unusual or new. In response to questions, many moderate and smaller employers say: "Why, it's only good business to level out production because it gives the men steady work and pay, and cuts overhead."

The small clinic meeting is one method whereby such stabilizing techniques can be brought into the open and thereby called to the attention of other employers. Since many such techniques are specifically adapted to local community conditions, the best type of clinic is the meeting together of employers who do business in the same community.

For this reason, clinics which local employers associations are holding can be expected to continue to yield a great amount of valuable information.

CHAPTER II

SOME ADVANTAGES AND SOME PROBLEMS IN STABILIZING EMPLOYMENT

There are many compelling reasons why management should continue, despite numerous obstacles, to exert all possible effort in the direction of regularizing employment. The most important reasons that industry conferences point up appear to be:

1. To satisfy employees' desire for security;

2. To reduce unit costs in manufacturing;

3. To convince the American public, if not the world at large, that American management, operating under the free enterprise system can achieve greater real security than is possible by superimposed authoritarian programs.

Greater Job Stability

The foremost desire of American workers is for job security. The tragic depression years are remembered and feared. Predictions of general unemployment and economic catastrophe have intensified the feeling of insecurity which plagues many employees.

Regardless of the validity of such fears, if employers do nothing to reassure their employees, labor-management relations may be worsened and productive efficiency reduced, whereas increased efficiency is needed. The spiraling wage-price situation contributes to the fear of an impending smash-up.

At such times people are ready to accept slogans which promise security, without weighing the costs. That is the situation today, and that is one compelling reason why employers everywhere should continue to do everything possible to provide steadier jobs and steadier pay.

Failing that, they should inform their employees about their plans and about the obstacles which make complete success impossible of attainment at the present time. Management, however, should continue to tackle those obstacles with relentless determination and the same resourcefulness it has used to overcome problems in the past, until reasonable solutions are found.

Increased Productive Efficiency

Stabilized productive employment is beneficial not only to employees. It is of great value to the public, to employers and to the economy at large.

When production is continuous, unit costs are reduced. That is the same as increased productivity. Busy machines and useful labor create wealth. Idle machines and idle labor are wasteful.

The overhead costs of idleness must be absorbed by the income received when factories are busy. This is so elementary that it needs no further elaboration. Nevertheless, it is a fact which seems to be overlooked by some proponents of government imposed "security".

It is a fact that has spurred many managements to seek ways and means of stabilizing their production and employment. It is a fact which should impel every employer to do everything possible to make certain that his operations are as continuous as they can be. After all, if it is profitable to engage in business for nine months a year it should be more profitable to engage in business for all twelve months.

Not only is it more profitable to do so, but, because of the increased productivity and correspondingly lower unit costs, it is beneficial to the public because then prices can be lower and wages can be higher than would be possible otherwise.

It is reasonable to anticipate, furthermore, that as manufacturers of consumer goods, for example, improve their productive stability, their raw material suppliers will be better able to schedule year-round operations in their plants. Thus, employment stabilization should gradually spread over ever wider segments of each industry.

When that happens, the over-all business cycle itself may be affected favorably, thus reducing the violent peaks and valleys in the general business curve of the nation.

Since first things should come first, individual management must be concerned primarily with seasonal factors rather than with the business cycle. There are many things an employer can do about modifying the effect of seasonal factors and very little he can do with respect to the general business cycle. At least there is nothing direct that the individual, average employer can do to prevent changes in the long-term curve of business activity.

He can, however, control some, if not all, of the factors which cause short-term layoffs and temporary plant shutdowns. By concentrating his attention on such things he will be contributing to a more stable economy, a more peaceful labor force, and a more satisfied consuming public. He also will be contributing to a higher living standard for the nation. That is the challenge which employers face today.

<u>Unemployment Compensation Tax Rates Are Lowered</u>

Successful employment stabilization programs reduce tax costs in those states which have merit rating tax provisions in the Unemployment Compensation laws. This has been clearly shown in the reports of cooperating companies in clinics on employment stabilization.

For example, a company with a payroll of $1,000,000 per year (excluding amounts in excess of $3,000 per year) pays a tax (U.C.) in most States, of $30,000 (2.7% to the State and 0.3% to the Federal Government). By stabilizing employment to an extent sufficient to obtain a tax reduction of 2%, such a company would save $20,000 in taxes. In Wisconsin, where a zero tax rate is attainable, a saving of $27,000 per year is possible on a million dollar payroll. Actually, tax savings amounting to as much as $10,000,000 annually have been reported by participants in NAM-NIC clinics.

<u>The Wisconsin Plan</u>

Most of the states now have some form of unemployment compensation experience rating. Wisconsin, the pioneer in unemployment compensation, for example, has built up an enviable record in this field. In 1940 over 1800 Wisconsin employers participated in a steady job study to interchange their techniques to provide Wisconsin employees with maximum job security. That state may well boast that 85% of the employers through stabilizing employment have qualified for the zero tax rating which has meant countless savings to its industries.

States that have no merit rating plan, or plans with a 1% minimum rate are placing their employers at a competitive disadvantage by adding this expense to labor costs.

Wisconsin's system of sending a carbon copy of each employee benefit check to the employer on the date it is paid makes every Wisconsin employer conscious of the fact that every dollar paid on unemployment compensation benefits comes directly out of the employer's pocket. In the other states where this same practice has been followed, it has made management more alert to the advantages and savings that come from stable employment.

Most of the states are far behind in their benefit charges against the employers. As a result, many invalid and even fraudulent claims are paid before employers know about them.

Some states provide the employer with only the Social Security numbers of the claimants. A check of these often reveals the listing of Social Security numbers of employees never employed by the company charged or Social Security numbers never issued by the Social Security Board.

Employers find their unemployment compensation system is only as strong as they themselves make it. Some employers have recently been awakened to the need for "policing" their unemployment compensation laws upon discovering frauds and poor administration of the laws. This happened recently in Michigan. The need for more restrictive disqualification provisions to eliminate unjustifiable raids upon unemployment compensation funds is desperately needed in almost every state in the Union. Benefits paid out because employees have been discharged for personal reasons -- drunkenness, misconduct, etc. -- means employers have to contribute additional finances to make up for these unjustifiable withdrawals.

Employers who realize that they can save taxes by avoiding short-term layoffs often seem to find ways and means of doing so, as indicated by the success of Wisconsin employers. But savings of other kinds are much greater when management is successful in replacing irregular production with stabilized production and employment. It can be confidently expected that, when employers fully realize the benefits of stabilized employment to them, as well as to their employees and the public, they will find or devise techniques which will bring them ever closer to the desired results.

Stabilized Employment Benefits the Public

There is some evidence that the American public is attracted by the guaranteed annual wage concept. This is natural enough in view of the organized propaganda campaigns of labor unions, government sponsorship of research which is expected to pave the way and the interest in the problem of annual wages on the part of economists in our colleges and universities. The public at large may read the titles of academic books, but it rarely reads the books. Nor is it acquainted with the basic economics of wages, unit costs of production and the role of competition on the relationship of prices, profits and losses. Consequently, the public will not be convinced by economic reasons alone that guarantees are not feasible or practical. The public will have to be shown that stabilized employment, based on regularized production, can be achieved and is the only real answer to the need for steady work and steady pay. The public can be shown that stabilized productive employment is of real benefit to all segments of the economy, particularly the public.

The proof of this will be demonstrated when real wages increase because unit costs have permitted lower prices. It will be shown most dramatically when short-term layoffs are reduced to an absolute minimum.

This is the challenge faced by management. Management can and must meet it and prove by accomplished fact that economic security must be earned and cannot be given. When managements have adjusted those factors under their control which currently cause fluctuations in employment, they will have convinced the public of the soundness of the American individual enterprise system because they will have --

1. increased job and income security for their employees

2. decreased unit production costs

3. increased returns for stockholders

4. increased real wage levels

5. benefited the public by raising the standard of living.

<u>There Are Obstacles</u>

The development and installation of a program to stabilize productive employment within a company is not a simple matter in most cases. The obstacles to be overcome vary from one company to another. Some, however, are fairly universal in nature. And some may be insurmountable.

Thus, for example, there is little that an individual employer can do to counteract the effects of crop failures, embargoes, war, prohibitive tariffs and country-wide or world-wide depressions.

There is much, however, that can be done to offset factors which cause seasonal fluctuations in employment. These are the obstacles to which management must give attention.

They include style changes, seasonal buying habits of customers, seasonality of raw materials, financial problems connected with inventory accumulation and warehousing, and collective bargaining provisions which may limit the full utilization of manpower by restrictive job transfer, seniority and "union consent" clauses. (These matters are discussed at length in Chapter IV.)

There are various external obstacles which cannot always be foreseen or provided for. They include work stoppages in basic or supplier industries. For example, a strike in the coal mines quickly starves the steel mills. This in turn creates supply problems in steel fabricating industries, including the automobile industry. Similarly, a shortage of steel, by causing a shortage of oil storage tanks, results in a scarcity of oil in various sections of the country. This, in turn, can create unemployment problems in many oil-using industries as well as oil heating equipment industries, oil transportation services and in the oil refineries themselves.

This type of obstacle, about which the management of an affected company can do nothing, is one of the major reasons why guarantees of annual wages are unrealistic, visionary and dangerous. No good purpose is served by a guarantee which causes the liquidation of a company in order to pay out wages for time not worked, under an annual wage contract.

Management's Opportunity in Employment Stabilization

Despite the numerous obstacles to stabilizing productive employment, such as those discussed above, there are tremendous opportunities for improving the sales, production and employment curves of most companies by attacking those factors within the control of management which create sales, production and employment fluctuations. While some progress has been made in this direction, much more needs to be done to achieve the highest degree of efficiency in this area of activity.

When a business is running smoothly and profitably there is frequently the tendency to "leave well enough alone." This happens in some companies which are traditionally seasonal.

While it is true that many of the factors that cause seasonability are exceedingly complex and formidable, it is essential that management renew and intensify its attack on this problem.

It is important to recognize that American workers and the public are increasingly concerned with the need for steady work. Employees are naturally restless on this score, many of them influenced by past unemployment experiences to look to government-imposed programs for security. While such programs may look attractive to some, it would be disastrous to ignore the fact that carried a few steps farther any government-imposed programs would lead to complete government regulation of the economic system.

The obstacles may be consumer induced -- seasonal buying habits. But to the extent that such habits are understood, there is a chance that they can be modified. Managements who face such obstacles will find value in studying the approach and methods used successfully by other employers. The obstacles may be seasonality of raw material supply. In this connection, the storability of such raw materials should be explored. Substitutes may be developed, new methods of warehousing may be investigated, or complementary products may be introduced into the plant. The nature of the problem needs to be thoroughly analyzed and understood in each case.

Most employers strive to provide steady work and steady pay for their employees. Frequently, however, the particular conditions that exist in a given company seriously affect management's ability to do so. But, as each employer faces the task of stabilizing production, experience has proved that the exercise of resourceful, constructive managerial action will go a long way toward finding methods to accomplish that objective.

Sometimes this means breaking with past custom and seeking new ways to overcome the obstacles that cause fluctuations. Such a course of action is not simple; it cannot be instituted overnight or solely as a result of management's desire. It requires the most critical analysis of current practices as preparation for constructive changes.

A sound approach to this important problem involves three major areas of management action:

1. Careful analysis of the present degree of employment stabilization.

2. Study and clear understanding of the specific factors that cause fluctuations in employment.

3. And finally, the planning and installation of those changes in practice and operation which would give the greatest promise of correction and success.

Obviously, such an approach requires great care in order to avoid confusing cause and effect, and symptoms with causes.

There are many factors which unstabilize production and employment. Some of them are beyond the control of the employer but many of them which lie within the area of managerial jurisdiction can be ameliorated and, in many instances, eliminated when the underlying reasons are studied, understood and dealt with positively.

Obviously, the causes of fluctuations in productive work are not eliminated by paying for idleness or non-productive "make-work." The basic causes may be in sales, production, marketing, purchasing or personnel functions, among others. When they are clarified, real understanding will result and corrective measures can be planned. Then irregular production, unemployment, employee restlessness and fear and high unit costs will be greatly reduced and, in some instances, largely eliminated.

This is a job that challenges the keenest minds, the best brains and the highest caliber leadership within the management of a company. It requires clear thinking, constructive planning, courage, vision, and all-out determination to modify controllable conditions that now hinder steadier work and steadier pay. It is not a simple task. It requires a concerted attack by the management of each company, in light of its own conditions and special problems.

CHAPTER III

PREPARING TO STABILIZE EMPLOYMENT

Who Should Be Responsible?

Numerous conference groups have been asked how management should be organized to improve the stability of jobs in their companies. They have been practically unanimous in stating that any program for employment stabilization would be effective only to the extent that it is recognized as a major problem by top management, who, in turn, must take the responsibility for organizing and developing the program to be followed.

The primary reason why top management must assume these responsibilities is that all of the major operating divisions and staff services must participate and become coordinated if success is to be attained. The task is a major one involving administrative decisions of a high order and calling for interpretations of trends and forecasting of requirements. Such functions are policy matters on the highest level and hence must be the responsibility of the highest rung company administrators.

Unless such a program is actively sponsored by the chief executive of a company, there is likely to be delay, lack of cooperation or coodination, emphasis on parts of the problem instead of on the whole, and similar frustrations. In the same way as research, sales, purchasing, finance, production, and personnel functions are correlated in the running of any business, they must be coordinated in any successful program of employment regularization.

The carrying out of the preparatory investigation or the complete program, naturally devolves upon divisional and departmental executives. The personnel department, for example, can and should be responsible for reporting personnel data respecting employment. It may recommend various production, financial, research or sales changes, but it cannot effectuate such changes. Furthermore, the personnel staff cannot be expected to be familiar with all of the problems of the other departments concerned. Hence, its recommendations may not be feasible.

Nevertheless, a number of companies seem to believe that employment stabilization is the responsibility primarily of the personnel department. Actually, it is a function of all line and staff departments. Hence, coordination through top officials is necessary.

Some companies have assigned the task to a committee composed of departmental or divisional heads. This arrangement has not always worked out satisfactorily. Divided responsibility such as can happen with a committee set-up has brought about failure where unification through centralization of authority has achieved progress.

The best organization for developing employment stabilization within a company appears to be individualized responsibility of divisional or departmental heads reporting directly to one of the top administrative officers.

Sometimes, the industrial relations department has been instrumental in stimulating top-management action on employment stabilization. For example, in one large national company, this department was most concerned with the problem and used it as a subject for the management training and development program. The discussions brought to light many facets of the problem that needed attention. Top management became convinced that they should do something about improving job stability in their company. Accordingly, they selected one of the top divisional executives who was seriously concerned with the problem to proceed in his plants with the development of an employment stabilization program.

Such programming is bound to be effective since the responsible executive is in a position to correlate all of the line and staff groups. Lesser authority is less likely to succeed.

Analysis of the Problem

Many employers are not aware of the extent to which their businesses are already characterized by stable employment. Neither have they thoroughly explored the possibilities and advantages of increasing their degree of regularity of work. Those companies which have tackled this problem have emphasized the importance of analyzing their status with respect to sales, production, and employment practices.

In order to ascertain the extent of the problem in each company, it is necessary to analyze payroll and employment statistics, production and sales records, to make cost estimates, to conduct research in raw materials availability and market potentialities -- in short, to study all phases of the business with a view to obtaining a complete picture of the regularity of the company's operations and the possible steps that can be undertaken in order to improve the stability of productive employment.

This is a program, obviously, which emphasizes production planning but which calls upon all major operating and staff divisions for information, assistance and participation.

The Plan of Action

The plan of action each company develops must be constructed according to the particular circumstances faced by the company. There can be no one best plan. A program which is best for one company may be ineffective for another.

Two general principles which have been developed out of numerous conferences can be formulated:

> The executive organization which is responsible for the development and effectuation of a plan should integrate all departments, including sales, production planning, production, traffic, finance, research, advertising, purchasing and personnel.
>
> A program of employment stabilization is a continuing method of operation. It is not a "one-shot" proposition.

These principles emphasize the fact that a program of employment stabilization is essentially a "way of life". It is an improved and integrated method of running a business. Just as all operating and staff executives are involved in the administration of a business, responsible for making adjustments as circumstances change, they are even more responsible for making prompt adjustments when the purpose of the program includes continuous productive employment.

Eastman Kodak initiated a program of employment stabilization in 1904. The success of that program is well-known. It succeeded because the plans included a recognition of the fact that changes in product, in demand, in production methods, require corresponding changes in management techniques which would result in regularized productive employment. In brief, a successful program is dynamic and adaptable.

Assistance from Outside Sources

"There is no single plan for stabilizing employment within a given company." This has been stated time and again in the numerous conferences held by industrial leaders. Nevertheless, knowledge about the plans and techniques used by other companies is of great value both in indicationg techniques which have been successfully used under certain circumstances and in calling attention to the executive organizations which have developed out of attempts to stabilize productive employment.

Suoh knowledge and assistance is available from many local employer, State and Trade associations which have participated in the holding of industry clinics on employment stabilization. Such associations, furthermore, are in a position to refer employers to other companies in their communities which have successfully stabilized their own production and employment.

Management engineering firms may also serve a valuable function in helping to analyze problems of sales, production and employment, and in assisting top management in the formulation of specific programs.

It must be emphasized, however, that the success of a program of employment stabilization depends primarily upon the determination, ingenuity and action of the management of the company. No outsider can do the job any more than an outsider can be expected to take over the management of a business. As has been stated before, managing a business most efficiently involves the highest degree of regularization of all functions, without intermittent shutdowns. Stabilizing productive employment is but one phase of managing an efficient business.

This point of view needs to be instilled in the minds of all executives who will participate in the formulation and administration of an employment stabilization program. Where all executives and administrators are thoroughly indoctrinated in the essentiality and purposes of such a program, the necessary analyses and plans will be undertaken with initiative and enthusiasm. All of them, working together as a team, with a common objective and directed by one top officer of the company are needed in order to develop, initiate and administer the operations of a company so that fluctuations in productive employment can be minimized or eliminated.

CHAPTER IV

PROGRAMS AND TECHNIQUES THAT HAVE BEEN USED SUCCESSFULLY

The NAM, in cooperation with affiliated employers associations of the National Industrial Council, has had an opportunity to discuss problems of employment stabilization with representatives of several thousand companies located throughout the country. From these meetings with comprehensive interchange of information and points of view, have come some generally agreed upon conclusions:

The problems involved in stabilising employment are unique for each business. Solutions which are effective for one company are often impractical for another.

Similar techniques may be utilized in many different companies, but the emphasis and the total pattern of techniques, their relative importance and method of application, timing etc., must be tailor-made for each company.

There is, however, a logical approach to the problem. That can be summarized in four general questions and statements.

I. <u>How can sales fluctuations be stabilized?</u>

Fluctuations in sales volume are, in most instances, the primary cause of seasonal unemployment. Therefore, the start of a study to stabilize employment would logically be a survey of the fluctuations in sales and a thorough exploration of all possible methods to avoid such fluctuations.

II. <u>How can production be stabilized to a greater extent than sales</u>

Fluctuations in production operations are commonly the direct causes of seasonal unemployment. It should be possible to stabilize production to at least the same extent as sales. Also, what means can be utilized to stabilize to an even greater extent?

III. <u>Can employment be stabilized to a greater extent than either production or sales</u>

Since the primary and direct causes of instability in employment are sales and production respectively, the actual number of man-days worked can be expected to vary with production. To the extent that the fluctuations in production cannot be avoided, what can be done to soften their impact on employees?

IV. <u>Has the necessary management organization for stabilized employment been achieved?</u>

The best ideas and intention may exist, but they are not effective unless all the functions involved are organized to accomplsih the common objective of stabilized employment. What is necessary to accomplish such organization?

This approach to the problem of stabilizing productive employment can best be illustrated in this chapter by describing the development of a program in a specific company and by reporting the results of a typical group of clinic meetings on the subject.

How Can Sales Fluctuations Be Stabilized?

COMPANY A -- Prior to starting a program of employment stabilization, the fluctuations of sales volume for one commodity ranged from a low of 2,400,000 units in 1932 to a high of 5,400,000 units in 1936. Then the volume dropped to 3,500,000 for 1938 and up again to 5,300,000 in 1940.

Seasonal variations also were characteristic of this commodity. For example, monthly sales ranged from 6% of the annual sales in February to a high of 13.3% in September. In other words, the fluctuation ranged from 72% to about 160% of average. September sales were more than twice the February volume.

The problem presented in such a situation is to reduce the fluctuations without reducing the total annual volume. Many employers have been faced with this type of situation, some greater in scope, others less. Those who have dealt with the problem offer solutions of the following types:

1. Analyze the causes of sales fluctuations

   Determine the basic elements under consideration by means of research dealing with:
   a. Market analysis, and
   b. Competitive conditions.

2. Diversify the business

   The more an individual business can be diversified, the more opportunity there will be for leveling out the fluctuations in sales. This may be approached through:

   a. Product diversification
   b. Market expansion
   c. Improved distribution methods.

3. Research

   Many companies have established extensive programs of research to develop new products or new markets for present products. This reveals possible areas for developing diversification.

4. Balance sales between markets

   For those commodities which are sold in two or more distinct markets, it is often found that the seasonal sales opportunities for each market may be quite different. If a proper proportion of sales between markets can be worked out, the seasonal sales peaks for one may offset the seasonal lows for another.

5. Plan introduction of new products

   Several companies have withheld new products from the market until such time as they could be used to bolster a falling sales trend either from a long term or from a seasonal standpoint.

6. Control of style changes

In many instances, the introduction of new styles is planned to coincide with seasonal low points in sales. In other cases, the introduction of new styles is staggered over the year to avoid one solid period of peak sale conditions caused by changes instituted once during the year.

7. "Off" season selling effort

Many companies are successful in offsetting seasonal low points in sales by planning sales efforts as follows:

a. Sales promotion
b. Advertising
c. Salesmen incentives

8. Educate customers

In certain industries, it was possible to change customers' buying habits by educating them to use the product on a year-round rather than seasonal basis. In other cases, it was possible to educate the customers to buy during the "off" season.

9. Incentives for "off" season buying

In many cases, it is found profitable to provide special incentives to induce customers to spread their purchases more evenly over the year, such as:

a. Special discounts
b. Delayed billing
c. Improved service
d. Temporary warehousing for customer
e. Extended credit terms.

Extreme fluctuations in sales volume need not be accepted as a necessary evil of a particular business. It is believed by experienced business executives that by exhaustive study and intensive effort, utilizing more of the methods outlined above, worth-while results in minimizing or ironing out the fluctuations can be achieved. Thus for example, the seasonal variations may be reduced.

How Can Production Be Stabilized to a Greater Extent Than Sales?

Assuming that monthly sales fluctuations have been reduced to a variation ranging from 7% to 10½% of the annual volume, there still remains a serious problem before production will be stabilized. Solutions advanced by conference groups included:

1. Purchase raw materials to inventory

In those industries for which the use of raw materials can be standardized, short-term fluctuations in production can be avoided by stock-piling raw materials which can be purchased only on a seasonal basis. In many cases it was found worth-while to invest in specially conditioned storage space in order to carry inventories of perishable raw materials that must be purchased on a seasonal basis.

2. Produce to inventory

In those instances where the finished product is sufficiently standardized and storageable, it was suggested that production should be maintained during slack seasons by building inventories, where normal or increased volume of business is anticipated, which could be drawn on during peak seasons. In other cases, it was found possible to even out some of the inequalities in production by building inventories of certain parts at certain stages of manufacture even though the final product is too specialized in character to be inventoried in advance of specific orders. The steps in establishing the use of inventories as a means of stabilizing production can be listed as follows:

a. Estimate sales
b. Plan production
c. Inventory goods in process
d. Inventory finished stock

3. Subcontract production during seasonal peaks

In some instances it was found practical to subcontract production during peak periods of sales.

4. Establish proper working conditions

Several industries found it necessary to establish proper working conditions by means of air conditioning or refrigeration to overcome production difficul+ ies arising from varying atmospheric conditions which had previously caused severe fluctuations in production.

The use of inventories affords one of the major solutions to stabilizing production. For some products this was felt to be too expensive or require too much capital. For other products, the specialized character makes it necessary to produce only to order. In some cases there is a choice between using fixed capital for additional equipment and capacity to take care of sales peaks -- with the resulting fluctuations to employment -- or the use of working capital for inventories.

How Can Employment Be Stabilized to a Greater Extent Than Either Production or Sales?

In one case, a year in advance, sales were stabilized to the greatest extent possible, and the company depended upon variations in inventory to stabilize production for the greater part of the year. This might seem to be a big accumulation of inventory. Actually it amounts to one and one-half months' sales at peak volume. The partial shutdown for maintenance presents another employment problem.

It should also be remembered that while this plan looks good on paper, it is based on an advance estimate of sales for the year as a whole as well as for individual months in a year. Some variations can be expected from these estimates. Moreover, production itself is subject to many factors that will cause deviations from the estimates. What means can be provided to soften the impact on employment from the production variations shown in the plan as well as those which will be due to inaccuracies in estimates?

The solutions offered by the conference participants included:

1. <u>Centralized control of hiring, transfers, promotions and discharges</u>

   Centralized control eliminates the possibility of one department hiring new employees while another department is laying-off.

2. <u>Flexible work schedules</u>

   There must be some provision for small variations in work hours per week or per day that will permit minor changes in operations without forcing hiring or layoffs.

3. <u>Use of production personnel for plant maintenance and repairs</u>

   This is a practice frowned upon by many trade unions, but it can be of considerable value in giving the production workers regular employment. In several instances it was found that particular companies actually trained production workers for maintenance work as well as for their regular work.

4. <u>Planned vacations</u>

   If vacations can be planned for "off" seasons, the need for inventory accumulations may be reduced.

5. <u>Diversification of skills of workers</u>

   If it is possible for a worker to be skilled on several jobs, it may be possible to balance work between several departments. Adequate provision for transfer between jobs is a subject to consider in union contract negotiations.

6. <u>Plant versus departmental seniority</u>

   While this question might be included under diversified skills for workers, it it listed separately because of the difficulties encountered when unions insist on departmental seniority in their contract. This may lead to the necessity of laying off people from one department while hiring for another.

7. <u>Flexible overtime rules for averaging work hours</u>

   Where provisions of this sort were worked out, the results were beneficial, both from the standpoint of job security for the worker and cost for the employer.

8. <u>Community interplant cooperation</u>

   Some unusual instances were mentioned where arrangements were made within a community to loan employees between plants for temporary periods. This is a substitute method since it does not regularize productive employment within a specific company.

9. Controlled hiring

If production plans are established and kept up to date, it is possible to avoid actual layoffs for periods of low production by permitting normal labor turnover to bring about the needed reduction in employment.

10. Planned introduction of technological improvements.

It was suggested that when improvements in operations are planned that will result in reduced labor requirements, hiring of new workers can be reduced in advance of the actual installation.

11. Encouragement of outside seasonal work such as farming

This was an interesting device used by some companies having a seasonal low in production during the spring and fall months.

Some of the solutions outlined above cannot be considered as leading to stabilization of productive employment. Rather, they are used as methods for making the best of a bad situation arising when it is not possible to avoid fluctuations in sales and production. Furthermore, some of these devices need to be taken into consideration when bargaining with unions and establishing labor contracts.

When is employment stabilized?

The discussions of employment stabilization which have taken place in the numerous clinic meetings have emphasized the fact that many employers have used inadequate criteria for measuring the degree to which employment is stabilized in their companies. In order to determine the extent of employment regularity, it is necessary to analyze payroll and personnel records by occupation, department and plant. This fact cannot be overemphasized. Thus, one should determine the total number of straight-time hours of work obtained by each employee during each week for at least a year. Averages alone are inadequate, since very often they conceal rather than reveal evidences of irregularity.

For example, one large manufacturer discovered that although the average hours of work per year indicated that a reasonably full year of work had been given, those employees who had higher skills and longer service obtained less work than new and unskilled employees.

It was found, therefore, that if a true picture is to be obtained, it is necessary that hours worked be studied in relation to skill levels, length of service, age and sex of employees, as well as in relation to occupation and department. Furthermore, the reasons for time not worked need to be identified and analyzed. Absenteeism, illness, leaves of absence, work stoppages and similar "voluntarily" caused lost time need to be separated from layoffs caused by inventory shutdowns, material and parts shortages, machine or power failures and similar "involuntary" factors. These, in turn, should be separated from layoffs on account of lack of orders.

Having obtained and analyzed such information, an employer is able to judge on the basis of factual data the extent to which he has eliminated involuntary fluctuations in employment with respect to each of his employee groups.

Has the necessary Management Organization for Stabilized Employment been achieved?

Conference groups have been unanimous in stating that any program for employment stabilization would be effective only to the extent that it is recognized as a major problem by top management, who, in turn, takes the responsibility for organizing and developing the program to be followed. (See Chapter III)

Informing Employees and the Public

Informing Employees

There is evidence that some employers hesitate to inform their employees about plans which have been formulated in order to make jobs more steady. The reasons for their hesitancy include:

> A fear that such information will encourage their employees and their labor unions to demand the Guaranteed Annual Wage.
>
> Uncertainty as to the probable success of the program and the effect on employee morale of failure to achieve favorable results.
>
> A belief that employees may oppose such programs for fear that the result will be fewer jobs and that short-term layoffs may become permanent separations for a sizeable proportion of the labor force.

It would appear from conference reports, however, that wherever such fears on the part of employers are justified, management has fallen down on the important job of employee communications. If a proper communications program has been in effect, both before and during the stabilization program, it is likely that mutual understanding and confidence will be adequate to dissipate oposition because of reasons such as those stated above.

Many companies which have succeeded in achieving a high degree of stable employment have done so through the use of every resource that informed intelligent management can utilize toward that end, without the announcement of a "formal" stabilization program. In these instances we find that management has done a good job of employee communications.

It is true that the institution of an employment stabilization program may result in changes in job content, worker versatility, seniority rules, transfer policies, training programs and the like. It is equally true that, in general, workers do not like changes in their accustomed methods.

For these reasons alone, it is desirable that the ground be prepared in advance -- that employee cooperation and acceptance be cultivated. That can be done by keeping employees informed about management's plans, the reasons for them and the benefits to employees and the company to be expected, by soliciting their active cooperation in the development of stabilizing programs through the suggestion system, conferences and the like, by explaining the obstacles to be overcome -- particularly those obstacles which appear to be insurmountable -- and by giving assurance to the employees that no one will suffer job loss on account of new programs.

In connection with the last point, if a reduction in the labor force is called for by a stabilization program, it is highly desirable that it be accomplished by means of normal turnover rather than by layoffs, if possible.

When employees are ignorant of management's plans and the reasons behind them they naturally become suspicious. "There must be a reason why we are not told!" expresses a common point of view.

When, however, they are fully informed -- about plans, background, prospective results and obstacles -- they become positively interested, less amenable to "soap-box" detractors, and their fears vanish or are reduced. More than that, they begin to identify themselves with the company, develop a mutuality of interest with the employer and consequently cooperate more effectively in the achievement of the common goal of greater job security.

Then, if failure results because of insurmountable obstacles, there is much greater likelihood that the employees will accept that fact with understanding. In such cases, the result may be disappointment, but understanding will temper any tendency toward resentment.

To the extent that employers are concerned about improving employee-employer relations -- and they are greatly concerned -- a program to inform employees about plans progress and problems of regularizing their employment provides one of the best means for accomplishing that result. Keeping employees informed results in heightened morale through understanding, and increased cooperation through mutuality of interest.

Community Relations

Whenever situations arise which compel an employer to lay off workers, particularly where the company is a main support of the community, there is public resentment. Without the facts, the general public may regard the employer as heartless -- a cold-blooded profit-seeker who has no concern for human welfare.

There is no more disagreeable responsibility in industry for management than the necessity for such action. The public too frequently does not know management's attitude because employers have not kept their communities informed about their human relations problems and their real contribution to the welfare of the public.

Any company which is planning a program to regularize employment is missing the boat if it does not do a good public relations job with respect to it. Even if employment cannot be satisfactorily stabilized, even if periodic layoffs cannot be avoided, the employer has a responsibility to himself, to his management, to his industry, to the economic system we pridefully call the "individual enterprise" or American system, and to his community. He must inform his community about his problem, the things he wants to do, the obstacles which prevent him from doing them and the plans he has of continuing to tackle the problem until solutions are discovered.

No program of public relations can be more effective in developing goodwill for American employers than the individual company's story of its program to improve the lot of its employees. Stories of improved quality, decreasing prices and high wages are much less effective, much more intangible, than evidence of sincere concern for the welfare of the citizens of a community and the workers of a company.

If industry, in the process of developing programs to stabilize employment, also creates widespread goodwill toward employers on the part of employees and members of the general public, there need be little fear that the individual, competitive enterprise system will be undermined.

Effective employer-employee and employer-public communications programs, when utilized to the full, create understanding, cooperation and good-will, without which industry can be seriously handicapped.

CHAPTER V

APPRAISAL OF CURRENT STUDIES

Widespread recognition that economic insecurity among wage earners is a major challenge to our free enterprise system has caused both organized labor and management to become deeply concerned with the means whereby a greater degree of job security may be achieved for industrial workers. Much public interest, accompanied by considerable controversy, has been aroused by their endeavors.

The Term "Guaranteed Annual Wage" Is Misleading

Although the controversy has stimulated effort, it has also caused considerable confusion regarding the programs advanced by organized labor and by management. For example, wage earners have sometimes been led to expect too much from the so-called "guaranteed annual wage"; whereas employers, on the other hand, sometimes have been unduly pessimistic regarding their ability to plan production in such a way as to provide steadier jobs.

Particularly confusing is the use of the term "guaranteed annual wage." It has become a slogan synonymous with the current drive of organized labor for job security.

Insofar as the term "guaranteed annual wage" implies an absolute guarantee on the part of the employer to provide work or wages to his employees, it is a misnomer. Obviously, no company can offer an absolute guarantee, for in the last analysis under our free enterprise system every so-called guarantee is limited by the possibility that the company may go out of business. Furthermore, use of the term to describe plans now in effect is highly misleading because in almost every instance the employer's commitment is qualified to protect the company against undue strain on its resources resulting from a wage guarantee.

Equally misleading is the idea that all wage guarantee plans are on an annual basis. Some plans provide that the employer may nullify the guarantee at his discretion, others are for limited periods of less than a year. Likewise, many guarantee plans do not cover all of a company's employees, but are restricted to a specified group whose preferential treatment may actually jeopardize the job security of workers excluded from the guarantee.

Most unfortunate of all, use of the "guaranteed annual wage" slogan has given many the impression that economic security rests on guaranteed wages rather than on steady jobs. This is "cart-before-the-horse" reasoning, for it is obvious that steady wages are not possible without steady jobs. Thus, the slogan has drawn attention away from the major job now facing industry -- namely, employment stabilization.

Value of Recent Studies to Management

Until recently, lack of adequate data on employment stabilization and wage guarantee programs encouraged muddled thinking regarding the ability of American industry to make substantial progress toward greater economic security for wage earners. Although several excellent studies had previously considered various aspects of the problem, it is only within the past few years that a substantial literature has become available which clarifies the basic issues involved and supplies the data necessary to reach sound conclusions as to how American industry can best proceed to provide an increasing measure of job security to employees.

These studies supply much data regarding past experience with wage guarantee plans which will enable management to avoid the pitfalls inherent in organized labor's approach to the job security problem, and most importantly, they will assist management in its drive to provide steadier jobs through employment stabilization.

Below are summarized five outstanding recent studies which, from different points of view, explore the problems and implications of wage guarantees and the techniques and possibilities of employment stabilization.

1

"Annual Wages and Employment Stabilization Techniques"
Research Report No. 8; American Management Association, New York, 1945

This report is designed to assist management in taking practical, constructive steps to provide a higher degree of employment security. AMA believes that it is of the greatest urgency that industry take such action, for as it points out in the Introduction, "private enterprise is on trial. Unless it can maintain a high volume of employment, it is likely to find itself more and more circumscribed."

As the title implies, the study is divided into two parts:

Part 1 is an analysis of annual wage plans, types of guarantee, difficulties to be overcome in adopting a guarantee and cautions to be observed. Two conclusions, based on the material covered in this section, are offered:

An annual wage plan can be best applied when it is least needed; and when it is most needed it can be least applied.

Highly skilled workers, key men, employees with high seniority, etc., often do not need the guarantee, though it is easiest to give it to them. Stable and expanding industries can offer the guarantee, but fluctuating industries where the need is greatest generally can not afford it. Likewise, in a boom a guarantee may be feasible, but in a depression, when it is needed, it can't be given.

Even though wage guarantees are too advanced for our economy at the present time, most companies could make a beginning toward more stable employment. The scope for stabilization is greater than generally thought.

Part 11 describes specific techniques which individual companies may adopt to provide more stable employment. Since wage guarantees can not operate successfully unless based on employment stability, the material in this section is basic.

The scope of possible company activity covered includes: measurement of employment fluctuations and their cost; production for stock; dovetailing or the introduction of new items; coordination of personnel practices; regularization of consumer buying; production techniques; cooperation with other firms; utilization of government assistance as offered by the Fair Labor Standards Act; experience merit rating in unemployment compensation and the government employment services; and careful planning by business of its durable goods purchases.

COMMENT: This study will be highly useful to any management faced with a guaranteed wage demand, for it clearly points out the limitations and dangers of such guarantees. Especially important is the emphasis on the necessity to stablize employment before any type of guarantee is possible. Any company contemplating a stablization program will benefit from the discussion of the various techniques which have been used by other companies, and will acquire thereby a considerable appreciation of the problems which may develop in the course of preparing and executing a program of employment stabilization.

The practical value of the A.M.A. study is greatly enhanced by a checklist and summary of stabilization techniques which is designed for individual company use.

2

"Annual Wages and Employment Guarantee Plans"
National Industrial Conference Board (Studies in Personnel Policy #76), New York, 1946

This is an objective study of 125 employment and wage guarantee plans. The chief value and purpose of the study is to indicate the considerations which are basic to the successful operation of a guarantee plan. While such factors as employer attitudes, union cooperation, and federal and state legislation bear on the success of a guarantee plan, the N.I.C.B. survey definitely supports the thesis that an individual company cannot make a wage guarantee unless employment is relatively stable.

The N.I.C.B. survey contains an analysis of the provisions of various guarantee plans which is supplemented by the texts of several programs now in operation. This analysis is followed by a discussion of experience with guarantee plans in which particular attention is directed to discovering reasons for the discontinuance of particular programs. The curious fact emerges that the single most important cause for the failure of two-thirds of the plans adopted between 1930 and 1940 was union activity and attitudes.

In recognition of the basic fact that a successful guarantee plan is impossible without a high degree of employment stabilization, a chapter is devoted to measures undertaken by management to regularize employment by reducing the peaks and valleys in production. In over two-thirds of the companies studied, scheduling of production, in conjunction with manufacture for stock, was the most heavily relied upon technique.

In view of the conflicting arguments currently advanced regarding the annual wage, the chapter outlining major theories on wage guarantees is particularly useful. Briefly summarized are the CIO's claims that wage guarantees will stabilize our economy; current views regarding the annual wage, and cyclical and seasonal employment fluctuations; and the effect of wage guarantees on production efficiency, on efforts to regularize employment, and on fixed labor costs.

Other chapters discuss the basic structure of guarantee plans, wage advance plans, part-time and limited guarantees, legislation designed to encourage wage guarantees, and means for determining the feasibility of a guarantee plan. Numerous tables supplement the text.

COMMENT: N.I.C.B. does not offer any specific conclusions as to what management should or should not do with respect to the annual wage. Instead, it offers facts and leaves it up to management to use them as it sees fit in seeking a guide to possible action. However, careful analysis of N.I.C.B's material strengthens doubts regarding the wisdom of wage guarantees and leads to the conclusion that employment stabilization is the soundest method for promoting job security.

3

"Guananteed Wages"

Report to the President by the Advisory Board, Office of War Mobilization and Reconversion; Murray W. Latimer, Research Director; Washington, D.C., 1947

When the United Steel Workers (CIO) touched off the campaign for the guaranteed annual wage by demanding wage guarantees from the steel industry in 1944, the National War Labor Board in rejecting the demand recommended a study of guaranteed wages on a national scale. The Latimer Report is the result of that study.

The Latimer Report has been widely publicized not only because of the extensive collection of data which it contains, but also because, as an official government report, some of its recommendations for legislative action may receive official administration support.

It is a voluminous report, covering the experience to date with guarantee wage plans and presenting a detailed analysis of the legislative, economic, tax and industrial relations factors bearing on wage guarantees. The Report contains a vast amount of statistical data and is supplemented by six appendices, including the analysis of guaranteed wage plans made by the Bureau of Labor Statistics and the study of the basic economic effects of guaranteed wage made by Professors Alvin Hansen and Paul Samuelson.

The Report rejects the guaranteed wage as a panacea for economic insecurity resulting from unemployment. Instead, the study concludes that the guaranteed wage is merely one of a number of devices (including public works, fiscal policy, housing programs, social security, etc.) which must be coordinated in an overall program to maintain a high level of employment. However, realization that definite limitations on an individual company's ability to make wage guarantees exist in our economy in no way dampens Latimer's enthusiasm for the widest possible use of wage guarantees. It is this enthusiasm that has made the Latimer Report such popular reading in CIO circles.

In Latimer's view, guaranteed wages are a first line of defense against the onset of a depression because they help to maintain consumer purchasing power until other types of relief can be put into effect.

Therefore, he urges that GOVERNMENT policy encourage wage guarantee plans in the following ways:

Unemployment Compensation Benefits and Wage Guarantees Should Be Supplemental.

The guaranteeing employer should pay regular taxes (thereby abandoning experience rating which Latimer contends has been a failure), but his employees should be permitted to draw unemployment insurance benefits as soon as layoffs begin in partial fulfillment of the wage guarantee. Thus, the government would underwrite the wage guarantee in part, and the laid-off employee presumably would suffer a total loss of income when both his wage guarantee and his unemployment compensation ended. It is difficult to understand what the advantage for the worker would be in this system over the system which currently prevails.

The Report holds that social security benefits remain the primary answer to the problem of steady income. Therefore, unemployment compensation benefits should be liberalized, contribution rates for financing unemployment compensation stabilized, and the entire benefit program should be coordinated with guaranteed wage plans.

The income tax system should be altered to exempt from taxation sums paid into reserve funds built up by employers to meet commitments under guarantee plans.

The Fair Labor Standards Act should be revised to raise the number of hours which employees under guarantee plans would be permitted to work annually without overtime compensation, provided such employees worked no more than 50 to 53 hours in a given week without overtime. It is agreed that this revision would permit greater flexibilities with respect to hours of work in excess of stated limits and, thus, encourage employers to adopt wage guarantees.

> COMMENT: One of the major weaknesses of the Report is its failure to direct sufficient attention to the fact that wage and work guarantees depend fundamentally on job stability. Although this fact is recognized (for Latimer does acknowledge the relationship between economic conditions and a company's ability to make wage guarantees), it is sometimes conveniently ignored. This is especially true in the chapter on employment stabilization in which the conclusion is reached that wage guarantee plans are likly to be an effective means of encouraging employers to stabilize employment. Thus, Mr. Latimer allies himself in part with those who mistake the cause for the effect.

Latimer's major conclusions with respect to the GUARANTEED WAGE are:

1. The guaranteed wage movement as it has developed thus far is more significant as an index of practical possibility than as a record of direct achievement.

> COMMENT: In view of the fact that over 40 per cent of the wage guarantee plans adopted since 1900 have been discontinued, according to the Bureau of Labor Statistics, it would appear that there exists considerable evidence for doubting their future practicability.

2. Experience to date shows that guaranteed wage programs are capable of benefiting employers as well as workers. They have proved to be adaptable to a variety of circumstances and useful for a multiplicity of purposes.

3. Experience with guaranteed wage plans has not afforded any substantial evidence as to what guarantee plans might cost over a period of time. Due to the inability to estimate costs, it is prudent in setting up a plan to adopt limitations to insure that costs are kept within reason.

> COMMENT: This means that the guarantee would be nullified when most needed -- i.e., when markets fall off and jobs are no longer available. Thus, the guarantee is no guarantee at all.

4. An employer who adopts a guaranteed wage plan can expect benefits in terms

of improved industrial relations, lower turnover, higher productivity.

COMMENT: According to Mr. Latimer "wage guarantees could not be good for business" were it not for the improved labor relations which results. However, the evidence with respect to improved relations between labor and management is not sufficiently impressive to warrant industry's assuming risk which wage guarantees entail. Moreover, it is pertinent to ponder carefully the damage to labor-management relations which would inevitably follow the failure of a guarantee from which workers had been led to expect to much.

5. The net cost of a guarantee plan must be modest, and since the cost must be borne out of profits or prices, the burden on either or both must not impair the financial position or markets of the enterprise.

COMMENT: The question immediately arises as to how this can be achieved, for in our competitive economy any addition to costs or impairment of profit weakens a company's competitive position. The Latimer Report fails to offer any guidance on this fundamental point beyond suggesting possible savings through increased productivity and improved labor relations.

6. Although guarantee wage plans may help to avert minor cyclical swings by maintaining consumer purchasing power, they cannot be regarded as an adequate defense against the business cycle.

"The Economic Analysis of Guaranteed Wages" by Professors Hansen and Samuelson which forms the sixth appendix of the Report repeats the caution against regarding wage guarantees as a panacea. In their view, guaranteed wages are beneficial where feasible, but they point out that in only a relatively small segment of our economy do conditions make guarantee programs practical. This analysis is of interest chiefly because of the policy recommendation which it makes:

> Guaranteed wages should be a subject for voluntary collective bargaining without legislative compulsion by the Government.
>
> Guaranteed wage plans may properly include limitations as to the employer's liabilities.
>
> Corporate tax laws and practice should be changed so as to encourage guarantee plans. This encouragement might take the form of specific carry-back on guaranteed wage costs or of tax exemption of contributions to guaranteed wage reserve funds.
>
> Social security legislation should be altered so that guarantee plans can be integrated with unemployment compensation to the mutual advantage of both.

4

"The Guarantee of Work and Wages"
Joseph L. Snider, Harvard University, Graduate School of Business Administration, Boston, 1947

Recognizing job security as one of the most perplexing and pressing problems of our society, Professor Snider undertakes to clarify the many obstacles encountered in current efforts to enhance job security by means of work and wage guarantees. While Professor Snider favors guarantee plans wherever practical, he clearly recognizes that in our economic system many factors limit the individual company's ability to offer effective guarantees. These difficulties, however, should not cause labor or management to adopt a "do-nothing" attitude. Rather they should cause both groups to make an intense effort to work for stable employment.

The volume is divided into three parts:

Part 1 is a summary of industry experience with guarantee plans, covering the Proctor and Gamble, Hormel and Nunn-Bush plans in particular detail. Especially helpful is a chapter setting forth reasons for the failure of various guarantee plans. While admitting that experience to date is extremely limited, the author believes that the following conclusions regarding work guarantees are valid guides for future action:

a. A successful plan cannot guarantee more than the guarantor can afford to give, nor can it guarantee less than the recipients of the guarantee judge worthwhile.

b. Company management and workers must be "sold" on the plan and willing to cooperate to make it work.

c. No one plan has been developed which can be applied successfully throughout all industry.

d. As protection to a company a guarantee plan should include adequate escape clauses if conditions of unbearable financial strain develop.

e. Guarantee plans which have been soundly formulated have proved to be beneficial to the company as well as to the workers.

Part 11 presents many practical suggestions for immediate application by labor and management whereby a greater degree of employment security can be achieved. The emphasis throughout is on the means whereby work can be stabilized. Professor Snider believes that much can be achieved on an individual company basis. There must be, he asserts, careful study of how much work security each company can actually provide; the cooperation of labor, especially with respect to transfers; and recognition of the savings which may be realized by leveling off production to avoid high peaks and declines in operations. Government policy with respect to credit control, taxes, and government purchases can be of considerable assistance in promoting employment stabilization by individual companies.

However, even if industry and labor adopt all the suggestions offered in Part 11, only partial employment security can be attained.

Part 111 is a discussion of the long-range measures necessary to achieve the employment security ultimately desirable. This requires fundamental changes in acceptance of responsibility by industry and government, which the author cautions should not be introduced quickly or in the immediate future.

Major conclusions of Part 111 are:

a. Wage earners should have at least as much security of income as suppliers of capital and credit.

b. Employment security would not reduce national output, but probably would increase it. However, full employment security might decrease the prospect of profit, although this would not cause capital accumulation to lag.

c. "Employment security, even by means of legislation restricting the freedom of action of employers, is a case in which freedom generally would be enlarged by restriction in a particular field." The point he makes here is that compulsion upon the smaller number of employers will result in benefits for the far greater group of wage-earners.

d. Customers should be expected to pay sufficiently high prices to permit industry to set aside out of income in good times reserves to take care of the normal work price in bad times and these reserves should be tax-free. Compulsory wage reserves probably would be necessary.

e. Government must continue to have some responsibility for the support of the unemployed which can best be discharged through public works and unemployment compensation.

<u>COMMENT</u>: These conclusions are open to serious question, for the changes they encompass might very well prove so extensive as to undermine and eventually destroy the free enterprise system. However, Professor Snider apparently is aware of the dangers involved in the goals he has set up, for he stresses that the approach to the ultimate security desirable should be gradual, each step to be taken only after full study and when the progress to date warrants it.

5

"<u>The Guarantee of Annual Wages</u>"

<u>A. D. H. Kaplan; Brookings Institution, Washington, D. C., 1947</u>

This study is an analysis of the long-range consequences for our economy of industry wide wage guarantees. Dr. Kaplan refutes the argument, especially as advanced by the CIO, that the guarantee of substantially full-time payrolls assures high mass purchasing power which in turn means high production and employment. Moreover, he asserts that widespread wage guarantees are incompatible with a free economy.

According to Dr. Kaplan, the guarantee of wages by industry, which is not prepared to meet the commitments (especially by durable goods industry in which cyclical and employment fluctuations are most severe) would tend to diminish rather than increase opportunities for higher production and employment through the mechanism of the open market. Widespread wage guarantees, except in highly stable industries, would lead to public control of consumption, production and income flow. Thus, before making the guarantee of wages a major goal of our economy, it is necessary to reach a basic decision as to the kind of economic order which we want.

Among the principal points made are:

1. Organized labor is not unanimous in support of the guaranteed annual wage.

2. Successful experience with a few guarantee plans does not justify the expectation that all industry can adopt wage guarantees because (a) those in successful

operation are extremely limited in number, and (b) nearly all of them are in non-durable consumer industries which enjoy a high degree of stability. Wage guarantee plans now in operation do not meet the situation of basic industry in which cyclical fluctuations are severe and where the timing and duration of the decline are not predictable.

3. Long-term cyclical fluctuations are beyond the control of individual companies. Under a guaranteed wage plan, individual companies would seek to limit the labor force to those who could be continuously employed. Thus expansion and willingness to take additional orders would be checked. Consequently, the guaranteed wage would militate against full employment.

4. In industry subject to cyclical fluctuations, reserves to meet the wage guarantees would be necessary. This cost would be borne by consumers through higher prices or out of surplus and dividends, thereby reducing outlays for capital equipment and expansion.

5. The necessity to create wage reserves would increase the prospect of business failure among marginal firms.

6. Continued capital goods production results from new investment which depends largely on new inventions and technology and on the prospect of modifying consumers' and producers' preferences, rather than on the maintenance of consumer purchasing power.

7. The use of unemployment compensation funds as part of the guarantee payments means a public contribution to carry out a private employer-employee contract and would leave the unemployed without any benefits when his guaranteed wage ended.

COMMENT: The author assumes that it is the responsibility of every company to stabilize its employment to the greatest degree possible, and he believes that seasonal fluctuations can be overcome in the interest of stabilization. However, in the crucial areas of the economy where employment is unstable, a high employment overhead such as the guaranteed wage imposes would result in decreased investment or public control of large sections of the economy. Numerous tables and charts support the analysis, and there is a brief bibliography.

CHAPTER VI

PROGRESS AND PROSPECTS

The NAM program to stabilize employment has received nationwide attention and acclaim. Conferences and clinics have been held from coast-to-coast by employers associations affiliated with the National Industrial Council. These meetings have revealed the intense interest of employers in the problem. Of greater importance, employers have been encouraged to intensify their efforts to do all they can to adjust those factors within their control which will effectively minimize or eliminate fluctuations in productive employment. The value of known techniques has been confirmed and new methods of attack on the problem have been uncovered.

The sponsorship of employment stabilization meetings by local, industry and state associations of employers is particularly significant because the most valuable conferences are those which are composed of companies operating within the same community. It is expected that the NIC affiliated organizations will continue, as in the past, to stimulate and assist employers in their efforts to stabilize employment. Within one year from the date of the first industry clinic -- a pilot clinic in New York -- over one hundred conferences and meetings had been held. Several thousand employers were represented at these sessions, not just as listeners, but as participants.

Thus, the NAM program to stabilize productive employment has already stimulated the thinking and planning of a large section of American employers. Although the complete results of their planning will not be evident for some time because of the complex needs of many programs, the reported actions of a number of employers is most encouraging.

Widespread Management Action

Thus, Bethlehem Steel Company described their program of employment stabilization in their annual report to stockholders.

York Corporation presented a detailed report of their plans for the future, including an ambitious stabilization program, in their employee newspaper, Shop News.

Similar announcements have been made by other companies, including International Harvester and others too numerous to mention. General Motors has been conducting research on the problem for years, with improved understanding and regularity of employment resulting, despite seemingly insurmountable obstacles.

Out of these programs has come an increased recognition of the sound concept that employment stabilization can come only from production and increasing efficiency. Maximum productive efficiency is the best and only real assurance of job and income stability. Employers have been impressed with the fact that there is much that they can do to increase their productive efficiency in order to provide steady jobs for their employees. Some who have been completely dependent upon larger corporations have diversified their markets. Some who have been dependent upon crop seasons have supplemented their products with off-seasonal produce. Others have organized their productive and maintenance schedules so as to provide full time employment for a balanced work force.

This is the trend. The outlook is one of high optimisim for the future of regular employment for men and women who are able and willing to work.

What Some Employers Are Doing

A few examples, recently described by employer participants in NAM-NIC conferences on employment stabilization, illustrate what employers are doing to provide steady work and steady pay.

A western rubber company balances the manufacture of car heater hose with garden hose, projecting its sales twelve months ahead, constantly correcting estimates, and using its service salesmen to keep a check on the sales activities and needs of jobbers. Employees are trained for more than one job and they are kept fully informed about the program, including the activities of the sales force.

Another company uses the "normal" slack period for research and the development of new products and new uses for products. All employees possess secondary skills and accept job changes as required.

A western drydock company has stabilized employment by adding small boat repair work and by developing a new product -- an automatic sprinkler for lawns, irrigating, dishwashers, etc.

A logging company has succeeded in maintaining year-around work by specializing on high altitude work in the summer and low areas in the winter. Although new and heavier roads and better housing facilities had to be constructed, this company now is among the low-cost producers in its field. By providing steady work, the cost of the roads was covered by a rebate on state unemployment compensation taxes. Productivity was increased and absenteeism was reduced despite the opinion of others that such a program would be uneconomic and that loggers would not work in the winter or during the hunting season.

A western food processor stabilized employment by freezing fruit in the summer for conversion into jams, jellies and syrups in the winter.

A candy manufacturer found that he could pack the product in vacuum cans for inventory stocking. Now he helps to reduce a local employment problem by hiring extra people when the canneries are shut down.

A large sugar refining company enlisted the cooperation of its customers so that now the canneries accept sugar when it is available, warehouse it and pay for it as they use it. Furthermore, in order to eliminate a six-week layoff for painting, cleaning and repairs, the work schedule was arranged on a ten days on, four days off, basis in place of the traditional five and two each week. Thereby, four days in sequence are available for maintenance and repairs with decreased starting-up and closing-down expenses. This schedule was orignially opposed by the union bargaining agent. But by carefully explaining the advantages to be gained by the employees, management was able to convince them that the program was beneficial. They then pressured their officers into acceptance.

Additional Obstacles

There are two other obstacles which cannot be ignored -- the possibility of an economic recession about which individual employers can do little or nothing, and restrictive union contract clauses which depend upon collective bargaining.

Industry should prepare itself for public reactions of a critical nature if a recession occurs and widespread layoffs take place. Unless employers have done everything within their power to maintain efficient productive employment and have informed their employees and communities accordingly, the public may judge them and the American individual enterprise system harshly. That could lead to the end of employers' freedom to manage their businesses without government control and dictation. If industry does a good job of stabilizing productive employment, and their communities know it, not only may the possibility of a recession be decreased, but the public will continue to place its trust in competitive enterprise.

The other obstacle, union contract restrictions, represents a problem that needs careful consideration. Sound planning for continuous productive employment and communication of the facts about such plans and the benefits to employees which will result from them, will go far to cultivate employee support of management's position regarding contract provisions which will permit sufficient flexibility in the use of manpower so that stabilization programs can be efficient and effective. This depends upon the use of good two-way communications methods with employees -- bulletins, letters, meetings and, of course, the operating line of supervision.

For example, in addition to the sugar refinery case cited earlier, one manufacturer arranged to transfer teamsters to work in a production department at a lower rate of pay when there was no work for them as teamsters. The local labor union business agent refused to permit the action. Thereupon, the employer explained very carefully to his employees the reasons for the transfers and his desire to provide them with steady work and steady pay. The union members, understanding the advantages to them of the transfer plan, obtained a reversal of their business agent's veto and the plan was installed.

There are relatively few obstacles which cannot be modified, overcome or explained. When employers accept that fact and proceed accordingly, the standard of living of the American worker and the American community will rise to even greater heights. We, accordingly, view the future of employment stability with great optimism, based on the sound principle that individual enterprise will continue to pioneer in industry with emphasis on human and social values.

Promising Outlook for Future

As more and more employers, big and small, realize the opportunities which are open to them to improve their operating programs in such fashion that there are fewer short-term layoffs and that sometimes they are eliminated entirely, there is every reason to believe that they will increase their efforts in this direction. We have every reason to believe that the ingenuity, initiative and courage which management has displayed in the past, with the result that America's standard of living is the envy of the world, will be brought increasingly to bear on this human problem. As employers gain knowledge of their individual employment stabilization problems and develop methods and personnel to deal with them, there will come the assurance of winning ever closer to the goal of employment stabilization for industrial wage-earners.

The success of the NAM Employment Stabilization Program should encourage employer groups throughout the country, in every city and hamlet, to join together for an exchange of information about problems, techniques and progress in the same fashion as the NIC affiliates have been doing. For their use, the NAM has prepared a Manual on holding industry clinics on employment stabilization and a list of techniques which have been suggested or endorsed by employers who have participated in the 1947 clinics. (Appendix B.)

Thus, the NAM confidently expects that programs to stabilize productive employment will continue to be stressed on the home grounds of each employer and developed further by the outstanding ingenuity which typifies American management.

APPENDIX A

THE EASTMAN KODAK COMPANY PLAN

This program has been successful over a long period of time. Instituted in 1904, a more formalized program combining engineering-statistical approaches was begun after World War I.

The basic methods of stabilization which the Company employs includes three major steps:

1. Sales forecasts with careful measurements of seasonal variations;
2. Determination of production levels;
3. Control of stock levels.

Sales Forecasts

A reasonably accurate sales forecast by product and product group is an essential step in any program of production control. It is also one of the most difficult. It establishes the volume of business anticipated, production levels, and is the basis for anticipating and adjusting problems in advance of their occurrence. The forecast combines sales, advertising and product research plans in relation to the current state of business.

Production Levels

a. Monthly sales rate, expressed as a per cent of the year's production, establishes the basis for calculation of stock and production levels.

b. Establishment of production levels determines the employment level and plant requirements for the year. Allowance is made for holidays and peak demands for vacation.

c. Determination of minimum point of stocks for the year is an important element since it is the basis for the calculation of "normal stock" level for each period during the year. The minimum is set at the lowest level consistent with service to the customers and the anticipated seasonal variation in sales, and is a fraction of estimated annual sales and rate of production.

Control of Stock Levels

Maximum and minimum stock levels are used to adjust the "normal stock" levels to unpredictable variations in sales from week to week. Adjustments in production trends so that there will be an absolute minimum of unstabilizing results.

Such control methods apply to each producing department as a whole as well as for each product since stabilized production depends upon a constant total production even though individual products may fluctuate.

Results of the Program

Despite a wide variation in sales (27% from the average of the year) stabilized production and steady employment are achieved.

APPENDIX B

OUTLINE OF EFFECTIVE PROCEDURES ON EMPLOYMENT STABILIZATION

(Summarized from Employment Stabilization Clinics)

I. Factors to consider in determining the extent of employment stability of a company.

Note: Analyses should be made not only for several "normal" years but for a year of maximum activity and also one or more years of depression activity.

A. Analysis of employment by individual, department and plant.

1. Number of employees on the payroll per week -- per year.

2. Present number of hours each employee works per week -- per year. according to:

   a. Length of service
   b. Skill classification
   c. Sex
   d. Age
   e. Department
   f. Product on which they work
   g. Annual earnings

3. Analysis of voluntary reasons for lost time owing to employee action.

   a. Absenteeism, illness, leave of absence, strikes, etc.

4. Analysis of involuntary reasons for lost time owing to employer action or inaction.

   a. Inventory shutdowns
   b. Material and parts shortages
   c. Machine or power failures
   d. Lack of orders

5. Analyze the unemployment compensation benefits withdrawn by company employees since beginning of benefit payments.

B. Analysis of production level per week -- per year.

1. By product

2. By production unit

3. By totality of product

4. Future prospects in light of:

   a. New production techniques
   b. Raw material supply

5. Production curve should be compared with employment curves

C. Analysis of sales per week -- per year.

1. By products
2. By products grouped according to production units
3. By totality of products

4. Analysis of future sales prospects in view of:

   a. Competition
   b. Market research reports

5. Sales curves should be compared with production and employment statistics.

II. Techniques to reduce fluctuations.

A. Sales techniques

1. Change habits of customers

   a. Advertising, timing of annual showing of new models or new proucts, etc.

2. Diversification of products

   a. Develop new products with a seasonality which dovetails with existing products.

3. Stimulate "off-season" buying

   a. Price concessions, assured delivery dates, etc.
   b. Provide incentive to salesmen
   c. New packaging at beginning of dull season.

4. Avoid specialty items, cataloguing products for buyers selection from standardized articles.

5. Establish quotas with maxima and minima based on sales forecasts and production possibilities.

B. Production techniques

1. Manufacture for inventory

   a. If not finished article, standardized parts

2. Defer work for slow periods

   a. Maintenance, clean-up, etc.
   b. Long-term orders and standard items

3. Sub-contract items which interrupt normal production flow

C. Employment techniques

1. Centralized employment control

   a. To inventory job requirements and skills available
   b. To govern hiring and layoffs
   c. To effect transfers as needed

2. Training program

   a. To increase versatility and flexibility of labor force (May require union contract changes)
   b. To achieve cooperation of entire management personnel

3. Utility crews or labor pool

   a. To break "bottlenecks" in production
   b. To fill in during vacation periods and for absentees

4. Educational activities

   a. To "sell" program to employees
   b. To improve public relations
   c. To improve labor-management relations

5. Schedule vacations during slow season if production is not stabilized or when plant is closed for inventory, repairs, etc.

D. Community Stabilization of Employment

1. Establish needs by seasons of all community industries. Then transfer from slow company to busy company and back again when original company becomes busy. (Note: The individual company benefits to a lesser extent than when it is busy the year 'round, but the community at large does benefit.)

III. Organization of Management

A. Formulating Plan

1. Primary responsibility on top officers

2. One top executive should be authorized to develop plan, assisted by:

   a. Sales
   b. Production
   c. Production Planning
   d. Research
   e. Finance
   f. Industrial Relations
   g. Public Relations

3. Cooperation of all line and staff departments is essential

B. Effectuating Plan

1. Same executives as in ordinary business activities, with increased emphasis on:

   a. Sales forecasting
   b. Production planning
   c. Employment practices
   d. Research

(Note: The responsible executives will differ according to nature of organization plan, size of company and interest and ability of men involved.)

SIXTH ANNUAL SUMMER MANAGEMENT CONFERENCE

September 15-18, 1954
Ahwahnee Hotel - Yosemite

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SIXTH ANNUAL SUMMER MANAGEMENT CONFERENCE

Program for Friday, September 17

9:00 Concurrent Workshop Sessions

NEGOTIATION AND ADMINISTRATION OF HEALTH AND WELFARE PROGRAMS — California Room

Leaders:
- Arthur Ross
- Edgar L. Warren

Discussants:
- Richard Baisden, Institute of Industrial Relations, University of California, Los Angeles
- Robert R. Grunsky, Managing Director, California Metal Trades Association, San Francisco

ARE WE GETTING WHAT WE WANT FROM HUMAN RELATIONS TRAINING? — Colonial Room

Leaders:
- Mason Haire
- Douglas McGregor

Discussants:
- Neal Hammond, Manager, Industrial Relations, Ford Motor Company, Richmond
- Robert Mitchell, Personnel Director, Mattel, Inc., Los Angeles

BANK CREDIT -- EFFECTS AND CONTROLS — Writing Room

Leader:
- Frank Kidner

Discussant:
- Lloyd E. Graybiel, Vice President, American Trust Co., San Francisco

10:30 Coffee — East Terrace

11:00 Concurrent Workshop Sessions

EMPLOYMENT SECURITY PROBLEMS — California Room

Leaders:
- Arthur Ross
- Edgar L. Warren

Discussants:
- Joseph W. Garbarino, Asst. Prof. of Bus. Admin. & Asst. Res. Economist, Institute of Industrial Relations, University of California, Berkeley

Discussants (cont.):
Robert R. Grunsky, Managing Director, California Metal Trades Association, San Francisco
David G. Soash, Dir. of Industrial Relations Research, Merchants & Manufacturers Asso., Los Angeles

ADAPTING MANAGEMENT'S FUNCTION IN A GROWING FIRM — Colonial Room
Leaders:
Mason Haire
Douglas McGregor
Discussants:
Gardner W. Carr, Director of Administration, Marquardt Aircraft Company, Van Nuys
Joseph M. Trickett, Coordinator, Management Development, Food Machinery & Chemical Corporation, San Jose

GOVERNMENT TAXING, BORROWING AND SPENDING POLICIES — Writing Room
Leader:
Frank Kidner
Discussants:
Phillip Neff, Asso. Prof. of Bus. Economics & Asso. Res. Economist, Institute of Industrial Relations, University of California, Los Angeles
Eliot J. Swan, Chief, Research Department, Federal Reserve Bank of San Francisco

12:30 Lunch — Dining Room

2:00 Concurrent Workshop Sessions

CURRENT COLLECTIVE BARGAINING DEVELOPMENTS — California Room
Leaders:
Arthur Ross
Edgar L. Warren
Discussants:
Benjamin Aaron, Asso. Research Economist, Institute of Industrial Relations, University of California, Los Angeles
Vincent H. Brown, General Manager, San Francisco Retailers' Council, San Francisco
Albert Brundage, Attorney, Tobriner & Lazarus, San Francisco

PROS AND CONS OF EXECUTIVE DEVELOPMENT — Colonial Room
Leaders:
Mason Haire
Douglas McGregor

Discussants:
Ian M. Ferguson, Asst. to Pres., Personnel, Western Pacific Railroad Co., San Francisco
Lee Stockford, Industrial Relations Rep., Lockheed Aircraft Corporation, Burbank

MANAGEMENT OF THE PUBLIC DEBT — Writing Room
Leader:
Frank Kidner
Discussant:
Alger J. Jacobs, Vice President, Anglo California National Bank, San Francisco

3:30 Recess

6:30 Dinner Meeting — Dining Room
Chairman:
Lon R. McIntire, Manager of Personnel, Pacific Electric Railway Co., Los Angeles
Speaker:
Robert W. Conder, Vice President & Director of Industrial Relations, Chrysler Corp., Detroit
Topic:
"The Opportunity of Industrial Relations to Contribute Constructively to Company Success"

9:00 Firefall

9:15 Informal discussion with Mr. Conder — Colonial Room

DISCUSSION QUESTIONS FOR COLLECTIVE BARGAINING WORKSHOPS

9:00 NEGOTIATION AND ADMINISTRATION OF HEALTH AND WELFARE PROGRAMS

1. What has been the trend in costs under health and welfare plans?

2. What steps may be taken to keep doctor and hospital costs within a reasonable limit?

3. What methods have been found useful in the education of employees in the use of health plans?

4. What are the relative merits of contributory and non-contributory plans?

5. What other administrative problems arise out of the negotiation and administration of health and welfare plans?

6. In the negotiation of health and welfare plans what considerations should determine whether cents per hour or benefits should be negotiated?

11:00 EMPLOYMENT SECURITY PROBLEMS

1. What are some of the problems of administration and control that would result if a guaranteed wage plan were tied in with state unemployment compensation systems?

2. What changes in union thinking on the guaranteed annuals wage seem to have taken place in the past few years?

3. What is the best type of plan for various industries with different seasonal and cyclical patterns of production?

4. What methods of stabilizing production have been successfully developed by companies with existing employment security plans?

2:00 CURRENT COLLECTIVE BARGAINING DEVELOPMENTS

1. What are some of the new policy changes being introduced by the new National Labor Relations Board?

2. What effect, if any, will the new policy of the Defense Department in letting bids have on collective bargaining?

3. What is the trend, if any, among smaller employers to form multi-employer collective bargaining groups? What are the advantages and disadvantages of this arrangement?

Speech by Robert W. Conder, Vice President and Director of Industrial Relations, Chrysler Corporation, at the closing dinner session of the Sixth Annual Summer Management Conference sponsored by the University of California, held at the Ahwahnee Hotel, Yosemite National Park, Friday, September 17, 1954.

THE OPPORTUNITY OF INDUSTRIAL RELATIONS TO CONTRIBUTE CONSTRUCTIVELY TO COMPANY SUCCESS

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I have selected as my subject "The Opportunity of Industrial Relations to Contribute Constructively to Company success." It is my belief that we are faced today with a somewhat improved set of circumstances which provides us with an opportunity to make a decisive new contribution to the success of our companies.

There are some of you here today who can recall with me times and conditions markedly different from those of the present--times when we were so busy representing our companies in union negotiations, minimizing destructive demands and actions of the union, that we had no time for constructive action of our own. As a matter of fact, for about two decades conditions were not very conducive to a positive and constructive approach by management to its industrial relations problems. With the enactment of the National Recovery Act unions stepped up their efforts to represent employees and to bargain collectively. Employers were definitely on the defensive. Moreover, they were shackled by interpretations of the provisions of the National Labor Relations Act, the effect of which was to restrict the manner and the frankness with which employers could reply to union propaganda.

In contract negotiations unions made demands for wage increases, other financial concessions, and alterations of conditions of employment which, if not then, were at least to become serious handicaps to companies at a later time when it became necessary for them to streamline cost structures and increase operating efficiencies in order to meet competition.

When World War II started there was a great need for military material. The prime objective of everyone was to place munitions and supplies in the hands of our troops. Many considerations, including the furtherance and even preservation of sound industrial relations policies, were subordinated to getting the supplies to our troops and winning the war.

Civilian goods, in short supply both during the war and immediately thereafter, could be sold at almost any price. When the price could be raised to offset increased costs without losing sales, companies frequently made wage or operating concessions which increased costs rather than risk a strike which would mean loss of sales.

The collective bargaining position was further worsened, from industry's standpoint, for another reason. When a company did decide to forego current sales rather than accede to union demands which impaired their operating efficiencies, a federal government, politically indebted to the unions, would enter the dispute and assist in persuading the company to accede to the union demands.

These were conditions which not only prevented industrial relations people during those times from contributing constructively to their company's success, but actually led to practices which were detrimental to company success.

In contrast with the conditions I have described, the present looks somewhat more promising. We are witnessing, for instance, a new attitude of the Federal Government toward the relationship of management and labor. The present administration, in the words of the Secretary of Labor, James P. Mitchell, is following the policy of "leaving to labor and management the solution of their own labor relations problems." This policy, in his opinion, has brought about "more genuine collective bargaining," and has been responsible in large measure for the fact that management and labor "worked out their labor relations issues (in 1953) with smaller losses of man-hours than in 1952."

In California you have seen the settlement of the North American Aviation strike without government intervention. The recent steel settlement, where employer and union representatives got together and worked out their differences is another example of constructive progress under the new policy.

Concurrent with this reduction in governmental participation in labor relations matters has come an end to the era of World War II and the early postwar years when volume production was given greater importance than economical production. With sufficient goods to satisfy the demand, customers have again been able to choose what they prefer and manufacturers, as well as retailers, have been discovering that quality and price are both necessary to meet competition. Throughout the entire range of American business, companies have had to review their operations searchingly to make them more efficient.

The return of competitive conditions, added to the fact that unions and managements are now negotiating their agreements without government interference, provides a more favorable climate in which industrial relations people do indeed have a better opportunity to contribute constructively to company success than at any time in at least twenty years.

This new set of conditions gives us a change, first of all, to sell our own companies on the importance of improved employee relations and of greater investment in the company's human resources.

We hear a lot these days about investment in new plant and equipment, and expenditures for research and exploration. We get a lift out of news about increased investment because we know it means greater competitive strength for our own companies and growth for our country's economy. Moreover, we know that investment in growth is usually the result of the forward look and the new idea. Along with our typical

American enthusiasm for progress in terms of machines and products and processes, however, none of us can ever forget--and no one in this audience is likely to forget--that it is people who have the new ideas--people who do the work. If this country is to continue to grow as we all expect it to, we must invest more thought and time in getting the maximum firepower from the men and women who make industry go and make it grow.

In some ways one of the most important parts of our job is to sell our companies on making that investment. I feel sure there isn't a man here today who is satisfied with the results achieved by his own company in this human phase of its work. And there isn't a man here who doesn't feel that more progress could be made if more time, thought and money were spent on that effort.

How many hours, days, weeks, and sometimes months are spent by our companies in research and testing to determine the best kind of plant construction and the best types of machines to help them meet and beat their competition? And compared with that expenditure of time devoted to the selection of the best plants and machines, how many hours are devoted to devising methods of selection, and the actual selection of the best qualified people to operate those machines and supervise those plants?

After the plants and the machines have been acquired, how much time is spent on studying the functions and proper arrangement of the machines in the plants in order to make them more productive? And, by comparison, how much thought and consideration is given to plans for improving the capabilities of the people in the plants and throughout the company--and in defining and aligning jobs to avoid overlapping of functions and to avoid also the failure to do necessary things because no one has the specifically assigned responsibility for them.

How much time is spent in planning the flow of materials to the machines? And on the other hand, how much time is devoted to maintaining an effective flow of communications downward and outward from management to the people in every part of the organization--and the reverse flow of communications from all those people back to management?

How much thought is given to developing and improving lubrication systems to keep machinery running smoothly and without excessive wear and tear? And how much time is spent on developing attitudes of willingness and spontaneity in people so they will carry out--with as little friction as possible--the jobs assigned to them?

Most of us in this room would enjoy nothing more than to answer those questions--and I know our answers would be emphatic. The truth is that even though the newer body of experimentation and analysis and greater interest has brought much new hope, vigor and accomplishment into the practice of industrial relations, the general area of industrial relations is still a frontier--a frontier that we have only begun to push back--a frontier, moreover, on which there are untapped resources of immense magnitude. Anything we can contribute to enlarging the total area of understanding between management on the one hand and the whole working force, professional and non-professional, on the other, is sure to be of great benefit to our companies.

A little over a year ago, Chrysler Corporation had an experience here in California that shows what I mean. Last summer we turned out the one-millionth Chrysler Corporation vehicle produced in this state, and to celebrate the occasion we held open house at our Los Angeles plant. Arrangements for the open house were worked out in consultation with officers of the union, who sat in our open house committee and contributed very constructive suggestions to the success of the occasion. Over 50,000 visitors came to that open house. Workers brought their families and friends and showed them on which part of the assembly line they worked. Shop stewards were among those who acted as guides and barkers, explaining to the public with pride and considerable showmanship how the line worked.

The results of the open house were immediately noticeable. The general working atmosphere became more positive and more cheerful. Morale was definitely higher. There was an easier spirit of cooperation, and less bickering. But this was not all. There was another result that was far more convincing to management of the value of this improved spirit in the plant. In the days immediately following the open house, the plant superintendent noticed that activity had fallen off suddenly and sharply in a part of the assembly line where he wanted activity to fall off--namely, in the repair department. A far higher percentage of cars were passing inspection, with no adjustments or repairs needed, than had passed inspection in the period immediately preceding the open house. Pride in the job, good spirit between foremen and workers and between management and union representatives, participation in putting on a good public show that meant some measure of personal recognition--all these things had been translated into efficiency, and, if you will, into lower production costs.

Unfortunately, it is not often that we who work in the field of industrial relations can offer such concrete proof as this of the value of what we try to do. Sometimes we can see the results of our work in the continuity of production where previously there had been work stoppages, in low labor turnover where turnover had been high, and in an increased rate of production on the part of a group receiving special training. For the most part, however, we must be content with less measurable results, such as better morale, fewer and milder grievances, and increased interest in training programs and company activities.

In the crucially important area of company-union relationships, especially with regard to understandings on wage rates and working conditions, the new set of circumstances facing us today may provide some unlooked-for opportunities for constructive cooperation. In this connection, it is instructive to examine what took place at Studebaker recently when the management requested the employees to take a wage cut to help the company improve its competitive position.

The UAW-CIO recommended that the employees accept the reduction. Nevertheless, at first the employees voted against it. Following further explanations by both management and the union a large majority voted to accept the reduction. The realities of the situation--when understood--produced a decision in line with the common interests of management and employees.

I do not think unions are going to volunteer to give up anything which they believe is to the advantage of their members. I do think unions are going to take a much more critical and careful look to see if what they previously considered a gain is under present circumstances a benefit to their members.

Management must continue to insist on those things which are essential to company success. It knows, and I am convinced that union leadership knows, that success in today's business climate depends upon whole-hearted, positive co-operation of all to produce quality products at competitive prices. In its dealings with employee organizations management should, I believe, start with the assumption that union leadership understands the economic realities of the present and is willing to enlist the loyalties and the energies of the employees. This is a time for constructive action by both parties toward company success—a time when efforts to make gains for the mutual good of the employees and the company should be undertaken in a spirit of cooperation. It is not a time for either party to try to take advantage of the other.

Underlying all effective industrial relations, either in the field of collective bargaining or in the day-to-day relationships on the job is the awareness of this community of interest. This is the key concept underlying most efforts to create a better human atmosphere in modern industry. Our problem is to find an increasing number of practical ways to promote a growing awareness of this community of interest.

It is fairly obvious to employees that they do not do well if the company doesn't do well. Loss of business means loss of work opportunity. Some employees are laid off. Those remaining, though their hourly rate is high, will have lower earnings because their hours of work are irregular.

The real difficulty lies in convincing the individual worker that the way he or she does his own job has any bearing whatever on the success of the company. The larger the group and the greater the break-down of operations the more difficult it is to impress upon an employee that his performance shows up in company performance, and that he cannot expect someone else to make up for his deficiencies. One way to attack this problem is to show to supervisors, union representatives, and the individual employee involved letters from customers making complaints which could have been avoided if the employee had done his work properly. The customer's dissatisfaction with his work brings home to the employee that the way he does his work may mean the difference between a customer who buys again and one who does not.

Studebaker needed a reduction in wages to be competitive. Other companies need a greater application of employees to their work. If this is to be accomplished, employees must be made aware that the company must have equivalent performance and equivalent facilities to those of its competition if it hopes to meet its competition--and better performance and better facilities if it expects to beat its competition.

What I have been saying, of course, is that the problem of establishing a community of interest between employees and management is the old problem of effective communication. It is a problem that never will be completely solved as long as human beings are human beings. But we can make progress--by making better use of the fundamentals we all know. One of those fundamentals we can never afford to forget is the key role of the union representative in this matter of communications.

It has been my experience that changes in working arrangements should be completely discussed with, and explained to, union representatives not only before the changes are put into effect, but even before the employees are told the changes are to be made. A positive position on the union's part approving the change will help. A person can't be expected to approve a change which he doesn't understand. The natural reaction of any of us when we don't know why a situation should be changed is to favor continuing it as it is. That we understand. So by all means make sure the union representatives clearly understand in advance what the change is and why you are making it. Understanding may not always result in their cooperation but a lack of understanding of the reasons for a change will almost always result in a defense of the present arrangement.

The best of all avenues of communication between management and employees, in my opinion, is the foreman. It is the foreman who sees production from the point of view of the employee as well as from the point of view of management. It is the foreman who knows the employee by his first name, which in itself is a good start toward effective communication. It is the foreman who can best tell what management is doing and why. In short, the battle for better understanding can be won or lost depending on how able the foreman is to deal with his people, how well he can answer their questions, how successful he is in winning their trust, how skilled he is in the fine art of listening to them and understanding the reasons and the feelings that lie back of the things they say.

To equip the foreman with these skills is an important objective of any program of supervisory training.

At Chrysler Corporation one hour a week of each foreman's time is set aside as conference time. A variety of subjects are covered.

We have asked foremen from time to time which information is most helpful. Almost invariably they reply that they must know how to deal with people--with a wide variety of human situations and human temperaments. The foreman also needs to be completely informed about day-to-day developments in the plant. And to be effective as a leader with his men he needs to be well posted on the broader developments and plans of the company as a whole.

One of the foreman's greatest difficulties is that he stands at the bottom of the chute. Down that chute come orders and information through many levels of management, and when they reach him they are often hard to understand and interpret. I have sometimes thought of this situation as being somewhat like dropping a quarter-inch ball bearing through a screen of quarter-inch mesh. It is easy to drop a bearing through a single screen. However, put several layers of screen together and then try dropping the bearing through the mesh. If you have lined up the layers perfectly, the ball will still drop through. But it takes only a slight dislocation to cause obstruction. It is management's responsibility to see that these dislocations do not occur and that information and orders come to the foremen as clearly as possible and with full explanation. They must not be either delayed or garbled in transmission.

I have mentioned the importance of training foremen in the art of listening. I might say in this connection that it is equally important to train middle management in the art of listening to foremen. All of us know that listening to another person requires great skill, especially if that person is a subordinate. For generations some members of management have been accustomed to give commands and not ask for information or listen to the suggestions of those below them on the pay scales. Overcoming that ancient tradition where it exists is not easy.

The prime industrial relations objective is to employ responsible and competent people, train and stimulate them to put forth their best efforts, and to encourage them to coordinate their efforts effectively. Good cooperative attitudes in the people of an organization are induced by clear and fair management policies and procedures and the proper administration of them. Without these, satisfactory employee relations are impossible. For example, how can persons put forth their best efforts and coordinate them with others unless management clearly defines their responsibilities and those of the others with whom they must cooperate?

Industrial relations is responsible for suggesting and encouraging the adoption of policies which will contribute to good employee relations and the rejection of those which will not. If they are to carry out this responsibility effectively, industrial relations people should be consulted consistently in connection with decisions which may affect employee attitudes. They are being consulted to a greater degree today than ever before, and as the results of our work are manifested in greater company success their skills and judgement will be relied upon increasingly.

Our province is the human personality and its infinite variety. We deal not only with individual people and the tremendous range of their ideas and emotions and personal backgrounds, but with groups of people. And each group has its own traditions, its own values, its own ways of doing things, its own special brand of resistance to change.

Understanding people--as individuals and as groups--is not easy. As a matter of fact, no job is more difficult--and none is more fascinating. We have that job to do. To the extent that we do it well, we can unlock untold resources of talent and energy and initiative and good will that will help our companies to drive ahead.

Speech by Robert W. Conder, Vice President and Director of Industrial Relations, Chrysler Corporation, at the closing dinner session of the Sixth Annual Summer Management Conference sponsored by the University of California, held at the Ahwahnee Hotel, Yosemite National Park, Friday, September 17, 1954.

THE OPPORTUNITY OF INDUSTRIAL RELATIONS TO CONTRIBUTE CONSTRUCTIVELY TO COMPANY SUCCESS

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I have selected as my subject "The Opportunity of Industrial Relations to Contribute Constructively to Company success." It is my belief that we are faced today with a somewhat improved set of circumstances which provides us with an opportunity to make a decisive new contribution to the success of our companies.

There are some of you here today who can recall with me times and conditions markedly different from those of the present--times when we were so busy representing our companies in union negotiations, minimizing destructive demands and actions of the union, that we had no time for constructive action of our own. As a matter of fact, for about two decades conditions were not very conducive to a positive and constructive approach by management to its industrial relations problems. With the enactment of the National Recovery Act unions stepped up their efforts to represent employees and to bargain collectively. Employers were definitely on the defensive. Moreover, they were shackled by interpretations of the provisions of the National Labor Relations Act, the effect of which was to restrict the manner and the frankness with which employers could reply to union propaganda.

In contract negotiations unions made demands for wage increases, other financial concessions, and alterations of conditions of employment which, if not then, were at least to become serious handicaps to companies at a later time when it became necessary for them to streamline cost structures and increase operating efficiencies in order to meet competition.

When World War II started there was a great need for military material. The prime objective of everyone was to place munitions and supplies in the hands of our troops. Many considerations, including the furtherance and even preservation of sound industrial relations policies, were subordinated to getting the supplies to our troops and winning the war.

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The return of competitive conditions, added to the fact that unions and managements are now negotiating their agreements without government interference, provides a more favorable climate in which industrial relations people do indeed have a better opportunity to contribute constructively to company success than at any time in at least twenty years.

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HIGHLIGHTS OF THE WORKSHOP SESSIONS

Management Conference
1954

PSYCHOLOGICAL PROBLEMS IN MANAGEMENT — Mason Haire, Douglas McGregor

It is impossible, in a series of topics such as those listed here, to produce a brief list of anything that could be called "answers". All that can be extracted is a series of "threads of discussion" and points of general concern. These are suggested here under the headings in which they were discussed in the conference sessions. These suggested points are not even intended to be a "summary" in any sense. They are designed-as indeed the whole conference was designed-in the hope that they will stimulate on the part of the participants further thought in the area, each person restating the problems in terms of the factors and issues peculiar to his own company.

Session I. Are We Getting What We Want From Human Relations Training?
Conclusion: Only to a limited extent.
Reasons:

1. We haven't been clear about objectives.
   a. "Human Relations" is not a separate thing; it is a central part of all management activities. Training should be focused on developing competent managers.
   b. Good management involves different capacities at different levels of the organization. The good foreman is skillful at dealing with face to face personal problems. The good top manager is capable of using his staff to find solutions to broad policy problems, to help him make the best decisions on complex organizational matters. Middle and top management especially need the kind of training that helps them develop a broad philosophy; foremen need help in developing skills.
   c. Good managers are not all alike. Training should not seek to create a group of identical "good Joe's", but rather to help each individual become more effective in line with his "style" of leadership.
   d. The objective of human relations training is not to create an organisation of satisfied people. It is to create a healthy, motivated organisation in which there will inevitably be disagreement, constant dissatisfaction with things as they are, sometimes even conflict.
2. We haven't recognized clearly enough that what happens outside the training sessions may make all the difference in the success or failure of the program.
   a. Reinforcement and support for what is learned in training by the trainee's superior in the day to day job relationship.
   b. A general management philosophy which in daily practice is consistent with the type of training being given.

Session II. Adapting Management's Function in a Growing Firm

1. All firms are growing firms - not necessarily in number of employees, but in meeting internal changes with new products, processes, and materials, and in meeting external changes in the environment in which the firm is imbedded.
2. Among the things that develop with internal growth problems one might list:
   a. Gradual loss of contact (both ways) between the boss and lower levels
   b. The problem of developing supervisors fast enough
   c. The shift from proprietary to professional or hired management
   d. The shift to impersonal management as the managers lose individual contact
   e. The shift to specialized management

f. The shift to controlled management
g. The shift to decentralized
h. The shift to planned (policy-wise) management
i. The shift to developed (person-wise) management

3. Among external growths impinging on managerial functions, one might note such things as:
   a. The tendency toward a shorter work week and the demand for new managerial skills to deal with a part-time shift labor force.
   b. Greater security, including job stabilization or a guaranteed annual wage, with attendant motivational changes in the work force, again calling for new managerial skills.
   c. Automation, being an ultimate in a long term de-skilling process accompanying technological change also calls for new leadership techniques.
   d. As management continues to make the so-called "human relations" techniques explicit, it becomes increasingly apparent that they are not "fire-fighting" techniques, designed to deal with particular and immediate solutions, but are part of the long term company objectives and grow out of long term company problems.
   e. The shift in labor-management relations toward effective collective bargaining makes (and will continue to make) new kinds of demand on managerial function.
4. All of these problems seem to call for a more explicit awareness, on management's part, of what can only be called the "philosophy" of the company--a long, thoughtful consideration of the company's nature, its objectives in long-term terms, and the kinds of changes it must meet and must make over. Every manager should prescribe for himself frequent periods, with feet on desk, looking out the window, considering.

Session III. Pros and Cons of Executive Development

The following basic assumptions emerged from the discussion. Particular company programs might be evaluated against this check list:

1. The objective of executive development is the provision of a continuing supply of competent individuals at all levels of management so as to insure the successful survival of the company.
   "Competent individuals" does not mean people just like present management, but rather people capable of meeting the unforseen problems of ten or twenty years hence.
2. There is no single desirable executive type.
   a. Different positions, different companies, differing environmental conditions require different patterns of ability and competence.
   b. In executive teams, weaknesses on the part of one individual can be compensated for within limits by strengths on the part of others.
   c. Management should seek a "happy diversity" of talent in order to insure a lively, adaptable, healthy company.
3. Executive abilities are not inborn, but can be developed.
   Assuming adequate intelligence, motivation, and a reasonably normal adjustment.
4. There needs to be a conscious and well reasoned balance between promotion from within and recruitment of outside executive talent.
5. There should not be a group of "crown princes" for whom the executive development program is set up.
6. Good men do not <u>automatically</u> rise to the top.
7. There is no single best method for executive development.
   Coaching, job rotation, guided experience, on the job training and formal education all have their place.

8. The basic principle is: individuals develop themselves. The program should seek to provide opportunities for this to happen.
9. While an executive development program requires procedures and administrative machinery (manning tables, appraisal techniques, etc.), care should be exercised that these do not become ends in themselves. The focus is on the individual and his needs, not on the machinery.

COLLECTIVE BARGAINING — Arthur Ross, Edgar L. Warren

Session I. Negotiation and Administration of Health and Welfare Programs
Richard Baisden

1. Seemed to be no disagreement that health insurance is a good thing and is here to stay, but:
   a. Difference of opinion whether company-financed plan should:
      (1) pay health premiums for dependents
      (2) pay the entire premium for employee or should be contributory
      (3) provide just catastrophic coverage or cover small bills which add up to large sum in course of a year
   b. Difference of opinion whether:
      (1) health benefits should be on cents per hour basis, considered as wages in another form or
      (2) the benefits themselves should be negotiated rather than cents per hour
2. Agreed that health plans can't really be successful until abuses are controlled
   a. Abuses by doctors and hospitals:
      Doctors traditionally charge according to ability to pay, thus assume that patient with insurance can pay higher fees. This is in addition to the continual rise in medical costs faced by all patients.
      Hospitals aren't run efficiently and some have found ways to chisel on health plans.
   b. Abuses by patients:
      Problem of overutilization (unnecessary visits to doctor and unnecessary hospitalization).
3. Although should try to educate all participants, is a very difficult job to make them see importance of their role in protecting the plan.
4. Are specific steps to be considered in making health insurance more effective:
   a. Consider co-insurance wherein the patient pays a certain percent of the bill and the plan pays the rest. This would reduce patient abuse.
   b. Work with medical profession to persuade it to police itself by:
      (1) Ceasing to charge insurance patients according to ability to pay - charge instead according to a uniform fee schedule.
      (2) Discipline its own members who overcharge or abuse the plan.
   c. Take out of plans the features which invite abuse:
      (1) Coverage for diagnostic tests only when patient is hospitalized.
      (2) Blanket allowances which encourage some hospital administrators and doctors to give unnecessary services.
5. Agreed by all that management should play a larger role in supervising the administration of health plans and invite the cooperation of all other interested groups. Until some of these problems are solved, the employees will continue to be dissatisfied with existing plans, and will continue to ask for higher benefits resulting in higher costs to the company.

Session II. Employment Security Problems - Joseph W. Garbarino

Summarized below are the principal points brought out in the employment security discussions:

1. Employment and income security covers a wide variety of techniques including work sharing, government employment stimuli, modified pay plans to level income, policies to stabilize company sales and production and various types of wage guarantees. The major issue for most companies in the near future is likely to be demands for a shorter work week rather than guaranteed wages.
2. Companies in industries in which fluctuations in employment are primarily seasonal may be in a position to informally, or perhaps even formally, assure their workers of steady income if flexibility in planning is retained. This would be good business in addition to having favorable employee relations effects.
3. Companies in industries in which employment fluctuates violently for cyclical or defense reasons cannot afford to undertake a "flat guarantee" and should be skeptical of "limited liability" plans. Severance pay demands may turn out to be the bargaining issue in these cases.
4. While it was felt that wage guarantees do not appear to be a major issue in most industries, future developments depend on the overall performance of the economy and the level of protection from unemployment afforded by the unemployment compensation systems. Wage guarantees offer something to only part of a company's work force - the importance of the added income and the size of the group affected depends on the two factors noted above.
5. From management's point of view the best employment security system is provided by a high level of general business activity with state unemployment benefits to take up the slack. It was suggested that employer philosophy toward unemployment compensation should be reviewed in the light of its potential role in an overall security program.

Session III. Current Collective Bargaining Developments - Benjamin Aaron

I. Principle developments in past year:
   - A. Legislative
     1. No action on Taft-Hartley Act
     2. Communist Control Act of 1954
   - B. Administrative
     1. Newly constituted NLRB
     2. Changing NLRB policies
        - a. Interrogation of individual employees
        - b. Captive audience
        - c. Multi-employer lockouts
        - d. New jurisdictional rules
   - C. Judicial

     Continuing confusion over federal-state jurisdiction in labor relations matters
   - D. Collective bargaining
     1. Wage increases - 4 to 6 cents per hour
     2. Fringes - continued interest in health and welfare and pension plans
     3. Strikes - fewer strikes than in any year since the war
   - E. Labor movement
     1. Cohesive influences - no-raiding and jurisdictional pacts
     2. Devisive influences - refusal of Teamsters and Steelworkers to join in AFL-CIO no-raiding agreements

II. The outlook:
   - A. Increasing opposition by organized labor to decisions and policies of NLRB
   - B. Continuation of stiffening employer attitude to union wage and fringe demands
   - C. Probable increase in strikes

MONETARY POLICY AND ECONOMIC STABILITY-- Frank L. Kidner

In the section on Monetary Policy and Economic Stability the separate but related topics which were considered fall into three general groups. The first group of topics has to do with the manner in which the supply of money in the economy rises and falls with changes in the underlying economic conditions, changes in the expectations of the business community and of the banks, and with changes in the policies of the monetary authorities, principally the Federal Reserve System.

The second group of topics which were discussed related to the fiscal policy of the Federal Government, that is, the policies followed by the Administrator and the Congress as to the relationship between and absolute size of expenditures and tax revenues. In this connection we considered the effects of (1) a deficit budget (2) a balanced budget and (3) a surplus budget on, essentially, the increases and decreases in the size of the money supply.

Finally, the question of the management of the public debt was discussed in some detail. In this connection a variety of issues was raised, all of them relating to the consequences of varying public debt management policies for the rise or fall in the money supply.

These several subdivisions of the principal topic, since all of them have a quite direct bearing on changes in the size of the money supply, are closely related to the issues of economic stability and the level of employment. It is this latter relationship which gives the problem significance to business management. The persons occupying positions of responsibility in the management of business enterprise, both in their corporate role and in their roles as citizens have a substantial stake in high levels of employment without inflation--that is in economic stability. Decisions as to how and when to finance plant expansion; as to when and how much to increase or decrease inventories and a host of similar problems turn upon one's estimates, for the long or short run, of the probable levels of employment or prices. And the climate of collective bargaining may be quite different under conditions of high and rising levels of economic activity and inflation than they would be under deflationary or stable conditions.

Monetary policies have a substantial though by no means exclusive influence on these issues. This is the basis for the stake which management has in an understanding of the forces at work and in the maintenance and support of appropriate policies. These policies, directly or indirectly, have their effects by way of changes in the money supply--hence our interest in the roles of the banking system, the Federal Budget, and the management of public debt.

EVALUATION OF THE SUMMER MANAGEMENT CONFERENCE

Please do not sign your name.

The Institute of Industrial Relations is interested in your evaluation of this Conference. In planning next year's conference, we want to utilize wherever possible your suggestions, comments, and criticisms. We would appreciate it if you would give the following questions your careful consideration.

1. How well did the Conference satisfy your expectations?

   (a) _____ It was better than I expected.
   (b) _____ It lived up to my expectations.
   (c) _____ I was disappointed.

2. What were the strong points of the Conference?

3. What were its weaknesses?

4. Do you feel that the subjects covered at the Conference were:

   (a) _____ of vital interest to you.
   (b) _____ of some interest to you.
   (c) _____ of little interest to you.

5. If you have suggestions for speakers or topics which should be included in future conferences, please list them below.

6. An attempt was made to represent both "practical" and "academic" viewpoints balanced.

(a) _____ The proportions were about right.
(b) _____ The Conference was too "academic".
(c) _____ The Conference was too "practical".

7. To what extent was there appropriate balance between lectures and discussions?

(a) _____ The proportion was about right.
(b) _____ There should have been more time for discussion.
(c) _____ There should have been more lectures.

8. How do you feel about the length of the total Conference?

(a) _____ Too long.
(b) _____ About right.
(c) _____ Too short.

9. Do you have any other suggestions for scheduling the conference, either as to duration or time of year?

10. Do you think we should schedule next year's conference at Yosemite? __________

Other suggestions on location.

We would like you to rate the various sessions of the Conference using the chart below. In each case, check the appropriate space showing whether you thought the session excellent, good, fair, or poor in relation to the characteristic listed at the top of the column. Where you have indicated a session is fair or poor in one or more respects, we would particularly appreciate your using the comment column to tell us why you felt this way.

SESSION	CHOICE OF TOPIC	VALUE OF SESSION	EFFECTIVENESS OF WORKSHOP LEADER OR SPEAKER	COMMENTS
SIGNIFICANT ECONOMIC TRENDS Ewan Clague	Excellent Good Fair Poor			
MANAGEMENT'S I.O.U.'S Alexander Heron	Excellent Good Fair Poor			
THE OPPORTUNITY OF INDUSTRIAL RELATIONS TO CONTRIBUTE TO COMPANY SUCCESS Robert W. Conder	Excellent Good Fair Poor			
General Session on COLLECTIVE BARGAINING	Excellent Good Fair Poor			
General Session on PSYCHOLOGY	Excellent Good Fair Poor			

SESSION	CHOICE OF TOPIC	VALUE OF SESSION	EFFECTIVENESS OF WORKSHOP LEADER OR SPEAKER	COMMENTS
General Session on MONETARY POLICY AND ECONOMIC STABILITY	Excellent Good Fair Poor			
Workshop Session: NEGOTIATION AND ADMINISTRATION OF HEALTH AND WELFARE PROGRAMS	Excellent Good Fair Poor			
Workshop Session: EMPLOYMENT SECURITY PROBLEMS	Excellent Good Fair Poor			
Workshop Session: CURRENT COLLECTIVE BARGAINING DEVELOPMENTS	Excellent Good Fair Poor			
Workshop Session: ARE WE GETTING WHAT WE WANT FROM HUMAN RELATIONS TRAINING?	Excellent Good Fair Poor			
Workshop Session: ADAPTING MANAGEMENT'S FUNCTION IN A GROWING FIRM	Excellent Good Fair Poor			
Workshop Session: PROS AND CONS OF EXECUTIVE DEVELOPMENT	Excellent Good Fair Poor			
Workshop Session: BANK CREDIT - EFFECTS AND CONTROLS	Excellent Good Fair Poor			

SESSION	CHOICE OF TOPIC	VALUE OF SESSION	EFFECTIVENESS OF WORKSHOP LEADER OR SPEAKER	COMMENTS
Workshop Session: GOVERNMENT TAXING, BORROWING, AND SPENDING POLICIES	Excellent ____ Good ____ Fair ____ Poor ____			
Workshop Session: MANAGEMENT OF THE PUBLIC DEBT	Excellent ____ Good ____ Fair ____ Poor ____			