PROCEEDINGS

for the

NINTH ANNUAL SUMMER MANAGEMENT CONFERENCE

on

CHANGING CONCEPTS of COMPENSATION and RECRUITMENT

at

Yosemite National Park
June 5, 6, 7, and 8, 1957

Presented by:
Institute of Industrial Relations
Graduate Schools of Business Administration

University Extension
UNIVERSITY OF CALIFORNIA
Berkeley and Los Angeles

Conference Coordinators

Rogers Hoffman
Coordinator of Management Programs
Institute of Industrial Relations
University of California, Berkeley

Robert F. Smith
Administrator of Management Programs
Institute of Industrial Relations
University of California, Los Angeles

G E N E R A L   I N F O R M A T I O N

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Conference Staff

Conference Advisory Committee

Activities for Wives and Guests of Conferees

Registration by Individuals

Registration by Companies

Institute of Industrial Relations

W E L C O M E

On behalf of the University of California and of our Institutes of Industrial Relations and Graduate Schools of Business Administration at Berkeley and Los Angeles, we cordially welcome you to the Ninth Annual Summer Management Conference

One of the major obligations of the University is to support the advancement of knowledge. The other is to foster the dissemination of this knowledge among the people of California, through academic courses on campus and through public conferences of this kind. In these ways the University can best contribute to the welfare of the people it was created to serve.

This year the theme of the Yosemite Conference is Changing Concepts of Compensation and Recruitment. The subject is a timely one, for compensation has become one of the major focal points of rapid change in the broad and fast-developing field of industrial relations. What used to be a fairly simple question of rates of pay for services performed has now emerged as a broad collection of problems and issues involving fringe benefits, supplementals, statistical wage-fixing formulae, welfare funds, and inflation, not to overlook questions of incentives and mobility. Clearly, the first step is to analyze and understand these developments themselves. Equally important, they must be evaluated in the light of the community interest.

To deal with these questions effectively, we have organized the Conference in four general sessions, supported by five intensive workshops. Through the general sessions we present nationally-known experts from industry, organized labor, and the academic world, who will interpret major developments and issues from the standpoint of their special competence. By means of the workshops we want to draw the participants into extensive discussion of topics of decisive importance. Through these workshops we offer opportunity for the members of the Conference to share practical experience and to interpret and clarify problems and issues.

The annual Yosemite Management Conference has become an established institution within the University and we are very proud of it. We consider it a privilege to have you with us and look forward to a stimulating and rewarding experience.

Graduate School of Business Administration,
University of California, Berkeley.
E. T. Grether, Dean.

Institute of Industrial Relations,
University of California, Berkeley.
Arthur M. Ross, Director.

Graduate School of Business Administration,
University of California, Los Angeles.
Neil H. Jacoby, Dean.

Institute of Industrial Relations,
University of California, Los Angeles.
George H. Hildebrand, Director.

P R O G R A M

WEDNESDAY June 5, 1957

3:00 - 5:00 p.m.	Registration	Entrance Lobby
5:00 - 6:00 p.m.	Reception	Solarium
6:30 p.m.	Dinner	Dining Room
7:00 - 9:00 p.m.	Opening Activities	Dining Room
9:00 p.m.	Firefall	Terrace

THURSDAY June 6, 1957

7:30 a.m.	Breakfast	Dining Room
9:00 - 11:00 a.m.	First General Session John T. Dunlop	Indian Room
12:00 noon	Lunch	Dining Room
1:00 - 2:30 p.m.	Workshop Sessions (attend one)	
	Trends in Management Compensation and Recruitment	California Room
	Long-range Implications of Rising Labor Costs	Colonial Room
	Compensation Problems of the Small and Medium-sized Firm	Writing Room
6:30 p.m.	Dinner	Dining Room
8:00 - 9:30 p.m.	Second General Session Jack Conway	Indian Room

PROGRAM (cont'd)

<u>FRIDAY June 7, 1957</u>

7:30 a.m.	Breakfast	Dining Room
8:50 - 10:20 a.m.	<u>Workshop Sessions</u> (attend one)	
	Compensation and Recruitment Policies for White Collar and Professional Employees	California Room
	New Areas of Supplemental Compensation	Writing Room
	Long-range Implications of Rising Labor Costs	Colonial Room
10:30 a.m.	<u>Workshop Sessions</u> (attend one)	
	Trends in Management Compensation and Recruitment	Colonial Room
	Compensation and Recruitment Policies for White Collar and Professional Employees	California Room
	Compensation Problems of the Small and Medium-sized Firm	Writing Room
	New Areas of Supplemental Compensation	Game Room
12:00 noon	Lunch	Dining Room
1:30 - 3:30 p.m.	Informal Discussions	To be arranged
6:30 p.m.	Dinner	Dining Room
9:00 p.m.	Firefall	Terrace

<u>SATURDAY June 8, 1957</u>

7:30 a.m.	Breakfast	Dining Room
9:00 - 10:30 a.m.	<u>Third General Session</u> John I. Snyder, Jr.	Indian Room
10:40 a.m.	<u>Final Session</u> Benjamin Aaron	Indian Room
12:00 noon	Lunch	Dining Room

C O N F E R E N C E   P R O C E D U R E S

The following information and suggestions are offered to assist you and the Conference staff in making the program run smoothly:

Badges: There will be many visitors at the Ahwahnee Hotel who are not connected with the Conference. So that conferees may be identifiable to one another and to the staff, please wear your badge to all Conference activities.

University staff members can be identified by the gold star on their badges. If you have any questions or suggestions, please feel free to go to any staff member. If he can't help you he will refer you to someone who can.

Schedule: Please be prompt in your attendance at the various sessions. Mealtime at the Ahwahnee is traditionally a leisurely and pleasurable period. To enjoy it to the full and still be on time at the Conference sessions, it is suggested that you go to the Dining Room early when a general session on workshop is scheduled closely after a meal. Breakfast will be served from 7:30 to 9 a.m., lunch from 12 noon to 1:30 p.m., and dinner from 6:30 to 8 p.m.

Tipping in the Dining Room: Tipping in the Dining Room can present a problem. A custom has grown up at the Conference which seems to work out nicely in this situation. Conferees have the Hotel add a 10% increment to their bill, which goes to the Dining Room employees who serve them. However, if you prefer handling this in some other way, please let the Hotel know your wishes.

The Proceedings: This volume is a combination of pre-Conference workbook and post-Conference proceedings. It has been put together to give you a permanent record of the Conference. You may notice that there are seven sections: General Information, General Sessions, and five Workshop Sessions. The materials in the Workshop sections are designed to supplement the areas covered in the discussions. An edited transcript of the workshop sessions plus the proceedings of the General Sessions will be distributed at the end of the Conference.

Informal Discussions: Opportunities are available for groups to get together and discuss topics of mutual interest. If you would like to help to develop such a group, talk to one of the Conference staff members who will help arrange for a meeting room and appropriate announcements.

Checkout Time: Checkout time at the Ahwahnee is 2:00 p.m. Please advise the hotel as soon as possible of any change in your previously indicated plan for departure.

CONFERENCE STAFF

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

HELEN BARRY, Institute of Industrial Relations, University of California, Berkeley

GEORGE H. HILDEBRAND, Director, Institute of Industrial Relations, University of California, Los Angeles

ROGERS HOFFMAN, Coordinator of Management Programs, Institute of Industrial Relations, University of California, Berkeley

ARTHUR M. ROSS, Professor of Business Administration and Director, Institute of Industrial Relations, University of California, Berkeley

JUDY SAGER, Extension Representative, Institute of Industrial Relations, University of California, Los Angeles

JOE SILVERMAN, Proceedings Editor, Institute of Industrial Relations, University of California, Los Angeles

ROBERT F. SMITH, Administrator of Management Programs, Institute of Industrial Relations, University of California, Los Angeles

C O N F E R E N C E   A D V I S O R Y   C O M M I T T E E

K. K. ALLEN, Manager, Industrial Relations, Southern California Edison Company, Los Angeles

VINCENT H. BROWN, General Manager, San Francisco Retailers' Council, San Francisco

SHELDON CAMPBELL, Supervisor of Training, Rohr Aircraft Corporation, Chula Vista

A. MAXWELL CLARK, Director, Industrial Relations, Hughes Tool Company, Culver City

J. HART CLINTON, Executive Vice President, Distributors Association of Northern California, San Francisco

LOUIS H. ERB, Assistant Vice President, Pacific Telephone & Telegraph Company, San Francisco

IAN M. FERGUSON, Assistant to President, Personnel, The Western Pacific Railroad Company, San Francisco

ROBERT FOX, President, Food Employers Council, Inc., Los Angeles

BRUCE GRUBE, Director, Management Development and Training, Kaiser Steel Corporation, Fontana

ROBERT R. GRUNSKY, Managing Director, California Metal Trades Association, San Francisco

G. C. HENRY, Manager, Employment and Labor Relations, California Packing Corporation, San Francisco

NORMAN M. KELLETT, Assistant Director, Industrial Relations, Norris-Thermador Corporation, Los Angeles

JACK B. McCOWAN, Secretary-Treasurer, Fireman's Fund Insurance Group, San Francisco

L. R. McINTIRE, Manager, Personnel, Pacific Electric Railway Company, Los Angeles

MAXWELL E. NELSON, Director, Industrial Relations, San Diego Gas & Electric Company, San Diego

LARRY PAUTLER, Civilian Personnel Director, Headquarters, 11th Naval District, San Diego

IRVING PFEFFER, Assistant Professor, School of Business Administration, University of California, Los Angeles

ROBERT L. RASCHEN, Personnel Manager, Precision Technology, Inc., Livermore

T. R. SANDBERG, Vice President for Manufacturing, Cutter Laboratories, Berkeley

JULIAN SIEROTY, President, Eastern Columbia, Inc., Los Angeles

WILLIAM H. SMITH, Director of the Department of Research and Analysis, Federated Employers of San Francisco, San Francisco

DAVID G. SOASH, Director, Employee Relations, Merchants & Manufacturers Association, Los Angeles

C. T. SPIVEY, Director of Employee Relations, Columbia-Geneva Division, United States Steel Corporation, San Francisco

LOUIS TABAK, President, Tabak of California, Los Angeles

EDWARD E. TUTTLE, Executive Vice President, Essick Manufacturing Company, Los Angeles

JOHN R. VAN DE WATER, Head, Executive Program, Graduate School of Business Administration, University of California, Los Angeles

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

JOHN V. ZUCKERMAN, Manager, Personnel and Plant Services, Ampex Corporation, Redwood City

ACTIVITIES FOR WIVES AND GUESTS OF CONFEREES

The following information may be helpful to the families and guests of conferees attending the Ninth Annual Summer Management Conference at Yosemite, June 5th to 8th, 1957. When they are not busily engaged in Conference sessions, conferees may wish to take advantage of these pleasure possibilities, too.

MEAL TIMES in the dining room are: breakfast, 7:30 - 9 a.m.; lunch, 12 noon - 1:30 p.m.; and dinner, 6:30 - 8 p.m.

COLOR SLIDES of exotic and rare scenes in Europe and Asia will be a feature attraction on Thursday in the Indian Room. Ballots will be available at Conference registration table for helping to select the countries whose people and places will be shown.

It's an easy walk to the YOSEMITE GOVERNMENT MUSEUM. Daily lecture at 11 a.m. by the Park Naturalist.

GOLF at the Ahwahnee Pitch and Putt Golf Course. Balls, tees, and scorecards are available at the Greenskeeper's. Course is open from 8 a.m. to 6 p.m. daily.

TENNIS on the Ahwahnee courts.

Two-hour guided HORSEBACK RIDING from Yosemite Stables. Morning and afternoon.

PING PONG in the Ahwahnee Game Room.

RIVER SWIMMING in the Merced River at the foot of the Ahwahnee gardens; also, POOL SWIMMING at both Camp Curry and Yosemite Lodge, approximately one mile from the Ahwahnee. Cards are available at hotel desk which admit guests to the pool free.

BICYCLES are for rent at either Camp Curry or Yosemite Lodge.

INFORMAL BRIDGE, CANASTA and SCRABBLE may be played in the Solarium.

Just plain RELAXING in the sunshine on the lovely Ahwahnee East Terrace

continued

ACTIVITIES (cont'd)

It is suggested that the ladies bring comfortable shoes for WALKING which is always a popular pastime in the Valley. For example, a walk to Vernal Falls bridge is delightful.

The AHWAHNEE GIFT SHOP offers all the newspapers, popular magazines, and it also has some drugs. The Yosemite OLD VILLAGE (approximately one mile and a half away) carries sport clothes and horseback riding apparel.

DAILY TOURS, either in company busses or in private cars to such not-to-be-missed spots as the Mariposa Grove of Big Trees and Glacier Point, are also available.

AFTERNOON TEA is served daily from 5 to 5:30 p.m. on the Ahwahnee East Terrace.

DANCING and cocktails in the Indian Room nightly after viewing the FIREFALL from the Ahwahnee East Terrace or Glacier Point at 9 p.m.

PURPOSE AND FUNCTION OF THE INSTITUTE OF INDUSTRIAL RELATIONS

Few areas in the domestic social life of the nation are vested currently with greater public concern than the field of industrial relations. The development of better relationships between organized labor and organized employers, and the integration of these relationships with the interests of the individual citizen and the nation as a whole, constitute one of the most serious problems facing our economic and social system today.

The Legislature of the State of California expressed its desire to contribute to the solution of this problem when, in 1945, it established an Institute of Industrial Relations at the University of California. The general objective of the Institute is to facilitate a better understanding between labor and management throughout the state, and to equip persons desiring to enter the administrative field of industrial relations with the highest possible standard of qualifications.

The Institute has two headquarters, one located on the Los Angeles campus and the other located on the Berkeley campus. Each headquarters has its own director and its own program, but activities of the two sections are closely integrated through a Coordinating Committee. In addition, each section has a local Faculty Advisory Committee, to assist it in its relations to the University; and a Community Advisory Committee composed of representatives of labor, industry, and the general public, to advise the Institute on how it may best serve the community.

The program of the Institute is not directed toward the special interests of either labor or management, but rather toward the public interest. It is divided into two main activities: investigation of the facts and problems in the field of industrial relations, which includes an active research program and the collection of materials for a research and reference library; and general education on industrial relations, which includes regular University instruction for students and Extension courses and conferences for the community.

G E N E R A L   S E S S I O N S

JOHN T. DUNLOP, Professor of Economics, Harvard University, Cambridge

The Impacts of Collective Bargaining upon Systems of Compensation

JACK CONWAY, Administrative Assistant to the President, United Automobile, Aircraft and Agricultural Implement Workers of America, AFL-CIO, Detroit

Goals of Labor in an Expanding Economy

JOHN I. SNYDER, JR., President and Chairman of the Board, U. S. Industries, Inc., New York City

Employers' Responsibilities and Opportunities in the Administration of Health and Welfare Plans

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

Changing Concepts of the University's Relationship to Management and Labor

B I O G R A P H I C A L   S K E T C H E S

JOHN THOMAS DUNLOP (Speaker - First General Session)

Present position: Professor, Department of Economics and Littauer School of Public Administration, Harvard University, Cambridge.

Formerly: In 1936 Dr. Dunlop was appointed Acting Instructor at Stanford University and a year later became a Social Science Research Council Fellow at Trinity College, Cambridge, England. He was appointed Instructor at Harvard University in 1938.

During the War he served in various capacities including Secretary of the Cost-Price Committee, National Bureau of Economic Research; National War Labor Board; Research and Statistics, Vice-Chairman Boston Region and Public Member, Wage Stabilization Board; and Consultant, Office of Economic Stabilization and Office of War Mobilization and Reconversion.

Dr. Dunlop was a Member of the Board of Inquiry, Bituminous Coal Dispute in 1950; Atomic Energy Labor Relations Panel, 1948-53; Wage Stabilization Board, 1950-52; Emergency Board, Conductor's Case, 1955; Secretary of Labor's Advisory Committee on Labor Management Relations in Atomic Energy Installations, 1954-57.

In 1952 he became a John Simon Guggenheim Fellow and this year he became a Fellow of the Academy of Arts and Sciences. Dr. Dunlop is also an Impartial Chairman of the National Joint Board for Settlement of Jurisdictional Disputes and an Arbitrator.

He is author of Wage Determination Under Trade Unions (1944, 1950); Cost Behavior and Price Policy (1944); Collective Bargaining: Principles and Cases (1949, 1953); The Wage Adjustment Board, with Arthur D. Hill, (1950); The Theory of Wage Determination, Ed., (1957), and contributor to professional journals.

Dr. Dunlop was educated at the University of California, Berkeley, where he received the degrees A.B. (1935) and Ph.D. (1939).

B I O G R A P H I C A L   S K E T C H E S

JACK CONWAY (Speaker - Second General Session)

Present position: Administrative Assistant to the President, United Automobile, Aircraft and Agricultural Implement Workers of America, AFL-CIO, Detroit.

Formerly: In 1942, when the War interrupted his education, Mr. Conway went to work in a General Motors plant which made aircraft engines in the Chicago area, and he became active in the union as a member of UAW's Local 6. He held a number of positions in Local 6, chief among these being the post of Shop Committee Chairman, to which he was elected for four successive terms from 1942-45.

After the War he returned to the University of Chicago as Assistant Director of the University's Radio Department which produced the "University of Chicago Round Table."

In 1946, UAW President Walter Reuther appointed Mr. Conway Administrative Assistant, a position he has held continuously since that time. In this capacity he has played an active role in practically all top level activities of the International Union, UAW. He participated in the planning and drafting of the UAW's Guaranteed Annual Wage plan, its pension program, and he is now taking an active part in the Union's Study Committee which is concerned with the problems of automation and technological changes in the industrial production system. Mr. Conway has also participated actively in most of the pattern-setting negotiations with the major corporations under contract with the UAW.

Mr. Conway was educated at the University of Chicago, graduating in 1940 with a B.A. degree in Sociology. From 1940-42 he taught at the University of Washington, while continuing his graduate studies in sociology and psychology. In 1945 he entered law school at the University of Chicago.

B I O G R A P H I C A L   S K E T C H E S

JOHN I. SNYDER, Jr. (Speaker - Third General Session)

Present position: President and Chairman of the Board of U. S. Industries, Inc., New York City.

Formerly: After his education in England, Mr. Snyder returned to the United States in 1936 and joined Kuhn, Loeb & Company. He worked through the various service departments (accounting, foreign, cashier, securities handling, research and statistical), and in 1945 received Power of Attorney from the firm and became the manager of the buying department.

In 1948, Mr. Snyder left Kuhn, Loeb & Company to become Chairman of the Board of U.S. Industries, Inc. (formerly named Pressed Steel Car Company, Inc.). Shortly after, he became President of the Company.

Mr. Snyder is also a Director of American Research and Development Corporation of Boston; Cory Corporation of Chicago; and the Uptown Advisory Board, Chemical Corn Exchange Bank of New York. He is a member of the New York State Banking Board, and the Board of the New York University-Bellevue Medical Center. He is Co-Chairman of the Foundation on Employee Health, Medical Care and Welfare, Inc., which is jointly sponsored by U.S. Industries and the International Association of Machinists.

Mr. Snyder graduated from New York University with a B.S. degree in 1930. In 1933 he left for London, England, where he attended the University of London, School of Economics, from 1934-36.

BIOGRAPHICAL SKETCHES

BENJAMIN AARON (Speaker - Final Session)

Present position: Associate Director, Institute of Industrial Relations, University of California, Los Angeles.

Forermly: Mr. Aaron has been an Associate Research Economist for the Institute of Industrial Relations, Los Angeles, since 1946. He was Chairman of the National Airframe Panel and Director of the National War Labor Board during the War. In 1946 he was a member of the Labor Advisory Commission to the Supreme Commander Allied Power in Tokyo, Japan.

He has served as an Arbitrator and Consultant on Labor-Management Relations. As an Impartial Arbitrator, he served B. F. Goodrich and United Rubber Workers, CIO, from 1950-51. Various fact-finding boards in labor disputes have also been served by him.

From 1951-52 Mr. Aaron was Public Member and Vice-Chairman of the Wage Stablilization Board. He is a member of the National Academy of Arbitrators~~, the~~ Industrial Relations Research Association, and the American Arbitration Association.

His specialty is in labor law and legislation, and he has been editor of several volumes on this subject as well as contributing to the leading journals on labor relations.

In 1957 Mr. Aaron was appointed Associate Director of the Institute of Industrial Relations, Los Angeles.

Mr. Aaron graduated from the University of Michigan in 1937, where he received the A.B. degree. He then took his L.L.B. degree at Harvard Law School in 1940, and engaged in graduate study at the University of Chicago from 1940-41.

THE SECULAR OUTLOOK

[on Impacts of Collective Bargaining upon systems of compensation]

An Address By

John T. Dunlop

At The

Ninth Annual Summer Management Conference

of the

Institute of Industrial Relations

and the

Graduate Schools of Business Administration

of the

University of California

Ahwahnee Hotel, Yosemite National Park

June 6th, 1957

The Secular Outlook

It is appropriate to start a conference on "Changing Concepts of Compensation" with a discussion of the long-term trends and projections of money wages and of structural changes in the institutions of collective bargaining. After a period of price stability in the years 1953-56 we are again hearing a good deal about wage inflation.[1]

Professor Henry C. Wallich of Yale has stated: "The regular annual rounds of wage increases have been mainly responsible for keeping up the steam under prices. As things look today, wages are the key to the inflation problem."[2] A recent release of the Bureau of Labor Statistics concluded ". . .the figures indicate that average hourly compensation in current dollars increased much more than productivity in the postwar period. The former increased by about 61 %, the latter by 26%, leading to an increase in employee compensation per dollar of real product of about 28%. The study points out that this 28% increase was ". . .almost identical with the increase in price between 1947 and 1956."[3] The Chairman of the Board of the U. S. Steel Corporation discusses "Inflation as a Way of Life,"[4] and the editor of The Journal of Commerce concludes that "If creeping inflation is allowed to continue with or without official blessing, it will ultimately lead to accelerated inflation. . . ."[5]

Nat Weinberg, of UAW-CIO, has stated: "The existence of the administered price system in crucially important areas of the economy requires all of us to take a fresh look at the problem of inflation. The shibboleths of the free market, competition, supply and demand, no longer have any validity, if they ever did, for those sectors of the economy where prices are now fixed by decisions of a few corporate executives rather than by the impersonal interplay of the forces of the market."[6]

It is easy to remain confused in this babble of voices. Do wage increases associated with strong unions and collective bargaining really constitute the key to the inflation problem? Do wages increase more under collective bargaining than they would in the absence of unions? Do wage increases create price increases or do high profits act as a magnet attracting wage increases? Is continuing high-level employment possible without creeping inflation? Must creeping inflation become a gallop? Can there be wage inflation or cost inflation without demand inflation? What are the reasonable prospects for wage and price inflation in the long term, say in the period until 1975? These are not simple questions. They can only be answered "yes and no" and "it all depends." The discussion which follows indicates some of the factors on which the answers may depend and more particularly some of the secular forces which may be significant to the course of wages and prices in the two decades ahead.

I

The discussion of wage-price relations should start by distinguishing among at least four different economic contexts or environments. (a)The postwar type of inflation, as in the years 1946-48 in the United States started with a vast accumulation, a large pent-up supply, of savings and liquid assets relative to the goods available. (b) The Korean type of inflation, of June 1950 to the spring of 1951, is characterized by a sharp change in expectations, by a speculative demand for scarce labor and scarce basic materials and finished goods. (c) These may be inflationary periods characterized by the spread of wage and price increases from a sector of the economy--such as steel, construction, or heavy equipment--which has experienced a sharp increase in demand. The inflation is propagated to the whole sensitive system from a few centers of infection. (d) Finally, there is secular or long-term upward movements in wages and prices.

This classification of economic contexts in which inflationary problems arise is not very elegant nor analytical. A more theoretical statement would refer to the initial stock of goods and money supply, to assumptions about the elasticity of expectations and to other dimensions of an economic system. But for the present purposes, the distinctions between these economic contexts is adequate to make the point that wage-price relations and the interactions of wages and prices can be expected to be different in these various settings. The immediate postwar or Korean experience may not be very relevant to the context of the long term, until 1975, to choose a date. It is this secular setting which is the focus of this discussion.

II

In the secular outlook there are a number of factors and structural changes in the economy whose threat is likely to be inflationary, tending toward a rise in prices and a greater rise in wage rates and labor compensation. There are also some factors and structure changes which are likely to have a restraining effect, tending to moderate the rise of wages and prices and to keep wage increases closer to the rise in productivity. The merit of these lists is that each person can add them up or weigh the separate factors according to his own lights. But any appraisal of the secular outlook for inflation cannot ignore such factors likely to be of special importance in the period ahead, say to 1975.

<u>Inflationary Factors</u>

(1) The age distribution of the work force between now and 1975 is likely to create labor shortages in the age groups 25-44 as a consequence of the decline in birth rates which took place in the depression of the 1930's. While projections of the present labor force of almost 70 millions suggest figures in the range of 92 or 93 millions in 1975, estimates for

males in these critical age groups show almost no growth until after 1970.[7] One projection for males shows a total growth of 48 to 60 million from 1955 to 1975. The number of males in these age groups in the labor force is as follows for each five years:

	25 to 34	35 to 44
1955	11.5 million	10.8 million
1960	10.9	11.4
1965	10.8	11.5
1970	12.2	11.0
1975	15.2	10.9

The total labor force will grow as a consequence of more older workers, more women particularly over 35 years of age[8] and by the growth of the younger age groups, discounted for the growth in advanced education. But these critical age groups will show shortages which are likely to exert a marked inflationary pressure on wage rates. Growth companies and occupations are likely to have to bid strongly to attract men in the vital age groups 25-44 in the two decades ahead. Pressures at these points in the wage structure will affect the whole level.

Almost half the total growth of the labor force in the period until 1975 will be comprised of women, although women now constitute only about 30% of the work force. One projection shows a total growth of 24.5 millions in the period 1955-75 of which 12.9 millions are male and 11.6 millions female. Our labor force in peace and war has been remarkably pliable, like an accordian adjusting to demands and income changes, but in the two decades ahead we face relatively severe shortages of men in the age groups 25-44. This impact on wage structures was not present in recent years and is strongly inflationary.

(2) The rapidly changing technology appears to be increasing relatively the demand for skilled workers, technicians and professional and managerial groups. Higher levels of general education have in the past generation probably tended to reduce skilled differentials by greatly increasing supply, but there are increasing signs that modern technology has accelerated demands for specialized skills. The factory and management organization of tomorrow will be required to shift its labor force relatively in these directions. More and more industrial plants are installing full apprentice programs for skilled trades. We are likely to see the growth of types of occupations between present day journeymen and professional journeymen. Automation, mass handling of data and other technologies seem to require a new type of work force of higher skills. These developments, both by creating higher skills with higher compensation and by increasing the demands for given skills, are likely to provide significant upward pressures on wages not present in the recent past.

(3) The rise of strong unions in the mass production industries, and the emergence of wage leadership or pace setting in the most progressive sectors of the economy, is a structural change of the past two decades which has inflationary tendencies for the future. Wage reductions have gone out of fashion, save as special cases in distress or competitive sectors, partly as a consequence of the expansion in the scope of union organization. The location of wage leadership in the automobile, steel, oil and electrical manufacturing contours, where there is relative control over price and favorable productivity records, or in other terms in those sectors where high levels of employment and output most lessen resistances to wage increases, is a significant contribution to a higher rate of increase in the money wage level. If the structure of industrial relations and economics resulted in wage leadership and pattern setting in the textile or shoe or even railroad industry, or in one subject to keen foreign competition, the tendency to inflation would probably be less. But it is no accident that wage leadership has been located in sectors which permit larger pace-setting increases.

(4) The high value that management and the community have come to place upon labor peace must be rated itself as an inflationary factor. The impatience of customers to wait during a strike; the fear of firms that customers may shift loyalties, the pressure on supplier firms in an assembly or pipe line type of industry,[9] and the high public relations value placed on labor peace and the stigma placed on labor strife tend to reduce management's resistance to wage increases. Labor peace comes at a price.

(5) Full employment policy is widely cited as a structural change in the economy tending toward inflationary pressures. It is not necessary to adopt the extreme form of the argument under which the government is required to support any level of costs and prices or any structure of relative costs or prices, or that public policy requires an absolute guarantee, or that full employment policy leaves no room for some unemployment, such as 3 or 4% as we currently measure the labor force and unemployment. But the depression following 1929 probably permanently change the attitudes of the community, and the politicians, toward unemployment. Competition with the Russians for production before the bar of world opinion has probably reinforced this attitude. The effect of the widespread acceptance of policies seeking to maintain high levels of employment is to give more confidence to business and to consumers in committing themselves to plans for expenditures. The planning of plant and equipment expansion three to five years in advance has increasingly become good business practice,[10] and households are using consumer's credit to enjoy now and pay later to a much greater degree as a consequence of the expectations of fairly steady employment and rising money income. By reducing the risks of serious falls in income, full employment policy operates as a secular factor stimulating demand and pushing up prices.

(6) The international situation, even in the absence of small wars or police actions, is likely to be the source of considerable inflationary pressure. The demand of the rest of the world for certain types of American goods and services is likely to increase, particularly among the countries of the world aspiring and striving toward economic development. The so-called underdeveloped countries of Asia, Africa and the Near East are in ferment, and as economic development gets under way, and as the competition between the "communist" and "democratic" models of economic development becomes keener, between now and 1975 the demand for American machinery, construction equipment and private and public technical assistance is likely to rise sharply. This development appears to be largely independent of which political party is in power in Washington. A lessening of international tensions and the adoption of practicable disarmament programs in the period before 1975 would reduce military expenditures and ease some manpower shortages, but the drive for economic development is so deep and so widespread that it is likely readily to replace any disarmament slack.

(7) An inflationary factor may arise from the necessity to resort to higher cost raw materials as lower cost supplies are exhausted in such fields as oil, iron ore and the metals. The import of foreign supplies generally requires higher transportation costs. The level of costs will depend not merely on technical questions of economic efficiencies and price levels but also on trade policies followed by the exporting and importing countries. The tendency to use materials at higher real costs may be offset, at least in some degree, by industrial research. But the projected expansion in total demand in the period to 1975, and the costs of research and new plant, suggest that on balance raw materials as a whole are likely to be forthcoming only at some higher real price.[11]

(8) Effective demand is likely to be very strong in the two decades ahead as a consequence of the continued expansion of suburbs and communities around metropolitan centers and also as a result of continuing regional shifts in industry and population. The growth in population and family formation at much more rapid rates than were projected even a decade ago will raise substantially effective demand. The movement to the suburbs, and to regions of the West Coast, the Southwest and Florida, as a response to new patterns of life, higher incomes, changing age distribution and new means of transportation and centers of industry will require high levels of private and public expenditures. The point is that a mobile and shifting population will require more expenditures than the same population fixed and rooted to given communities. This must be counted as a relatively inflationary factor.

(9) The shifting composition of national product away from goods and toward service industries, entertainment, governmental activities, advertising, finance and education is frequently said to be a shift away from sectors in which productivity has been increasing approximately 3% per year on the average toward sectors in which productivity does not

increase so rapidly. To the extent this statement is an accurate forecast of the trends of the next two decades, the changing composition of national product may have inflationary consequences. The differences in the trends in productivity in service industries and those producing goods may be more a matter of inadequate statistical measures of productivity and the difficulties of measuring changing qualities of service. Thus, the new drugs and changing medical practices have certainly increased the productivity of hospitals and the medical industry in some meaningful sense. But this service industry may not be typical of all the others. The changing composition of national product may well have some adverse effects upon average rates of increase in productivity.

(10) The continued strong political position of the farm bloc in both political parties probably means a continuation of high price supports for farm products and higher food prices than would otherwise be the case. This is not a new factor, but high price supports preclude more of the advances in farm productivity and in the economies of larger sized farms being translated into lower retail food prices.

Restraining Factors

(1) There are a number of considerations which may lead to a higher average rate of growth in productivity in the future. This factor would be a moderating influence on inflation, permitting a higher wage level without a corresponding price adjustment. In 1956 and 1957 expenditures for research are at the level of $6 to $7 billions a year. The McGraw-Hill survey projects a rise to $9.3 billions in 1960.[12] These expenditures are highly concentrated in aircraft, electrical equipment and chemicals; there are many sectors of the economy, particularly outside of manufacturing, which have yet to adopt the research habit. There can be little doubt that private and public research expenditures will grow rapidly in the next two decades, increasing as a proportion of total business expenditures. But how much will these research outlays increase productivity? What is the relation, what is the shape of the function relating research expenditures to increases in productivity? How much in research outlays and scientific manpower would it cost to raise the average rate of increase in productivity from 2.5 or 3.0% or to 4.0% per year? We do not know the answers to such questions, but this factor is very decisive to all projections of the inflationary potential of the next two decades. In addition to research expenditures, there are other considerations tending to raise average productivity in the long term. We have a better educated, a higher skilled and a healthier work force than ever before, and the period to 1975 will see further rapid improvements in these respects. All these considerations are operating to increase average productivity and thereby to moderate inflationary pressures.

(2) There are some new and stranger competitive elements in the economy which give promise of restraining price increases to a degree. It has been customary for economists to concentrate upon competition

among firms within an industry, or within a product group, in appraising the degree of monopoly elements in the system. But in many ways the most effective competition is between products, between firms which are not ordinarily regarded as in the same industry. Structural steel is increasingly feeling the competition of pre-cast and pre-stressed concrete members in construction; aluminum may make significant inroads into steel in the automobile market. There is growing competition between old goods and new goods and between old methods and processes and new ones.[13] The view than an oligopolistic industry grants wage increases readily because these increases can be promptly passed on in higher prices needs serious qualifications for the long pull. Competition from new products and from industrial groups with a smaller proportion of wage costs to total costs may prove an increasingly effective limitation to wage rate increases at those points in the system which have exercised wage leadership. These points may not be concerned with competition within an industry, if all wages and prices go up together, but increasingly competition from other product groups will make inroads. The growth of industrial research is rapidly extending the scope of inter-product and inter-industry competition.

(3) There is another way in which the economy is becoming more competitive, thereby exerting a restraining influence on inflationary forces. The domestic market for a wide range of products is extremely large, and this market is growing. Thus, between 1952 and 1956, a period in which prices changed little, the proportion of families with incomes of $5,000 or more increased from 21 to 35%. A large part of this increase is a consequence of the increase of multiple-worker families as more wives have gone into the labor market. "Never have the prizes for successful innovation been as huge as they are today in the immense American market which accounts for 40% of all the world's consumption."[14] The rewards for cost savings on an existing product are also magnified by the total size of the market. As a total market grows smaller per unit cost savings can be fruitfully exploited. Adam Smith's concern with the extension of the market is still sound analysis. Our large and growing market, combined with cost-reducing technological changes, creates new restraints on costs.

(4) The next two decades will see a further expansion in new institutional forms of savings--pension plans, life insurance, stock purchase plans, supplementary unemployment benefit plans and plans to save for home purchase and education. There are economists who believe that these new forms of savings will result in an increase in the proportion of total income saved thereby providing a further restraining influence on inflation, while other economists believe that other types of savings will eventually be reduced and these new forms of savings will not be associated with any net increase of savings in the community.[15] The choice among these positions involves complex questions of economic analysis and assumptions about the behavior of households on which little data are available. Among the factors that are likely to be decisive in determining the long-run impact of pension and other plans on the level of savings are the way in which the government reacts to the initial reduction in its income since pension contributions by companies are tax-deductible costs and the effects on savings

that arise through the redistribution of income among households. My guess would be that there would be some net gain in savings as a consequence of these new institutional forms, at least in an initial period, but the magnitude may not be very large. The larger this impact on savings, the greater the immediate restraint on inflation.

(5) Finally our experience of dealing with inflation should improve our skills, and the public and private tools used to restrain inflation. In the past 25 years we think we have learned a good deal about mitigating depressions, and there have been numerous institutional changes in the public and private economy designed to make the system less vulnerable to contraction. In the next 20 years we should learn something more about restraining inflation. We sometimes forget that one of the major structural changes of the past two decades has been the improvement in the quality and availability of economic indicators; these improvements should continue. The growth of the habit of long-term planning should reduce the short-term variability of the system. We should become more skilled and selective in the application of monetary and fiscal controls to problems of secular inflation.

III

Ten factors or structural changes making for inflation and five opposing or restraining factors have now been noted which are expected to be operative in the period ahead to 1975. This listing does not mean that inflationary pressures are necessarily twice as strong as the moderating factors. Moreover, the course of prices as far ahead as 1975 is not now predetermined. Public and private policies in a wide variety of ways can make a difference. While there are likely to be wide differences of opinion, even within such a listing of factors, as to their individual effects or the net impact of these influences, my conclusion is that the inflationary forces outweigh the moderating factors. The reasonable expectation is for a period of moderate secular inflation.

But the pivotal question is how much inflation. What are likely to be the annual average rates of increase of wages and prices? A 1% per year cumulative rise in prices for 18 years would mean almost a 20% higher price level while a 5% per year cumulative rise would yield a 141% higher price level in 18 years. At 1% per year prices would take 70 years to double but at 5% per year only a little more than 14 years would be required.

It is the magnitudes of price and wage rate changes over the period to 1975 which will determine the extent of inflation. The following table projects various annual average rates of increase in productivity, compensation per hour and price increases to 1975. If wages rose no faster than productivity it is presumed prices would remain constant.

Average annual rate of increase in productivity	Average annual rate of increase in wages, compensation per hour	Average annual increase in prices	Cumulative inflation to 1975
2.5%	2.5%	0 %	0 %
2.5	3.0	.5	9.4
2.5	4.0	1.5	30.7
2.5	5.0	2.5	56.0
2.5	6.0	3.5	85.7
3.0	4.0	1.0	19.6
3.0	5.0	2.0	42.8
3.0	6.0	3.0	70.2

In the last nine years (the data are for 1947-56), the annual average cumulated rate of increase in average hourly compensation was 5.5%; the annual average cumulated rate of increase in real product per employee hour was over 2.6%, and the annual average cumulated rise in the consumer price index was 2.2% (2.8% in the implicit price change index). This period included the Korean war when wages and consumers prices both rose approximately 8 or 9% in the one year 1950-51.[16]

If the various factors noted earlier, tending toward inflation or moderation are appraised in the context of this record of the past decade, the following judgments emerge from my particular crystal ball. If by 1975 price increases over current levels are confined to 30%, I believe the record should be marked as excellent. If price levels are more than 70% higher than at present, I would now regard that record as quite unsatisfactory. It is within this range that policies are likely to have their effects. What can be done to raise average rates of increase in productivity to 3.0% per year, and what can be done to keep compensation per hour within 5% per year? These figures would yield a 42.8% price rise in the 18 years, or 2.0% per year. Let it be clear that this result is not being advocated; it simply would not be a surprise to me in the light of the factors outlined earlier.

It should probably be made explicit that these projections are based upon the absence of any drastic or sudden change in the international situation. A continuation of the cold war at present relative levels of defense expenditures or some moderation in tensions would not be expected to alter projections very much. But a major war or a series of substantial police actions would have substantial inflationary effects.

IV

"Inflation control is the ultimate test of the power of the general interest against the special interest."[17] The ability of the community to restrict the price rise between now and 1975 to 30% (say) basically depends upon how much or how high a price the community is willing to pay for relative price stability. The community has some hard choices to make.

(1) How high a price is the community willing to pay for stability in terms of more labor strife? A lesser rate of wage increase, and a lesser rate of price increase probably requires more strikes. If managements are to secure settlements on the average in the range of 4 to 5%, or currently at 8 to 10% per year total package, there will probably have to be more strikes over wages at contract renewal times. But is there much disposition on the part of management to take a strike over another two or three cents when profits are high, when relations have become friendly and when a strike may cause serious fears and looking around for alternate sources of supply on the part of customers. It is not the preachment on the part of employer associations against "inflationary" wage increases that count, nor the urging on of another firm to take the lead, it is what the firm actually does at five minutes before midnight when it must balance a further wage increase or a strike against the complaints of customers and potential loss of accounts. It is on such occasions that the price of stability is tested.

(2) How high a price is the community willing to pay for stability in terms of more unemployment? It is technically possible to enhance wage and price stability by creating a higher average level of unemployment. In recent years unemployment has been running on the average slightly below 4% of the work force. Is the community prepared to increase this figure to 5 or 6% to achieve more stability? Or, is the community's desire for goods, fear of unemployment and concern with comparative production records of the Russians such that it would be unwilling to trade more unemployment for additional price stability? It is easy to want both higher levels of employment and stability. But in the hard choices the community makes are revealed the price it is willing to pay for stability.

(3) How high a price is the community willing to pay for stability in terms of a wider range and greater use of government controls? The community eventually comes to see that any system of controls over inflation has its limitations, can be pushed only so far and each control device has some drawbacks. While direct wage and price controls are likely to be most effective in stopping a sharp upward movement, the community most distrusts this device. Every schoolboy can tell of the evils of bureaucracy and the effects of direct controls on the distortion of the most effective allocation of resources. But monetary and fiscal controls also have their limitations. Small businesses, home builders, farmers, state and municipal governments and other types of borrowers of capital may be relatively disadvantaged by stringent monetary controls. A larger

proportion of capital may go to established borrowers or to those who can finance from within than may prove desirable to the community. The bite of monetary controls may be cruel and objectionable on many grounds of public policy. Our monetary controls are not sufficiently selective. A system of fiscal controls for combating long-run inflation has not been designed. Would Congress be willing to delegate within limits the necessary changes in tax rates to make a system of fiscal controls work more effectively? Would such a grant to a bureaucracy be any less subject to criticism than direct controls? In the willingness to accept further controls—direct, monetary or fiscal—is to be seen the price the community is willing to pay for stability.

(4) The relative evaluation the community, and particularly the work force, places on income or leisure will affect wage and price stability in the long-term period ahead. If further leisure is rated highly, resulting in shorter hours at higher rates of pay to maintain take-home pay, then inflationary pressures will be increased under high level employment conditions projected ahead. If additional income is more highly valued than further leisure, then the pressures arising from the highly employed work force on wages and prices will not be as great as if hours had been reduced. It is probably true that under present conditions the work force tends to value additional income higher than additional leisure. The price of stability will depend upon the choices made between additional income and leisure.

The price that the community is willing to pay for stability may change as a consequence of its experience with further inflation. A measure of its present valuation of stability is seen in its willingness, or lack of willingness, to achieve greater stability by accepting more labor strife, more unemployment, more economic controls, and foregoing demands for additional leisure. There is not much to indicate that the community is now willing to barter for more stability.

Footnotes

1 See, The Conference Board, Wage Inflation, Studies in Business Economics, No. 56, 1957.

2 "Perils in the Inflation Psychology," New York Times, Magazine Section, January 20, 1957, p. 15.

3 U. S. Department of Labor, Bureau of Labor Statistics, "Productivity, Earnings, Costs and Prices in the Private Nonagricultural Sector of the Economy, 1947-56," May 13, 1957.

4 Roger M. Blough, "Inflation as a Way of Life," November 9, 1956.

5 The Journal of Commerce, "Creeping Inflation, A Debate between Sumner H. Slichter and Dr. Heinz Luedicke," 1957, p. 32.

6 AFL-CIO Economic Policy Committee, Economic Trends and Outlook, February 1957, p. 2.

7 U. S. Department of Commerce, "Projections of the Labor Force in the United States 1955 to 1975," Series P. 60, No. 69, October, 1956.

8 See, National Manpower Council, Womanpower, New York, Columbia University Press, 1957, pp. 110-42.

9 See, Leland Hazard, "Wage Theory: A Management View" in New Concepts in Wage Determination, George W. Taylor and Frank Pierson, Eds., New York, McGraw-Hill Book Company, Inc., 1957, pp. 32-50.

10 See, "Three Solid Years Ahead," Business Week, April 27, 1957, pp. 41-44.

11 See, However, E. S. Mason, "An American View of Raw Material Problems," in Economic Concentration and the Monopoly Problem, Cambridge, Harvard University Press, 1957, pp. 253-75.

12 Business Week, April 27, 1957, p. 43; Economic Report of the President, January 1957, p. 60.

13 Sumner H. Slichter, "Five Trends Shape Business Future," Nation's Business, February, 1957.

14 Sumner H. Slichter, Loc. cit.

Footnotes (cont'd)

15 See, Challis A. Hall, "Retirement Contributions, the Spending Stream, and Growth," in Federal Policy for Economic Growth and Stability, Joint Committee on the Economic Report, November 9, 1955, 84 Congress, 1st session, pp. 786-97; National Bureau of Economic Research, Suggestions for Research in the Economics of Pensions, 1957, pp. 27-32.

16 See, U. S. Department of Labor, Bureau of Labor Statistics, Productivity, Earnings, Costs and Prices in the Private Nonagricultural Sector of the Economy, 1947-56, May 13, 1957; Trends in Output per Man-Hour and Man-Hours per Unit of Output Manufacturing, 1939-53, B.L.S. Report No. 100.

17 John Kenneth Galbraith, "Are Living Costs Out of Control?" Atlantic Monthly, February, 1957, p. 41.

GOALS OF LABOR IN AN EXPANDING ECONOMY

An Address by

Jack Conway

At The

Ninth Annual Summer Management Conference

of the

Institute of Industrial Relations

and the

Graduate Schools of Business Administration

of the

University of California

Ahwahnee Hotel, Yosemite National Park

June 6th, 1957

Goals of Labor in an Expanding Economy

Had I been asked one year ago to project some of the goals of the American labor movement in an expanding economy, I would have been able to approach the subject with far less trepidation than I do so today. I feel today somewhat like a ball player who is asked to enter a game at the very moment when the rules of the game are being changed.

In this last year a national election has been held, and an administration has been returned to office in Washington with the Congress against it. A great debate is raging about whose tax money is to be spent for what programs. The economy of the country seems to be poised at ebb tide with strong accompanying cross currents. Interest rates are constantly rising, but money is hard to get. There is strong inflationary pressure in the face of surplus goods and plant capacity in almost every consumer goods industry. Our nation's plants can already turn out more goods than the consumer can buy, yet capital expansion and plant modernization proceed apace. Falling sales in key industries are met by price increases. Factory sizes and locations are changing at such a rate that hundreds of communities are being "all shook up." Automation is changing the nervous system of the American factory, and the character of the worker's job. The American labor movement is now "one big happy family," and now that it is, the public eye has been focused on the extent that the movement has been corrupted by the ethics of the business community. Some year!

But fortunately the American labor movement is essentially a counter-punching mechanism. The typical approach of the American labor movement is a pragmatic one, it faces each separate problem as it arises and it develops a solution for it. And the leadership of the labor movement is judged by the rank and file by the results. The labor movement has lots of problems in this year 1957, and, to put it mildly, we have our work cut out for us in the period ahead.

The UAW is a healthy hard-hitting organization in the collective bargaining arena. Nearly one out of every ten organized workers is a member of our Union. On the face of it, that would appear to be a fairly substantial sample from which to draw conclusions. I must point out, however, that the collective bargaining goals in industrial unions like the UAW can differ substantially from those of the building trades, the service trades, and the soft goods industries, as can the programs of these different kinds of unions differ sharply in implementing their respective collective bargaining platforms or objectives.

But I can say that what we do in the UAW at the bargaining table has a substantial impact throughout the whole of American industry.

So if I may ask your indulgence to change my subject from "Goals of Labor in an Expanding Economy" to a more appropriate title, namely, "Goals of a 'Rather Healthy Chunk' of Labor in a (not so) Expanding Economy," then I am prepared to venture out into the future for a look-see.

Perhaps I should start by making the flat statement that we are about to enter a new phase of collective bargaining. The ten-year post World War II period is over. The inflationary pressures of the shortages of goods so characteristic of the late 1940's and the years of the Korean crisis are gone. This was the period of wage-increase diversion into non-inflationary-delayed security programs, and I refer specifically to insurance matters, pensions, severance pay, SUB benefits, and the like. In this ten-year period, a Union like ours could devote a great portion of its energies into the construction through collective bargaining of a solid foundation for a social security program for workers who are sick, old, injured, or forced into idleness through no fault of their own. What is left to do now is to improve upon this basic social security program in subsequent contract negotiations by improving the benefit structures, the extent of coverage, and to improve the administrative machinery. This is but the extension of the old over into the new era and these familiar items will not occupy the center of the stage in future negotiations as they have in the past.

I don't mean by this that the struggle of unions to achieve adequate insurance, hospital-medical care programs, pensions, sick and accident protection, and supplemental benefits to unemployment insurance has ended; that these things have been achieved in equal degree at the bargaining table in all industries or within industries. Quite the contrary, there is great unevenness on these matters. But there is no principled fight to be waged over these important issues. That battle has been won—the developments now are inevitable in nature, routine in a sense—just a matter of time (ignoring always the throwback aborigine type situations like Kohler). But the emphasis now shifts and for vital reasons. The problems ahead demand it, and a pragmatic labor movement is quick to respond to such pressures.

The next ten-year period will find the labor movement devoting its major attention to the primary problems of the day, (1) seeing to it, as best we can, that the economy of our country is kept in balance so that there is sufficient purchasing power in the hands of the American wage earners and consumers to buy back the goods that we can make, (2) making certain that the introduction of automation and the radically new technology into our factories redounds to the benefit of all through greater constructive leisure and not in forced idleness through unemployment, (3) guaranteeing that the worker is not made the victim of factory obsolescence, plant relocation, and geographical shifts, and (4) following the jobs as they "disappear" from the present concept of the bargaing units and appear anew in some form or other "outside" the bargaining unit.

In the UAW we have not yet formalized or finalized our 1958 contract demands. This comes about in our organization as a product of great discussion and debate at all levels of our organization, at the local level, the council level, and the International Union level, culminating finally in a national conference or convention of the whole union to formally adopt a set of collective bargaining objectives. This convention will take place in January, 1958.

It is reasonable to assume, however, that the greatest emphasis will be placed on achieving "the twin goals of greater purchasing power and greater leisure in which to enjoy the higher standard of living made possible by automation and the new technology." It is also safe to assume that these twin goals will be pursued with the normal vigor of a healthy union like the UAW.

The automobile industry is a rapidly changing industry. Its present capacity is in the neighborhood of 9,000,000 passenger cars, its output is two-thirds that amount. The rate of introduction of new machinery has been stepped up. As the President of the Dodge Division of the Chrysler Corporation said, "The economics of this industry are harsh. You either automate or die!"

With automation come certain by-products which demand the attention of the Union. There is, in addition to the usual upward shifting of skilled requirements accompanying automation, a new relationship established between the worker and the flow of production. This raises new questions of wage-rate relationships and classification structure which must be looked at in relation to the seniority mechanisms which provide for movement from one job to another within the plant.

But our experience has taught us that as an industry modernizes, it prefers to walk away from the old (fully depreciated) factories and construct new ones more suited to the technology of the day and more conveniently located in terms of geography and population concentrations. This gives rise to problems of job rights of workers which will be central to much of the discussion at the bargaining tables in the next few years. Moving costs, daily allowances during period of relocation, transfer rights and related items will have to be resolved.

As fewer and fewer production workers are required in the production process as a result of automation, job types disappear from the bargaining units. New jobs, programers, analysts, technicians, etc., are appearing outside the bargaining units and the Unions are going to follow the new jobs. The problems of office workers, technicians, engineers, will increasingly occupy a prominent place at the bargaining table.

This will not happen without considerable resistance, however. We recognized that many employers will heed the call to battle by the NAM when they say "We have lost the battle of the hourly workers, let's close ranks and fight before we lose the battle of the salary workers."

I will conclude by saying that during this new phase of collective bargaining when the Unions will become more engrossed on the traditional goals of higher wages, greater leisure, and broader job protection, the employees in their frantic efforts to head off organization of their salaried office workers, technicians and engineers, will themselves create a new set of fringes, a new set of double standards which will create the basis for trade union demands of the future in the area of new fringe benefits.

Who knows, maybe by 1975 everyone will recognize that payment by the hour or by the piece, is as obsolete as the first industrial revolution!

PROGRESS REPORT ON
THE HEALTH AND WELFARE OF AMERICA'S WORKERS

An Address By

John I Snyder, Jr.

At The

Ninth Annual Summer Management Conference

of the

Institute of Industrial Relations

and the

Graduate Schools of Business Administration

of the

University of California

Ahwahnee Hotel, Yosemite National Park

June 8th, 1957

The Health and Welfare of America's Workers

I am honored and deeply gratified that the University asked me to address your Management Conference here this June. It is a particular mark of hospitality because actually both U.S. Industries and I are comparative newcomers to California and the West. USI came to California in the fall of 1953, with the acquisition of the Axelson Manufacturing Company in Montebello; then came Southern Pipe and Casing in Azusa in 1955; and Western Design and Manufacturing, near Santa Barbara, only last summer. These three are now divisions of USI; they make engine lathes, oil well pumps, landing gear components for the big aircraft builders, steel pipe, guided missiles systems and several other things. They account for a third of our sales. So you can see how important they are to us, and how large California now looms in our scheme of things. You can also see why I've been spending so much time out here, and why I feel particularly pleased to have been invited to talk to you today.

There are other more important reasons. Management conferences like this one, under the academic auspices of our great universities, have become increasingly valuable. They fill specific needs.

And the theme of this conference -- "Changing Concepts

(more...)

of Compensation" -- strikes me as exactly right for now. Both the Institute and the University's two Graduate Schools of Business deserve to be complimented on having selected such an appropriate and timely theme.

I plan to talk to you today about one specific concept of compensation. This is health and welfare benefits for employees. I want to talk about these benefits because they are comparatively new to the collective bargaining table and they certainly represent a changing concept of compensation; also because they've grown apectacularly in the past ten years; and finally, because of the research undertaken in recent months by a rather unique organization called the Foundation on Employee Health, Medical Care and Welfare, which my Company and the International Association of Machinists set up jointly last year. We organized the Foundation because we wanted to promote better health security for USI employees and for our Machinists' members -- and because we felt that nobody, including ourselves, knew nearly enough about health and welfare benefits. To this day nobody knows nearly enough. But we're starting to learn.

More attention is now focused on welfare plans than on any other form of employee compensation. And for obvious reasons. The Douglas and McClelland Senate Committees, as well

(more...)

as several state investigations, have uncovered shocking abuses in some jointly managed union and employer welfare funds. At this very moment a Senate Committee is studying a bill requiring full public disclosure of the particulars of all welfare plans, jointly managed or not.

The investigations to date have involved mainly the wrong doings of union officials. Subsequent hearings may concern management. But the legislation that will grow out of the hearings is bound to affect employers as well as unions. You experts in industrial relations well know that it is impossible to legislate in the area of management-labor relations, no matter whom the legislation is intended to cover, without also affecting the other party to a lesser or greater degree.

This much is therefore self evident. We, as employers, have a tremendous stake in the current hearings and in the legislation that will follow.

Quite properly, consequently, we should discuss among ourselves what we think should be done and be ready to state our point of view when it becomes necessary. We must also think carefully about the overall attitude we take on the question of legislation and the impression we create in the eyes and minds of Congress, labor, and the public.

(more...)

For example, it seems to me fairly elementary that it would be extremely unwise for any employer group to try to capitalize on the misdeeds of some union officials as a means of obtaining legislation that is basically anti-union. It is also important to avoid any course of action that will create the impression that that is what we are trying to do. If we are to maintain respect for our point of view, we must favor legislation that is fair and constructive, not punitive, that will strengthen collective bargaining not weaken it, that will encourage honest and responsible union leaders not hamper them.

The first test for employers is now upon us. It is the bill before the Senate Committee calling for full disclosure for all welfare plans whether run jointly by management and labor or only by the employer. The Eisenhower Administration through Secretary Mitchell, and Senator Douglas, in separate bills have proposed applying the law to all plans. Certain employer organizations have said it should only cover those jointly managed.

The position we as employers take on this bill, in my opinion, transcends the importance of the bill itself. The bill is a good one and should be passed. But if we say it should only apply when a union has a hand in running a fund, we are definitely opening ourselves to the charge that we want legislation for the other fellow which we won't accept for ourselves.

(more...)

Remember, this was precisely the objection we made, and rightly so, to the Wagner Act. We said it was a one sided law. It banned unfair labor practices by employers but not unions. It guaranteed the right to join unions but not the right to refuse to join. Because our contentions were sound, the law was corrected. Over the violent opposition of organized labor, the imbalance in the Wagner Act was removed. Surely we do not now want to be in a position that will subject us to the charge that we are seeking a one sided law.

I know it can be said that the investigations to date have uncovered abuses only in jointly managed funds. Senator Douglas has said that mainly jointly managed funds thus far have been studied. It has also been argued that if an employer agrees to provide his employees with a certain level of benefits, he has an incentive to buy these benefits at the lowest cost, and there is no point in requiring him to disclose how he has obtained these benefits. But this overlooks the purposes of the bill and what it requires.

First of all, the bill primarily requires an employer to supply information about his welfare plan - nothing more, nothing less. To refuse information will inevitably leave the impression that employer administered funds have something to hide. Either way this is obviously a weak position. If there is something to hide, the law certainly should apply.

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If not, aren't we far better off to say that even though we have an incentive to buy benefits properly, we are nevertheless prepared to make all of the facts about employer run plans available to anyone who is interested?

Secondly, the arguments against full disclosure for employer-run plans assume that the only value of the law is to prevent deliberate abuses. But a requirement of full disclosure can do much more than that. It can also help correct unintentional deficiencies and inadvertent shortcomings.

In its recently published Study, the Foundation on Employee Health, Medical Care and Welfare made the finding that far more money had been lost in the purchase of welfare benefits through lack of knowledge and carelessness than through deliberate wrong doing. This certainly is a most important reason why the facts about all plans should be made public.

But to return to the main point. Here is the first piece of federal legislation following the Senate investigations. How effective our voice as employers will be on this and other legislation depends in large measure on whether we succeed in proving that what we really want is better labor relations or whether we create the impression that what we are after is an advantage for ourselves.

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I think we have to realize -- all of us -- that in this one area of health and welfare benefits and programs there should really be very little conflict between management and labor, because once we've decided through collective bargaining that a health and welfare program is necessary for our employees; because once we've agreed about how much money will be made available to provide the benefits -- then labor and management have an identity of interest and should be completely united in one joint objective: <u>How to get the best benefits we can, in quality and quantity, at the lowest possible cost</u>.

But health and welfare benefits are very complex things indeed. Why have these benefits grown so large ($6 billion a year, with coverage of more than 32 million workers and their families) so fast?

There are many reasons but the basic truth is probably that the great majority of both the labor leaders and the employees of this country are genuinely concerned with the pressing medical problems around us.

Thus we have an ideal -- the search for maximum health protection at minimum expense -- that both employers and labor leaders have been able to explore, endorse and promote. Through collective bargaining within the private enterprise system, employers have been able to help protect the men

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who work in their plants, and their families, against the risk of illness.

Viewed in these terms, it is no wonder that health and welfare programs have grown so huge in America since the end of the Second World War. They have become an integral and important part of our nation's social and human progress.

But with this growth have come abuses, unfortunately. And what should surprise us more than the abuses, it seems to me, is the fact that our own abysmal lack of knowledge about health welfare benefits -- after all these years of buying them -- has cost us more dearly than any abuses themselves have.

It is really amazing how little we know about the economics of health services. We don't even have basic statistics on demand and supply in the field, and still we have been buying programs on all sides, trying to make a dent in the huge need for proper health care.

This leads me back to the Foundation on Employee Health, Medical Care and Welfare which I mentioned earlier. It was created because Al Hayes of the IAM and I were dissatisfied with the <u>status quo</u> in this field. We felt

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that here we had a unique opportunity for cooperation toward a common objective, without infringing on our respective prerogatives in collective bargaining. We agreed that the Foundation should make studies, available to all, with the single objective of enlightenment -- so that we could obtain the very best benefits for the lowest cost.

Our Foundation was set up exactly one year ago this week. In blocking out lines of research, we began with the studies which we considered the most applicable and the most urgently needed. Our chief interest of course lay in the field of negotiated health and welfare plans, so that was our first area of emphasis. And since a majority of plans purchased the services of insurance companies, we started here.

The Foundation's first study was published last month. It deals with improving value and reducing costs in health and welfare programs. Some of you have seen it. For the rest, copies are available. Let me summarize the core of the conclusions.

Actually, this first Foundation study is a primer, a basic guide book to help both labor and management find their way in this field. It is encouraging to see that the baffling complexity of health and welfare questions

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that confronts us does yield to common reason.

What are some of the simple do's and don'ts in insured health and welfare programs? A first principle is to assemble as large a group as possible. The greater the number, the lower the average premium. We are here face-to-face with a distribution problem, something like purchasing by the carload. In insurance, you get a volume discount of up to 20 per cent under the right circumstances.

Of course the situations are not analogous. Insurance deals with a proper distribution of risks. The larger the covered group, the more balanced will be the claims experience, and vice versa. As in business, a heavier exposure to risk requires a greater premium to attract an underwriter.

But this is one finding we can use right away. To maximize benefits and minimize costs, bring as many employees as possible under one roof when you're buying health and welfare insurance coverage.

Under the same heading, coverage, there is still another way to save on commissions--by pooling contracts for purposes of applying the commission scale. If your company carries a life contract, an accident contract and a medical contract for your people, ask the insurance company to add the face amounts of these three policies in computing the commission.

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This fee will decrease percentagewise as the amount of insurance rises. Thus, a lower rate applies to a combination of policies than would be reckoned for each policy separately.

Another way to get the most for your insurance dollar is to ask for competitive bids before you let an insurance contract. This step requires care. To begin with, you must draw up a so-called specification letter. That is basically an itemized list of benefits, supplemented by statistics about your employees, and by estimates of claims expected. Such a specification letter is not a job for amateurs - an insurance specialist must draw it up.

Supplied with this information, any insurance company interested in your business can submit an intelligent bid, comparable with others that may be received. And the range between bids can be very large. In one fund covering 50,000 employees the difference between high and low bids for one plan came to more than $100,000 a year.

But note that an insurance company guarantees a specified schedule of benefits at its bid-for cost for only one year. After that the claims you file will determine whether your premimums have to be raised or whether they can be lowered.

The moral of course is to think twice before picking the

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lowest bidder. Because it may turn out to be a "cut-rate" company that will bait the hook with a low initial quotation, and gamble that the health and longevity of your employees exceeds the average. But once the year is up and the claims are in, the renewal bill for future coverage may surprise you.

If that happens, you're in a real bind. Should you pay the high premiums--higher than you might pay elsewhere? Or should you switch companies, which can also be expensive? Some trustees, caught in this vise, are forced to reduce benefits to stay within their budget.

A third suggestion is to pick out a good company and stay with it. In most instances the initial commission is higher than subsequent renewals--but it is easy to see that the first actuarial studies, the establishment of procedures, the printing of forms, and the sales effort and negotiations needed to put a policy on the books all represent heavy, and for the most part non-recurring, expenses.

Switching insurance companies from one year to the next can be a very costly proposition, both for you and your beneficiaries. Of course it produces a maximum of commission, and some disloyal trustees have exploited this fact by colluding with certain insurance companies that were willing to pass the contract around. I hope we have seen the end of that practice.

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Still another simple way to get the most for your money lies in a careful review of your accounting procedures. The more premimum and claim accounting that is done by the health and welfare fund itself, the lower the insurance company's costs--and the lower its charges. If your accounting system can carry the extra load, the saving in premiums can be substantial.

Finally, we have found that it's very worthwhile indeed to conduct a thorough annual review of a health and welfare plan. Find out what premiums you've paid, what benefits you've received; how much the insurance company has retained for expenses, reserves and profits; whether you have a refund coming. You have to consider all these items to know the net cost of your coverage.

These are just a few highlights from the first part of the Foundation's study. You are welcome to make use of these findings as you see fit. But there are further questions. What about service plans, where you buy medical and hospital care directly rather than through a cash indemnity? How do you compare the advantages of service plans with the indemnity method? What about self-insurance? All these topics will be dealt with in the three succeeding parts of our first study.

We've also started work on a second study, to find out exactly what kind of medical care, and how much medical care the 1,000,000 members of the IAM are actually receiving under

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the great variety of health and welfare plans that their lodges and districts have negotiated. This survey is being conducted by the Columbia University School of Public Health and Administrative Medicine, under contract to the Foundation.

In the planning stage are studies dealing with preventive medicine, dental care, accounting standards, actuarial standards, and ethical and legal requirements in health and welfare programs. As the answers come in we can all make a more intelligent and effective attack on the gaps in our health protection.

There is no question that in this vital area we've been negligent--not only from the point of view of the abuses, but also from the point of view of the tremendous need for education that exists. For if we face the facts I think we have to come to the conclusion that with regard to medical protection we are still really uninformed. We have a long way to go to learn how to distribute medical care as efficiently and as economically as we do other goods and services that are probably less vital.

But in using collective bargaining to break the bottleneck and establish comprehensive health care, we <u>are</u> overhauling concepts of compensation as we have known them. Health care is not a "fringe" benefit like free beer for lunch in a brewery. We cannot overemphasize how important health care

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is. As medical science continues to move forward and as the short-term infectious diseases are conquered, we may well find ourselves confronted with more intractable, financially crushing chronic diseases. And adequate protection may mean the difference between economic security and personal bankruptcy for millions of Americans.

So without prejudice to conflicting views about division of income, let me say that in health and welfare programs labor and management have found an identity of interest without precedent elsewhere. Our Research Foundation stands as a symbol of a promising beginning. In this new partnership, we hope to explore new horizons of making industrial democracy work.

Thank you very much.

CHANGING CONCEPTS OF THE UNIVERSITY'S RELATIONSHIP TO MANAGEMENT AND LABOR

An Address By

Benjamin Aaron

At The

Ninth Annual Summer Management Conference

of the

Institute of Industrial Relations

and the

Graduate Schools of Business Administration

of the

University of California

Ahwahnee Hotel, Yosemite National Park

June 8th, 1957

Changing Concepts of the University's Relationship to Management and Labor

A conference such as this provides an occasion for the planners and the participants alike to think about and to discuss, not only the subject matter of the program, but also the nature of the relationship between the University and the community. That relationship is a complex one; in some aspects it undergoes an almost continuous change, while in others it remains constant. We thought it appropriate to close this conference with a brief discussion of these qualities of change and of constancy, taking for our example the relationship of the Institute of Industrial Relations with management and labor.

Before turning to that specific example, however, let us consider for a moment the general topic of the University's relationship to the community. The principal and constant responsibility of a university is to maintain itself as a center of independent thought. Its function is to educate, and by this I do not mean inculcating the unenlightened with the deeply felt convictions of a majority of the community. Education involves something more: a never-ending quest for truth and the sharing of truth when it is found. In effect, education is the continuing pursuit of an ideal; for a man with an inquiring mind never reaches the ultimate truth. The more he learns, the wider his horizons become. Yet as he continues to study and to reflect, he learns much that is new and valuable, and this he shares with others.

The University's responsibility, then, is to provide both a place for independent thinkers to carry on their search for truth and the means whereby they can communicate their findings to others. The community's basic responsibility is to support the University. It can do this in several ways: first, by jealously protecting the integrity of the University as a center of independent thought; second, by providing the University with adequate resources to carry out its basic purposes of research and communication; and third, by participating in University programs and offering assistance and constructive criticism.

Now you must not suppose that my picture of the University is that of the familiar ivory tower wherein the scholar shuts himself off from contact with the outside world. To the contrary, a university is concerned, as Thomas Mann once expressed it, "with the unity of humanity, the wholeness of the human problem, which permits nobody to separate the intellectual and artistic from the political and social, and to isolate himself within the ivory tower of the 'cultural' proper." Indeed, it is becoming increasingly necessary for university people to maintain a close and continuing association with government and industry, as well as with other educational institutions, in order to keep up with the latest developments in their respective fields of interest.

Of course, there are sharp differences of opinion as to the proper function of a university, and the conflict over that question is as prevalent among educators themselves as it is among other groups in the community. Some people view a university as a kind of glorified educational variety store, the managers of which are expected to stock up on any item desired by a substantial number of patrons. The degree of acceptance of this point of view can be measured by the number of such courses as rope spinning, baton twirling, clowning, and the like that now clutter up the curricula of many of our institutions of higher learning.

Others feel that a university curriculum should be primarily vocational and should eliminate what they are pleased to call "frills" or "impractical" subjects, such as courses in the fine arts or in classical languages. These same people are also inclined to the view that a university's research facilities and personnel should be available for hire to work on almost any project that an interested organization in the community is willing to finance. The simply do not understand the notion that the independent scholar or technician frequently prefers, and therefore should be permitted, to work on projects that have no immediate or even foreseeable practical value.

Let us not forget, either, those who view our universities collectively as a kind of custodial system designed to preserve and defend things as they are. These people overlook the fact that where there is independent thought there must be criticism, and that without criticism any social system will wither and die.

I submit that these several extremist conceptions of a university are subversive of its true purposes. Does it follow then, if I am right, that the University and its various schools, departments, bureaus, and institutes have nothing of value to offer to business and industry in the community? The answer to that question is a categorical No, as I think can be easily demonstrated by referring to the relationship between the Institute of Industrial Relations and management and labor groups.

The principal and constant responsibility of the Institute, like that of the University, is to search for the truth and to communicate its significant findings to others. The area of its activities is the field of industrial relations, broadly defined. The subject of industrial relations is both a science and an art; it has its philosophical values and its specific techniques.

To advance the state of knowledge in industrial relations the Institute conducts two principal activities: research and community services. The research program is flexible and far-ranging, yet it has its own internal logic and discipline. Above all, we respect the scholar's independence and integrity, including his right to investigate any problem within the field of his competence and the Institute's general interest. Recognizing that industrial relations problems are inherently interdisciplinary in character, we bring to the Institute specialists in economics, business administration, law, sociology, psychology, history, statistics, and other fields.

The research output of the Northern and Southern Division during the first ten years of the Institute's existence has been substantial: nine book-length monographs, over 150 reprints of articles published originally in scholarly journals, and a number of popular pamphlets and short monographs. I do not know how much of this research has been of immediate practical use to labor or management, but that is not the test of its value in any case. The only valid criterion, it seems to me, is whether this research has added significantly to our knowledge of industrial relations as viewed from a number of different points of view. While I cannot here review the nature or scope of this solid body of published work, I think it is fair to say that, on the whole, it has been well received by scholars and practitioners alike.

Some labor and management groups have, from time to time, urged members of the Institute's research staff to devote their efforts to matters of immediate interest and concern to employers and unions in the community. In some instances, we have been asked to undertake contract research, that is, research completely financed by an outside organization on a subject which it selects. We have invariably declined these proposals, for several reasons. First, as I have previously emphasized, we think the scholar's own interest should determine what he studies. Second, we believe that his own independence can best be protected and the high quality of his performance more surely maintained if he works under the direction of the Institute, rather than of some outside contractor. Finally, since some degree of competition or conflict is inherent in labor-management relations, we think it is indispensable that the Institute's research not be designed primarily for partisan use.

I do not want to leave the impression, however, that the Institute is hostile or indifferent to grants in aid of research. Like all other educational institutions, we never seem to have enough money for our needs, and outside financial assistance is very welcome indeed. Our custom, however, is to solicit supporting funds for research projects which have first been carefully planned by the staff and which will be carried out under our exclusive direction.

I also wish to make clear that the Institute welcomes suggestions of possible research projects, regardless of whether or not they are accompanied by offers of financial assistance, from interested persons in the community. If my emphasis upon the individual scholar's freedom of inquiry has created the impression that his research interests never coincide with those of employers and unions, I wish to dispel it now. Examine the titles of our publications and you will see that a number of them deal with matters of immediate concern to various segments of labor and management and, indeed, of the public at large.

One of the thorniest problems confronting an organization such as ours is the extent to which staff members should be permitted in their free time to engage actively in labor-management affairs. Our policy, briefly, is to encourage any participation that does not compromise the independence of the individual concerned or conflict with his primary responsibility to the Institute and to the University. Thus, members of the staff serve as arbitrators or as consultants on technical matters, but refrain from active representation of either labor or management in adversary proceedings. We believe that this limited kind of involvement is good for our people, because in this field there is much that can be learned only by doing.

Another question frequently raised is whether Institute staff members should be free to express their own convictions on controversial issues in this field. The argument against allowing such freedom is that its exercise may result in doubt being cast on the Institute's independence and objectivity. We think that argument is specious. As a matter of fact, we are not only tolerant of diversity, we welcome it; moreover, we believe the community will benefit more from the positive, even opinionated, views of an informed and conscientious scholar or technician than from the absolutely impartial banalities of a mediocrity. At the same time, we are conscious of the impermanence of absolute judgments about industrial relations. Since we know that there is never really a "final analysis" of labor-management problems, and that what was anathema yesterday may become gospel tomorrow, we are less likely than the general public, I think, to adopt extreme and rigid positions on important issues in this field.

To summarize, the Institute has a continuing and unchanging responsibility to sponsor independent and objective research which is directed almost exclusively by the inquiring minds of competent scholars and which is allowed to range over the whole broad field of industrial relations. In our view, management and labor groups have a continuing responsibility to support that research by recognizing its intrinsic value and necessity, by not insisting that it be diverted to specific studies of immediate partisan interest, and by offering the greatest possible amount of constructive criticism of our work.

We come finally to the Institute's other principal educational activity—the community service programs. These represent the aspect of our relationship with the community that is continually changing in order to meet new needs and interests. These programs, of which the present conference is a prime example, have a double purpose: to make available to business and labor groups information of particular interest to them, and, equally important, to give the Institute's staff an opportunity to learn the latest and best thinking of active practitioners in the field. In this cooperative sharing of learning and experience the matter of academic training and rank has no relevance whatever. The absence of formal requirements for eligibility to teach university courses enables us to bring to these sessions as lecturers and discussion leaders some of the most brilliant minds and most stimulating personalities in the community, whose talents might otherwise not be available to us.

To members of the Institute staff it is especially heartening to know that the participants in conferences such as this have repeatedly insisted that they do not want our programs to degenerate into either routine "how-to-do-it" sessions or sounding boards for prevailing partisan dogmas. Indeed, we are sometimes taken to task because the content of our programs is not, in the words of a recent critic, "the basic, deep-rooted stuff which should be the concern of university-level discussion." The writer of that comment is a member of the Advisory Committee, Northern Division, for this conference. We are indebted to him for reminding us of our unique opportunity to present programs that are different from those offered by other organizations, and for fulfilling his responsibility to provide constructive criticism of our efforts.

The question I want to leave you with is this: to what extent do the views I have expressed vary substantially from the beliefs and expectations of the business community in so far as the role of the University and the Institute is concerned? In what ways, if any, do you think the Institute has neglected or has inadequately performed its proper functions? In what ways can we improve our research and community service programs? We need your considered judgment on these questions, and your constructive criticism. We hope you will present your views to us as candidly as I have sought to expound our own philosophy and operating methods. It is not certain that we will all agree on every point, nor is it essential; but if we can freely discuss and debate the functions of the Institute as part of a great center of independent thought, I feel confident that the results will prove beneficial to the University, the Institute, and the community.

W O R K S H O P   S E S S I O N

TRENDS IN MANAGEMENT COMPENSATION AND RECRUITMENT

Discussion Leader: George H. Hildebrand, Director, Institute of Industrial Relations, University of California, Los Angeles

Resource Members: George Ford, Vice President in Charge of Manufacturing, Norris-Thermador Corporation, Los Angeles

George A. Lewis, Assistant to Vice President-Administration, Convair, A Division of General Dynamics Corporation, San Diego

Charles E. Shaw, Formerly Manager of Employee Relations Overseas, Standard Oil Company of New Jersey; and Employer Delegate to the International Labor Organization

B I O G R A P H I C A L   S K E T C H E S

GEORGE H. HILDEBRAND (Discussion Leader)

Present position: Director of the Institute of Industrial Relations and Professor of Economics at the University of California, Los Angeles.

Formerly: Served as Principal Research Economist with the National War Labor Board and as Director of Wage Stabilization of the Ninth Regional War Labor Board; has taught in the University of California since 1945; and during 1952-1953 he held fellowships from the Guggenheim Foundation and the Italian-American Fulbright Commission to support research in Italy concerning wages and unemployment in that country since the War. Professor Hildebrand has published numerous articles in leading professional journals in economics in recent years. He is co-author with Wytze Gorter of The Pacific Coast Maritime Shipping Industry: 1930-1948.

Graduated from the University of California at Berkeley in 1935 and took his Ph.D. in Economics from Cornell University in 1942.

GEORGE A LEWIS (Resource Member)

Present position: Assistant to the Vice President - Administration at Convair, A Division of General Dynamics Corporation, in San Diego.

Formerly: Mr. Lewis came to Convair in March, 1942 where he worked as a Job Analyst and Staff Assistant prior to his present position undertaken in March, 1949. He is an active member of the Industrial Relations Advisory Committee of the Aircraft Industries Association.

Graduate of the University of California at Berkeley.

B I O G R A P H I C A L   S K E T C H E S

GEORGE C. FORD (Resource Member)

Present position: Vice President and General Manager, Norris Division, and Member of Board of Directors, Norris-Thermador Corporation, Los Angeles.

Formerly: Between 1920-30 Mr. Ford served in the printing and newspaper business and became Foreman in the printshop for the Los Angeles Board of Education. In 1935 he was a teacher in Compton Junior College and became their Director of Vocational Education later. He served in various supervisory and managerial positions for the Consolidated-Vultee Aircraft Corporation and in 1946 he moved to Joyce, Inc., Pasadena, as their Vice President - Manufacturing, Board of Directors, and President of three subsidiary corporations. In 1951 he was appointed to his present position. Mr. Ford is a past President of the California Industrial Education Association.

CHARLES E. SHAW (Resource Member)

Present position: Retired oil executive, Los Angeles.

Formerly: With Standard Oil Company (N.J.) and affiliates since 1920; Manager of the Industrial Relations Dept. at Humble Oil and Refining Co. in 1930 and Manager of Employee Relations Overseas since 1943. From 1945 he served as a Delegate to the General Assembly of the U.N. for employers of the governing body of the I.L.O., and as a member of the U.S. employer delegation to the annual I.L.O. conferences. Since 1952 Mr. Shaw has been a member of the I.L.O. governing body. He is also author of Human Relations in Industry and various articles in the field.

Student at Kansas State College and received his B.S. at Columbia University in 1920.

TRENDS IN MANAGEMENT COMPENSATION AND RECRUITMENT

by

George H. Hildebrand
Discussion Leader

The past two decades have seen a rapid increase of interest in problems of compensation of managers. In part this development simply reflects the rise of business corporation and the accompanying shift from proprietor-management to management by salaried professionals. With this change there has occurred a parallel switch from compensation in the form of profit-withdrawals to compensation by salaries augmented by other money benefits. In turn this development has involved the emergence of a professional labor market for managers in which competition for and mobility of managers has increased. In consequence questions of compensation and recruitment have gained in importance.

At the same time, however, other developments of greater recency have made the problem of managerial compensation even more acute. First, the fifteen-year business boom has greatly increased the number of business enterprises, while rapid growth of large organizations has expanded the whole managerial structure of modern industry. Together these tendencies have greatly increased the demand for managers at all levels. Thus the competition for executive talent has become very intense. Working against a relatively restricted supply, competition has upset traditional salary rates and structures and has directed increasing attention to the compensation problem.

Second, sharply increased rates of taxation since 1935 have greatly complicated the situation. Thus it would require a salary of

$100,000 in 1954 to yield the same take-home pay that was provided by a salary of $50,000 in 1930, and this makes no allowance for inflation of the cost of living. At the middle and lower levels of management, the impacts of tax-reduced take-home earnings have been even more acute. What greatly increased progressivity of personal income taxation has done has been to compel modern enterprise to devise a great variety of supplemental forms of compensation to provide more economical methods of maintaining or increasing post-tax incomes. Moreover, marked increases in corporate profits taxes have had their own effects, of which the main one is increasing resort to expense accounts and allowances, paid for by the now-famous 48-cent dollars. These provisions enhance the good life for the fortunate few and by the prestige they confer probably add indirectly to base compensation itself.

Finally, slow but protracted inflation of prices has exerted some peculiar effects of its own. Even apart from tax increases, inflation has steadily cut the real worth of established salaries across the board. One peculiar result has been an increasing squeeze on middle management, coming both from above and below. Salaries for lower supervision have advanced pretty much pro rata with the 180 per cent rise in employee wage rates since 1939. Base salaries for top executives have not advanced as rapidly mainly because tax considerations make it cheaper to increase supplemental compensation instead. The result is a ceiling on salaries for middle management, while its differentials over salaries for lower management have steadily been compressed by increasing pressure from below.

In addition, inflation has fostered an illusion of large profits and easy money, encouraging liberal if not often loose compensation practices involving bonuses, stock purchase plans, and other benefits, primarily for top executives. Further, previous inflation controls gave rise to salary stabilization requirements that have invoked the continuing practice of making uniform increases across-the-board on a periodic basis. This method, of course, is the easiest way to make salary increases, but it divorces rewards from specific contributions to profits and so tends to weaken incentive. Finally, long-persisting inflation tends to keep base salaries permanently out of line with the market while at the same time fostering the belief that the shortage of talent is even greater than it actually is and inducing erratic job changes and at times wild bidding for specialized persons.

So much for some of the main trends in managerial compensation. Another dimension of the question concerns compensation practices in different branches of industry. Several studies of this type have been made in recent years, all of which indicate considerable variance by industry and size of firm. While this research shows some conflicts in findings, some generalizations have stood up well. A quarter-century ago John C. Baker found there was little relationship between executive pay levels and the profitability of enterprise. However, both David R. Roberts and Arch Patton found from 1954 data that executive pay does vary quite directly with gross receipts. Roberts also found that small companies generally pay less for comparable positions and that compensation levels show no startling differences according to region or size of city. Nor was there any linkage between pay levels and managerial turnover rates.

Patton surveyed 618 companies to test the connection between top management pay levels and yardsticks such as gross sales, gross profits, invested capital, and size of payroll. He found that when the firms were grouped by industry pay levels averaged higher with higher levels of total profits, but also that the progression rate was much slower in regulated industries such as railroads and public utilities than in non-regulated groups. He explains this as reflecting lower pricing risks and less large-scale decision-making in regulated firms. Also, where total investment is large, pay levels are relatively lower. Pay rates are larger where sales and payrolls are large. At the middle and lower levels of management, compensation levels tend to be much more closely linked to the professional market than for top executives, where individual bargaining still exerts much influence.

The literature about managerial compensation abounds with specialized terms that call for some clarification. One useful distinction is between payments available today-"current compensation"- and those that will become available in the future-"deferred compensation." In addition, the elements of compensation itself must be distinguished. These can be grouped as follows:

- Base salary for the position
- Bonus
  - Profit-sharing
  - Individual bonuses
- Fringe benefits
  - Expense accounts and allowances
  - Pensions
  - Stock options and stock purchase plans
  - Insurance against various hazards

It should also be noted that while some of these items can be considered clearly to be current compensation and others to be deferred, some of them could fall into either category, depending upon the particular policy in force.

Turning to fundamentals for a moment, compensation is a device for creating managerial incentives, while incentive is a technique for eliciting voluntary contributions to the efficiency and hence profitability of the enterprise. In a free society emphasis goes naturally to incentives for all co-operating participants in the organization, from the common laborer at one end of the scale to the chief executive at the other. Conversely a system predicated upon voluntary co-operation relies much less upon coercion, although it properly may utilize penalties as a negative type of incentive. At the same time, one of the most difficult problems surrounding the managerial incentive question is to identify specific contributions successfully and to link these directly to rewards of various kinds, without extending these special benefits to others who have made no obvious extra contribution to the success of the venture. It is for this reason that devices such as loose bonus systems, promotion by strict seniority, and uniform across-the-board salary increases are commonly criticized.

Equally plain, monetary compensation, while still considered the most powerful tool for obtaining best efforts, is not the only instrument at hand for this purpose. Indeed, some writers consider promotion according to proved merit to be an even stronger device. At the same time, much emphasis must be given to the quality of the managerial organization itself- the skill with which authority and responsibility are delegated and with which functions in the hierarchy are both distinguished and related. Moreover, the management level, like its employee counterpart, has been subject to a good deal of attention in recent years from "human relations" experts. Much stress has been laid upon leadership, communications, consent, and team spirit, and upon the role of the informal, as opposed to the formal, organization. In some of the more extreme versions of this thinking it has even been urged that non-pecuniary incentives such as a sense of service and a feeling of "belonging" have largely displaced monetary compensation as a means to greater efficiency in the enterprise. More conservatively, other students of managerial problems have contended that it is too easily assumed that salary reforms and the introduction of new gadgets in compensation possess adequate if not remarkable therapeutic power for correcting business ills. Thus considerable doubt has been expressed regarding the efficacy of "position evaluation," "tax-sheltered compensation," and executive bonus systems. These tools may have their legitimate uses, it is conceded, but they should not be regarded as cure-alls.

This brief review of managerial compensation naturally poses a number of issues for exploratory discussion. To sharpen that discussion and make it provocative, these issues will be presented in the form of strong, unequivocal, and quite debatable statements which can serve as points of departure.

1. "Inflation has been the biggest single factor effecting changes in managerial compensation in the past twenty years."

2. "Tax rates are greatly overrated as a factor deterring incentive because management today is less interested in money returns than in ideals of public service for its own sake. This is obvious because management was never more efficient and progressive than it is today, under today's high tax rates."

3. "Modern industrial research shows that money incentives no longer carry much weight, that the social qualities of the organization are the true determinants of business success or failure."

4. "The compensation problem is the same wherever you find it, in large companies or small."

5. "To develop an adequate salary structure, attention must be concentrated upon careful evaluation of all positions in the managerial hierarchy, without too much attention to current market rates being paid for comparable jobs."

6. "Deferred compensation schemes are merely indirect evidence that managers today care more about future retirement than about the success of the enterprise now."

7. "The best way to increase managerial incentive is to quit thinking about basic salaries and across-the-board increases and to develop profit-sharing and bonus plans."

8. "The only way to relieve the squeeze on middle management is to undertake a thorough project of position evaluation, to be applied to all levels of management together."

9. "Since the success or failure of a firm depends almost wholly upon the work of a very few at the top, bonuses and fringe benefits should be confined to this select group."

10. "There is little point in providing special monetary rewards for particular persons in the managerial group because it is impossible to identify individual contributions to business profitability anyway."

These contentions, all of which are in common circulation, should not be taken as unequivocally true, or false. Rather, they serve to indicate the present unsettled state of thinking about managerial compensation and the problems it now presents.

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WHAT MANAGEMENT SHOULD KNOW ABOUT EXECUTIVE COMPENSATION*

by

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A large company that had been losing ground steadily for some years recently acquired a new president. In his preliminary survey to determine what was needed to revitalize the slipping giant, the new president noted that executive salaries were on the low side. He suggested to the board of directors that salaries be increased, and commented, "If you want top-flight executives, you have to pay for them."

His remark is symptomatic of a growing management tendency to consider compensation the magic wand that somehow creates skillful executives. He did not say why he felt that paying more money to the very people who had mismanaged the business in the first place was going to improve things. Nor, apparently, did he recognize that the principal advantage of above-average compensation is long-term and not short-term, that it builds for the future by attracting men with above-average competence and talent. He simply reached for the handiest current cure-all in management's pharmacopoeia: compensation

This absorption with the curative powers of compensation has attained monumental proportions. Almost pathological attention is lavished on compensation surveys, on proxy statements that disclose newcompensation devices, on deferred-compensation agreements, and on speakers who are presumed to know something about the subject.

But compensation--by itself--does not develop executives. Good executive are the result of native ability and effective management action. This means that a company acquires them by careful selection, sound training, effective organization of functions, delegation of responsibility and authority-- and a judicious administration of rewards and penalties in the developmental process.

Compensation is no substitute for leadership. Many companies whose executives are relatively low-paid have outstanding growth records. In these cases--and they are fairly frequent--the critical importance of leadership is being demonstrated.

Perhaps it is simply that executive compensation has gotten a bit out of focus. To be sure, it is the principal yardstick of the incentive provided for the executive group--leadership, working conditions, and the like are intangible, hence unmeasurable. But compensation is only <u>one</u> tool in the managerial kit. In fact, there is plenty of evidence that without the essential leadership skills at the top, high compensation is unproductive.

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Arch Patton, "What Management Should Know About Executive Compensation," <u>Dun's Review and Modern Industry</u>, vol. 69, no. 4, (February, 1957), pp. 43-44, 122-131.

Preoccupation with compensation, per se, without clear recognition of the importance of skillful administration, is one of the managerial shortcomings of our day. For example, one of the low-paid industries of a few years ago has become a relatively highly compensated industry in less than a decade. Why? The chief executives of several leading companies passed out of the picture at about the same time. No internal successors had been developed; so it was necessary to reach into the open market for replacements. The directors of these companies paid a very high price to get replacements. This substantial upgrading in key companies quickly led to general increases throughout the industry.

By and large, the quality of executive talent did not improve with industry-wide upgrading of compensation--for the same men were still on the job in most instances. It was simply a case of compensation administration by default. The industry is now paying more for its executives, but there is no indication that the stockholders are getting better results for the outlay.

Why Executives Are Paid

What is an executive paid for? That is the key question. In the early days of industry, company owners were their own executives, and their "compensation" (largely dividends and capital increments) was the direct result of their decisions. When professional managers replaced owners as executives, the importance of decisions made or influenced remained the dominant element in determining compensation.

We find that the president, or treasurer, or manufacturing vice president of a company doing $100 million worth of business in a given industry is likely to be paid twice as much as his opposite number in a company doing $15 million. Executives in the smaller company are probably making as many decisions, and almost certainly making them with less staff assistance than executives in the larger company, but the value (or importance) of their decisions tends to be substantially less.

It goes without saying that executives are also paid for leadership, and the bargaining position in which they happen to be. But, broadly speaking, the importance of decisions made or influenced is a well-established basis for their compensation.

The "importance" of these decisions has another facet: Some industries pay more than others. For example, a recent survey of top management compensation showed that among companies earning $3 million net income, public utilities pay their chief executives an average of $36,000 and railroads pay $56,000. But, still in the $3 million category, chemical companies pay their chief executives an average of $71,000, and retail trade pays $86,000.

Why this large differential? Evidence is reasonably clear-cut that it can be traced largely to that word "important" as applied to decisions. Let us consider the relative risk elements involved in these industries.

Consider pricing: Utilities and railroads are permitted few risks in pricing because of government control; and the necessity for action on prices is normally predictable well in advance. Furthermore, the products sold are not subject to inventory losses or overnight obsolescence. So utility or railroad presidents take no great individual risk when a pricing decision is made.

But if chemical and retail companies set prices too high, they encourage competition. Moreover, a bad guess on the willingness or ability of the market to pay a specific price can yield substantial inventory losses. And style obsolescence is an almost daily occurence in retailing.

Consider capital outlays: Utilities and railroads can predict the need for new facilities with considerable accuracy, and the monopoly nature of their business means that new investments can be made with reasonable security.

But when a chemical company sinks millions in a new process, it runs the risk of overnight obsolescence because of a still newer process. Similarly, an addition to a downtown retail store can become a white elephant when a few suburban shopping centers are opened.

Consider people: Jobs in utilities and railroads are fairly routine. The end-products change hardly at all, and the essential processes change very slowly. This means that forecasting the effectiveness of an individual on a given job is easier, for relatively more people are able to handle the fairly routinized work.

The chemical industry, on the other hand, is dealing with people who must make the future evolve as they want it to evolve. The retail industry is prejudging style whims of the female population. Both jobs call for pretty special people.

Consider number of decisions: The important decisions directly affecting profits in the utility and railroad industries are relatively few. New facilities and raw material contracts would be among the more important. For the most part, management shares these decisions with the directors, and frequently they are made on a unanimous basis.

The lowliest executive in the retail industry, the buyer, will almost certainly make more decisions directly affecting profits in a week than a utility or railroad president will in a year. These decisions are not so important dollarwise, perhaps, but they have a certain nagging quality--they must be made now. The executive cannot wait for a committee to share the risk involved; he himself must accept it.

Similarly, the chemical executive faces a steady stream of profit-oriented decisions that must be made in a crystal-ball kind of environment.

This analysis indicates that an executive is normally paid for the importance of his individual contribution to profit in terms of decisions made and influenced. Compensation thus varies both with the size of the company and the nature of the industry of which it is a part.

The small company faces a unique executive compensation problem. It can be a training ground for the larger companies. This means hiring good men, paying them the "going rate" while training them, and losing them to the big concerns when they are about to become really valuable.

This is the normal small-company approach, and it has a critical drawback. The small company ends up with mediocre--or worse--management, for the good men move on to tackle bigger opportunities.

The other approach is to search out the really critical jobs in the company and pay more than the big fellows to attract men for them. A small oil company has done this with outstanding success. It pays its geologists, landsmen, and geophysicists well above the going rate among the "majors," and has consistently turned in a better earnings statement than the industry as a whole.

It is also worth noting that the smaller company must keep two compensation truisms in mind:

1. The salary curve, as it relates to company size, flattens out at the bottom of the scale. In effect, the compensation versus size relationship is an "S" curve, flattening out at both the top and the bottom. This means there is a point of irreducible compensation minimum for the top management executive of the smaller company.

2. The percentage relationships between the compensation of the various executive levels narrow as company size drops below a certain level. Where the spread between a vice president and his key aid in large companies might be 40 to 50 per cent of the vice president's salary, in small companies it may drop to between 25 and 35 per cent. There is a certain minimum for these jobs, too.

The "company-size orientation" of compensation is normally limited to the management group. The pay of the chief executive and the men reporting to him is certainly affected by company size, but at some point down the line "company-size orientation" is replaced by a "market or skill orientation." Other things being equal, a district sales manager or a factory superintendent is likely to be paid about as much in the $15 million company as in the $100 million company, for his compensation is closely related to the going market for his particular responsibility.

Job Limitations

This is another way of saying that the top-level executive makes his own job, while the contribution of the district sales manager or the factory superintendent is largely limited by the scope of the job he holds. It explains why the compensation of a vice president responsible for a given function does not bear the same relationship to the president's pay in one company that it does in another. In a given industry, compensation averages may show the manufacturing vice president as second highest paid executive and the treasurer as third highest paid. But a specific company in this industry may reverse the relationship, making the marketing executive the second highest paid because of his over-all contribution to the decision-making process. Certain executives play a much more important role in shaping broad policy decisions than others, simply because the chief executive looks to them for advice and counsel.

Recognition of this fact, incidentally, is lacking in many salary programs today. They assume a more or less static, or average, relationship between the value of executive positions--based on salary surveys--without taking into account the "moving target" aspects of executive contribution. The individual executive frequently builds his talents into a job far more rapidly than the administrative process recognizes. There are a good many executives whose leadership and skill are being rewarded far below true value simply because the men are young, or have not held their jobs for a decade or more.

Skillful administration of executive compensation recognizes that different values are involved in the various aspects of compensation. There are four distinct categories to be considered: (1) promotion; (2) salary; (3) bonus; (4) fringe benefits.

No one of these should be considered by itself. Thus a pension or stock option plan must be assessed as part of an over-all compensation program.

A chance for promotion is by far the most powerful incentive, for promotion provides prestige as well as money. A well-known company is deliberately underpaying its lower executive echelons as a means of securing funds for expansion. It can do this because rapid expansion permits promotion of lower-level executives at an unusually fast rate. The top management is committed to a policy of rapid expansion, and to using promotion as a means of providing executive incentive.

The risk, of course, is that, while the compensation of the individual executive advances at a satisfying rate, the value of the job may fall too far behind the "market," or the rate of company growth may slow down. In another company, postwar expansion was so great that the average executive was promoted once every 15 months over a five-year period. During this span an effective team of executives was built up and turnover was negligible. But 18 months ago, turnover rose sharply. Study of the causes revealed that individual jobs were being apid substantially below the market. More important, company expansion had virtually stopped because of market saturation; hence the promotion rate had fallen sharply, to the point where no one could be promoted unless someone retired.

The unusually rapid postwar expansion in this company, and the powerful incentive provided by the high promotion rate, had obscured the <u>relative</u> drop in the compensation for the key positions. The company also had <u>unwittingly</u> adopted a practice of paying promotional increases at approximately the same rate as merit increases, and the "spread" between supervisor and supervised had dropped to a level so low that the incentive to advance from job to job was sharply reduced.

Salary is certainly the Number Two incentive. In their desire to develop a highly charged bonus plan, companies occasionally let salaries slip as bonuses rise--until a serious imbalance occurs. For example, a company with an extremely effective incentive bonus plan found it was having difficulty hiring good men for a key management training position. Investigation showed that, while total compensation for this job--including bonus--was about 10 per cent <u>above</u> the market, the salary being offered new men was about 10 per cent <u>below</u> the market. Job applicants did not consider the annual bonus, 20 per cent in recent years, a part of income. So the company was getting substandard candidates for its above-standard compensation!

There is no question that effective executive incentive can be provided by salary alone, Many outstanding companies are doing just that. The penalty, of course, is reduced flexibility in rewarding and penalizing individual contribution, on the one hand, and a tendency toward a reduced profit-consciousness among individual executives on the other.

Here, again, administration is a critical factor, If the administrative procedure does not recognize the increasing, or decreasing, value of an executive job in relation to other jobs, a distortion is being built into the salary structure.

The Bonus Incentive

There is a good deal of evidence that most executive bonus plans fail to provide any real incentive, even though incentive is presumably their prime objective. This stems largely from poor administration rather than from any basic fault in the bonus device itself.

There are two general types of bonus plans: (1) profit-sharing, with bonuses figured as a percentage of salary; (2) incentive, with bonuses presumably varying with the contribution of the individual executive. The great weakness of the profit-sharing plan is that, since each executive shares in relation to his salary, it over-rewards the below-average executive and under-rewards the real profit maker.

Even the incentive-designed plans, in many instances, leave a good deal to be desired, usually because of critical weaknesses in administration:

1. Inadequate effort is expended in distinguishing the outstanding performers from the poor performers. There is a tendency to base rewards on the impression a man makes rather than on what he does. Poor organization--with its lack of clear-cut responsibility and authority--is a frequent cause of this inability to spot the outstanding and poor performers. Committee management is another roadblock to effective discrimination between good and poor executive performance; so is the lack of adequate methods of appraising individual contributions to the team effort.

2. Inadequate rewards are given the outstanding performers, because poor performers receive too much. When outstanding performers realize what is going on, an incentive-in-reverse tends to develop.

3. Decisions on bonuses are inconsistent with stated objectives. When years of service become a factor in deciding who gets a bonus, or how much, the "performance" incentive is vitiated.

Rewards and Penalties

Really effective incentive plans are based on a "reward and penalty" philosophy. They recognize that if above-average rewards are paid to top performers, the poor performers must receive well below an average bonus. Indeed, there is every evidence that no bonus can be just as great an incentive as a big bonus. But the penalty aspects must be administered cautiously until skill is developed--and used fairly. The personality factor must never outweigh performance.

The incentive type of bonus plan is in the ascendant. This is the result, at least in part, of the steady decline in the proportion of funds available to provide direct rewards for individual accomplishment. With fringe benefits in some industries totalling upwards of 25 per cent of the payroll outlay, and a rising tide of deferred payments of all kinds being offered to executives, it is small wonder that top management is feeling the need for a more effective means of direct motivation.

By and large, the "fringe" compensation area involves a deferral of income, or some other tax advantage. The advantages and disadvantages of deferral are generally understood; the older and higher-paid executives look favorably on them, the younger and lower-paid men usually want their cash on the barrel-head.

The rigidities that the various deferral devices build into an organization structure are not so widely appreciated. Men who want to leave feel they cannot afford to because of the income they can receive only by continuing with the company. And dissatisfied executives, like rotten apples, contaminate their associates. The other side of the coin is the executive who is not fired, despite poor performance, because of the fringe benefits he would lose. The incentive for management to be charitable is substantial even if a poor executive is blocking a better man. The fact that the weak sister is tolerated is a form of incentive-in-reverse.

Fringes Have Faults

The "fringes" have not been part of executive compensation plans for too long. One of the results of their relative novelty is that some of them are not soundly utilized.

For example, one large company installed a deferred-compensation plan for its executive group a few years ago. At that time, it was ecstatically received by one and all. Recently, two major faults have been discovered and loudly lamented:

1. The younger executives have recognized that 20 or 25 years is a long time to wait for a reward, and that they stand to lose this deferred income if they quit or get fired.

2. The real tax differential no longer looks as impressive as it was touted to be. A senior, and very highly paid, executive was told by tax counsell that the long-term tax differential between current income and deferred income in his case was practically nil. The reason? Current income increased his pension and savings plan benefits, both of which would be substantial on a post-retirement basis; and deferred income was added in sizable amounts to his already large--and relatively highly taxed--retirement income.

If incentive plans are to be productive from the stockholders' point of view, administrative skills must be increased. Sound techniques for appraising the performance of profit-responsible executives--such as division managers--are being used by an increasing number of companies. Perhaps the development of executive-appraisal techniques for this group has been spurred by the current wave of mergers and the divisionalization trend. But relatively little progress has yet been made in appraising the performance of other line and staff executives.

The most promising efforts in this direction involve what might be termed "programmed management." Briefly, top management determines long-term company objectives--dollar volume, products to be sold, share of market, and the like--and allocates responsibility for accomplishing these aims among the various executives on a year-by-year schedule. This means spelling out what an executive is expected to accomplish at the beginning of the year, and then appraising his success in meeting this objective at the end of the year.

Skillful planning is obviously essential to such a program. So is the ability to be objective in appraising the effectiveness of individual executives in meeting their commitments. The great advantage of this approach is that it necessitates a careful thinking-through of company objectives, establishes the responsibility for attaining objectives on a coordinated basis, and reviews the success or failure of individual executives in factual terms.

A Move Worth Watching

A number of well-managed companies have made auspicious starts on such a program. It is likely that, at first, progress will be halting and erratic. The self-discipline required of management, and particularly of the chief executive, to make such a program effective practically guarantees a major crop of failures.

But the pressure to develop a sounder basis for judging executive performance is so great that progress over the next five years will surely be more spectuacular than now seems possible. The future development of our free enterprise economy depends on our ability to out-produce the various state-dominated economies. And this ability, in turn, depends heavily on the release of the creative energies of the individual by a more effective use of the only measurable incentive device at our command--compensation in all its facets.

One of the great weaknesses in compensation administration today is the fragmentation of the responsibility. Marketing, manufacturing, and accounting are relatively clearly defined management functions, and some one person usually is charged with responsibility in each of these areas. But compensation consists of many elements, and responsibility for the bits and pieces is usually widely scattered.

Consider the compensation roster: salary, bonus, profit-sharing trusts, pensions, deferred-compensation contracts, stock options, stock purchase plans, and so on. And choosing the proper combination of the elements is only part of the compensation job, for no combination will be effective unless it is applied in conjunction with painstaking performance appraisal.

The entire compensation structure rests on the way the business is organized and run, for executives normally are paid in terms of their responsibility. This, in turn, means that some central body must be knowledgeable enough to put the pieces together to form a consistent whole.

Who Sets the Pattern?

Where does the responsibility for each of the compensation elements rest? Theoretically, the personnel department provides staff assistance to top management in the compensation area. But practically speaking, the entire management group, plus the board of directors, gets into the act.

Rare indeed is the company that looks to one executive to plan, initiate, and administer the broad executive motivational responsibility that is compensation. And too few recognize the relationship between the various compensation devices. A pension plan, or a bonus plan, or a deferred-compensation plan will be studied and adopted with no serious consideration of the over-all needs of the company, or of the interrelationship among these devices. The "bits and pieces" approach is fairly widespread and very expensive.

But perhaps this is a passing phase. There appears to be a growing understanding of the advantages of sound compensation administration. Equitable executive salaries require clearly defined individual responsibilities; soundly organized responsibilities make it possible to pinpoint accountability; accountability makes possible promotion and bonus decisions based on a knowledgeable appraisal of individual performance; and finally, this speeds up the development of better executive talent. In other words, effective compensation administration virtually forces better management.

But none of this is easy. Higher salaries alone never corrected human frailty. Management still has to manage. That is what it is paid for.

HOW MUCH IS AN EXECUTIVE WORTH?*

by

Perrin Stryker

The paying of executives is the most peculiar process in U.S. business. It looks completely haphazard to many economists, moralists, politicians, and labor leaders—and to many executives, including men who, except for this detail, have charted and systematized and rationalized their corporations down to the last penny of cost in the remotest cranny of the company cafeteria. To the outsider, and often to the insider, it is baffling that Vice President A gets total compensation of $63,199.35 for carrying responsibilities that seem roughly comparable to those that bring Vice President B $38,550. It is baffling, too, that Vice President B's opposite number in a company of roughly comparable size, in the same industry, gets $20,000. It is baffling, again, that the same job in a different industry may command $100,000.

But what may be most puzzling to the executives themselves is why, during an era when almost everything connected with the U.S. economy has grown two or three or four times bigger than it used to be, the rewards for running a large part of that economy must move so sluggishly. In many cases the rewards have actually declined. And though the executive is not quite so bad off as he likes to let on, there is no doubt that his compensation is becoming a steadily more difficult and important problem. Beneath all the reticences that surround the executive payroll, there is discernible some fresh thinking that could produce interesting news in the next few years. It may be that one of the biggest favors the boss could render his executives, for example, would be to persuade the board to give <u>him</u> a raise.

It was not until late in the booming Twenties that executive compensation in six figures ceased to be remarkable. Before World War I managers were treated by owner-managers as mere hired hands, and the president of a large company earned on the average only $10,000 a year. But as the managers became indispensable to the financiers and the owners of the nation's new industrial giants, their rewards rose swiftly. By 1929 the top officers of many large corporations were receiving salaries of more than $100,000 a year—and handsome bonuses besides. The oddities of executive compensation, however, were well illustrated that year when President Eugene Grace of Bethlehem Steel led the executive procession with a bonus of $1,623,700 piled atop a modest $12,000 salary.

In the quarter-century since then, the matter of executive pay has become increasingly complicated for the managers themselves and for the corporations they run. The great depression swept away most of the lavish bonuses, but executive salaries--at least in the higher echelons--stayed up. In fact, one study has shown that the salaries of the officers of 100 large corporations on the average fell less than 3 per cent between 1928 and 1933. The top managers had established their claim to high levels on basic pay. And during the bleak depression years when everything was cheap, and taxes were still relatively light, they were not much worse off, even without bonuses, than in the Twenties, and they were probably much better off than they have ever been since. Progressively higher taxes and inflation have cut so deeply into executive cash incomes that many in top management today receive far less in take-home pay than they did before World War II.

And while compensation has become a complicated problem for the executive personally, the problems it has created for him as a manager are far more complex. These problems are of many kinds--ethical, psychological, strategic, and economic--and executives face them in one form or another, depending on the level of corporate responsibility they have attained. They are most difficult to resolve in the highest levels of a company's hierarchy where managerial worth is hardest to define and rewards cannot be explicitly related to the contribution to profits. But well down the ranks of management the decisions about executive worth are complicated by this fact: the executive regards--and bargains for--his own pay as an employee does, but he is in turn expected to administer the pay of his subordinate executives in such a way as to benefit the corporation. In both cases, of course, what is good for the executives may be good for the corporation--but not necessarily.

SHELTERS AT THE TOP

For a number of years now, corporate directors have concentrated on relieving the tax pressures on company officers and "key" men. The combined pretax income from salaries and bonuses of such executives has risen steadily since the middle Thirties. According to a recent survey by the American Management Association, their 1953 cash incomes were almost 24 per cent greater than in 1950. Moreover, their cash incomes often have been sharply increased by tax-sheltered rewards--most notably by annuities, deferred pay and stock options, and by an extraordinary collection of tax-free fringe benefits: insurance, club memberships, use of company cars and planes, housing maintenance, entertainment and travel allowances, discounts, dining rooms, magazine subscriptions, etc.

These extra rewards have inevitably changed the concept of what it takes to motivate a manager. Cash is no longer the king of incentives. Today most executives, like most workers, look for security in their jobs, and particularly security in retirement. Generous retirement pay--$20,000 a year or more for even second and third-ranking executives--is now a basic expectation. The emphasis most corporations now put on providing retirement and fringe benefits to upper-level executives--i.e., presidents, vice presidents, division managers, etc.--shows how successfully these managers have established their bargaining position with the owners and directors of corporations over the last twenty-five years.

The attention focused on top management's pay, unfortunately, has tended to obscure the serious executive-compensation problem: the squeeze in middle management's pay. Middle management, generally speaking, includes those above the foreman and department-manager level and below division managers. The pay squeeze on these levels has been gradual, but sure. As corporations have expanded, more and more executives have been needed, and the ratio of managers to employees has risen swiftly--over three times at Swift & Co., for instance, since the mid-Twenties. At the same time the pay level of production workers has gone sharply up, rising over 173 per cent since 1939. The pay of men near the bottom rungs of the management ladder has increased nearly as fast. Middle management's income, by contrast, has gone up more slowly, and in many corporations today the salary range for middle-management line and staff executives is so narrow that there is little or no finanical incentive to spur men into seeking to improve their station in the hierarchy. The reason for this is to be found in what has happened to the compensation of the top managers: while bonuses and other rewards have raised their total incomes, their salaries, by and large, have gone up too slowly to relieve the pressure on the ceilings of middle-management pay.

These ceilings are solid, and are rigidly buttressed by the wide differences in salary that top management has generally insisted on preserving between the three or four top jobs. These differentials are perhaps the most significant elements in a corporation's compensation structure. They determine the pay scales of the entire management group, and usually provide the key to the degree of financial incentive that exists within a company. Moreover, these "historical relationships" have been surprisingly uniform throughout industry. Generally speaking, a president will receive in salary about a third more than his No. 2 man, about twice what his No. 3 man gets, and some three times the salaries paid to those on the fourth rung of management. Thus, if the president's salary is $100,000, the ceiling on middle-management pay scales is likely to be set at around $30,000.

The wide salary spreads in the upper ranks accentuate the major weakness in executive pay scales: the top man's salary is usually too low to permit sufficiently wide pay ranges down the line. Middle management is caught in the middle--between a low ceiling and a rising floor. There are three possible ways to relieve this situation:

1. Shrink the pay spreads at the top and thus raise the salary ceilings for all middle-management levels. This, however, would remove those "historical relationships" which represent the money values that directors and top executives have generally placed on the large increases in responsibility assumed by the highest-ranking managers. These differentials may be too large in some cases, but most executives would probably agree that sizable pay spreads near the top are warranted by the management burdens on such levels.

2. A much stronger argument can be made for raising the chief executive's salary and the salaries of top and middle management correspondingly. The costs of such a boost for large corporations would be relatively small, since in many large companies the executive payroll accounts for only about 4 per cent of total payroll. The principal stumbling block to this solution is that top management today is as timid about raising its own pay as Congress has traditionally been.*

*The analogy is apt. In voting itself a long-overdue pay raise of 50 per cent in February, Congress in effect lifted the ceiling for top civil-service jobs.

Although executive salaries seldom make headlines any more, directors and presidents are still reluctant to risk having a stockholder, a columnist, or a politician charge the corporation with paying top executives sums that are "unreasonable" or "anti-social." Such charges are based on the puritanical concept that there is something "wrong" about very large rewards for managers. It would be wrong, of course, if top management took so much in pay that it cut heavily into funds available for dividends, but in publicly held companies this has rarely happened. In large corporations, the total pay of top officers may run from less than 1 per cent to 5 per cent or more of earnings, but it is often a small fraction of dividend payments; if, for example, the $7,200,000 in salaries and bonuses awarded to General Motors' top sixty executives last year had been distributed to shareholders after corporate taxes, each dividend would have been only about 4 cents greater. (G.M.'s 1954 common dividend totaled $5 per share.)

The charge of "unreasonable compensation" is very difficult to prove. When stockholders have brought such cases to court, the courts continually have refused to say that executives are overpaid. The prime concern of the courts has been to guard stockholders against the fraud of "self-dealing" executives, i.e., those who take advantage of stockholders in setting their own pay rates.

On economic grounds alone, directors of profitable companies would be justified in raising the pay of their top executives. Thanks to corporate income taxes, an executive who was paid $300,000 last year actually cost his company only $144,000.

3. Many big companies have in recent years chosen to adopt the third method by which this squeeze on middle management may be temporarily relieved. They have extended, even up to the level of presidents and directors, a system of "classified" salary ranges, i.e., pay schedules related, more or less objectively, to job functions and responsibilities, and to the going market rates for similar work in other companies. By allowing these salary ranges to overlap so that, for example, a superior assistant division manager can earn more than a poor division manager, a company can widen the pay spreads on each job level. But many top executives continue to reject such systems, arguing that above a certain point (never defined) "the man makes the job" and his rewards should not be limited by a "classified" price tag.

STUMPING THE EXPERTS

The hard fact is that in the majority of companies today the paying of executives remains the most subjective and secretive of all management operations. This may, of course, be good for those executives who might lose some interest in their jobs if they knew exactly what their pay ceilings were. The result, however, has been to obscure almost completely the economic function of management pay, and to hinder any objective analysis of what executives are really worth.

The economists, certainly, do not seem to have found a clear place for the executive payroll in their theories of business. Managers are neither enterprising capitalists with a claim on the profits nor simply high-priced office help sharing labor's take. For decades, economists and other students have been trying to discover rational patterns in management compensation and its relations to earnings, assets, profit ratios, sales, and other indexes of corporate activity. But their conclusions, still necessarily based on very limited data,** have often only further confused the question of management's economic role.

The picture of executive compensation that is visible to outsiders is baffling indeed. From company to company and industry to industry, the salaries, bonuses, pensions, and other benefits paid to corporate officers show no predictable patterns or clear relationship to company operations. What appears to be the most reliable relationship--that between total officers' pay and sales--is very loose. Two companies in the same industry with approximately the same sales volume may pay their presidents widely disparate salaries and bonuses. For example, Fruehauf Trailer Co., whose sales totaled over $184 million in 1953, paid its president $225,000 in salary and bonus, while Mack Trucks Inc., with very nearly the same sales volume, awarded its president total compensation of only $104,700.

Similarly, U.S. Steel, with sales of over $3.8 billion in 1953, paid President Benjamin Fairless a total of $258,400, while Bethlehem Steel, whose sales were only a little more than half of Steel's that year, rewarded Chairman Grace with $456,654. Are such oddities merely, as some have argued, the reflection of corporate politics? Or custom? If not, how <u>is</u> the executive payroll related to a company's sales and earnings?

UNTANGLING THE WEB

Businessmen have always assumed that executive payrolls tend to move up and down the sales, profits, and assets, and that bonuses help to improve profits. The errors in such assumptions were first pointed out seventeen years ago by John Calhoun Baker of Harvard, in his book, <u>Executive Salaries and Bonus Plans</u>. Baker's analysis of the pay of 1,000 officers and directors in 100 large industrial companies from 1928-32 showed that executive salaries were one of the steadiest figures in a corporation's balance sheet. While the total net income of these 100 companies fell from over $1 billion in 1929 to $5,600,000 in 1932 (a drop of 99.5 per cent), and total officers' rewards skidded 40 per cent (from $42 million to $25 million), officers' salaries dipped a mere 2.5 per cent in those three dark years. Baker's major finding, however, was that there was little or no relationship between executive pay and corporate profitability, whether the companies paid bonuses or relied solely on salary.

More recently, others have presented evidence that there <u>are</u> logical connections between executive pay and corporate performance. Consultant Arch Patton of McKinsey & Co., for example, found, in a sample of thirty-seven of the biggest corporations, that over a ten-year period those that had paid top management the highest percentage of total payroll had increased

**Corporations are required to reveal to the SEC only the compensation of the three highest-paid executives receiving over $30,000, including bonus, and the combined pay of all officers and directors. Prospectuses, proxy statements, and annual reports often reveal a few more details.

profits far more than those paying the smallest percentage. (See "Are Executives Paid Enough?" FORTUNE, January, 1953.) Similarly, O. W. Blackett, professor of business statistics at the University of Michigan, has concluded from a study of ninety-two large, profitable companies that compensation of officers varies with capital, as well as with earnings.

One trouble with all such studies is that they have been based on relatively small samples, and their conclusions are not necessarily true of corporations in general. For that reason, Carnegie Tech's Professor David R. Roberts applied tests of statistical probability to the management compensation and operating figures of over 900 companies. His findings (now being prepared for publication) for the years 1945, 1948, 1949, and 1950 were "strikingly similar" to many of Baker's for the 1928-32 period.

Roberts found that executive compensation varies most reliably with sales, but "probably has little independent connection with profitability." In trying to untangle the web of relationships between compensation, sales, and profits, Roberts found that all three moved in the same direction (up or down) over half the time. But 20 per cent of the time top executives' pay moved together with either sales or profits, and 27 per cent of the time it moved in the opposite direction to both sales and profits. As he puts it, "The results do not lend themselves to facile generalization."

BIG AND LITTLE SPENDERS

Roberts did find definite differences in management pay scales as between industries, however. In the twenty-one industries he covered, the compensation of utility-company officers had the lowest representative range ($20,000 to $25,000 for companies in the middle 50 per cent of his sample), and officers in the chemical industry had the highest ($25,000 to $59,000). With a few exceptions, however, these differences chiefly reflected differences in the size of companies in the various industries in terms of volume of sales. That is, low-paying industries—e.g., mining, railway equipment—are characterized by smaller companies than those in high-paying industries like oil refining and chemicals. The outstanding exceptions were airline and utility companies whose pay scales were much lower than manufacturers' and retailers', probably because they, along with railroads, banks, insurance and finance companies, are subject to control or close scrutiny by government agencies.

Roberts failed to discover any statistical evidence that differences in pay between companies had any significant bearing on executive turnover. Nor were such differences accounted for by the region or size of the cities in which companies operated. His statistics also support the generally accepted fact that high income-tax rates will not divert able young men from business into other fields, for the obvious reason that, despite taxes, the potential pay offered by industry is so much higher (the 1950 median annual compensation for officers in his sample of 939 companies was $68,000).

THE PAY THAT COUNTS

Roberts' statistics also emphasize a major fact: the differences in pay scales between companies and industries are not nearly so important, in executive incentives, as the various levels of pay within their own companies.

To be sure, a few executives--and often the most able--are lured away by offers of more authority and higher rewards elsewhere. L. F. McCollum, for instance, left a top job with Standard Oil (N.J.) in 1947 to become the president of Continental Oil, which offered him a free hand in running the company and gave him a munificent compensation package besides.* The shifting of such outstanding executives can be, of course, extremely important to competition between companies. And if the rewards are attractive enough, almost any executive can be persuaded to transfer to another company.

However, the proportion of executives who actually shift jobs is small. Roberts found that about 13 per cent of the 500 men in his sample whose careers were traceable for twenty-five years accounted for 100 per cent of the total executive turnover. These "marginal men"--the ones who do shift--move for many reasons beside the chance to make more money; they may be lured by the offer of more authority, or prestige, or pleasanter surroundings. But for the great majority of mature executives who stay with one company, it is the differentials in pay <u>within</u> their companies that provide by far the most impelling financial incentives.

TOP SECRETS

So far, there has been relatively little research on the ways internal pay scales for executives are determined and administered, primarily because this process has traditionally been treated as one of the top-most secrets of top management. And it is still so touchy a matter in most companies that very few top executives will discuss it outside the board room. A lot of companies, however, are now doing intensive work on the problems of executive pay scales, and some, like General Motors, have been at it since the late Thirties.

One of the reasons for the growing interest in management pay scales--the squeeze on middle-management salaries--has already been cited. There are many others. In some cases the need for overhauling executive pay schedules become evident when management got into a reorganization program, or set up a P & C (planning and control) system. Sometimes a company has hired a sought-after specialist at a salary far above the pay levels of the rest of the staff, whose compensation then had to be brought closer into line. And the search for an outside specialist has often taken top management into a strange market where executives bearing the same titles bear a great variety of price tags. One controller, for example, found that the going prices on treasurers in his industry ranged from $20,000 to $60,000.

*In addition to a salary of $125,000, McCollum received stock options on 50,000 shares of Continental's common stock, which by mid-1952 showed a paper profit of over $1,500,000.

Frequently executive pay scales become a problem when a company adopts a new incentive system or reshuffles a bonus, deferred-pay, or stock-option plan. Such a move almost inevitably brings up a lot of difficult questions. How far down the ranks should an extra-compensation plan extend? And should the awards be distributed in proportion to salaries paid, or varied according to each executive's performance? Who should judge the performance of top managers, and how can dissimilar executive jobs be compared? What proportion of a man's total compensation should be given in salary, and should there be a ceiling on his non-salary income? The answers to such questions vary with every company, and they are also likely to change in any company not only as management gains experience with incentives, but also as the executive personnel and economic fortunes change.

WHO RANKS WHERE?

In setting up a formalized pay scale, the rankings on the company organization chart may be roughly followed, but in the upper echelons particularly, the determination of the relative importance of various jobs is very difficult. On these levels salary evaluation usually becomes, as one executive expressed it, "100 per cent a matter of judgment." Many believe that it is impossible to set up management-wide salary schedules that can accurately reflect subjective judgments of the importance of all jobs and of the performance of the men in the jobs. "The man makes the job." This is not denied by those who have adopted salary schedules, but they hold that it is possible to establish broad pay ranges that will sharpen top management's judgment of executive rankings.

There are at least five different job-evaluation systems in use today:

The two most common are the ranking and the classification methods. In a ranking system, positions are graded primarily according to status on the company's organization chart, while in a classification system the grading will be according to duties, working conditions, responsibilities, and authorities as set forth in job-description and procedure manuals.

More specific details are required in the factor-comparison and point systems. They both measure jobs in terms of such requirements as experience, education, persuasiveness, ability to handle people, initiative, judgment, etc. Each factor may be rated on a simple value scale, e.g., superior, good, fair, poor; or each may be assigned point values.

GOING BY THE NUMBERS

All such systems are actually quite loose, and allow plenty of room for a top executive to give a special break to a favorite subordinate. Many top managements, however, are impressed by the apparent precision in point systems. One of the most intricate point systems, worked out by a Pittsburgh consulting firm, Methods Engineering Council, involves "unit factor values," "degrees of factor," and the use of complex linear-programing equations. The calculations are obviously not for laymen. "The point value of a position," according to one bewildering dictum by M.E.C.'s engineers, "is obtained by multiplying the degree of factor times the unit factor value and summing the products." Thus the equation for an assistant vice president might start off like this:

N_1E (education) $+$ N_2P (persuasiveness) $+$ N_3J (judgment) $+$ N_4PP (pressure periods) ...and finally add up to thousands of points.

One advantage claimed for the M.E.C. system is that the requirements of each job are basically set, through questionnaires and interviews, by the combined judgments of the manager himself, his superior, his subordinate, and at least two colleagues on the same level. The rankings by this "job family" are then given M.E.C.'s mathematical treatment and finally "fitted to the wage curve of a company," a process that permits shifts in individual ratings to cover salaries that are out of line.

A fifth, and much simpler, job-ranking system aims to reduce the confusions that arise when executives, in trying to rank a position in the company's hierarchy, actually rate the performance of the particular man holding the job. This system, called the "Basic Abilities System of Job Evaluation," was worked out by Ralph W. Ells, chief economist of Allen-Bradley Co. (maker of electric equipment) in Milwaukee, In Ells's system each position is graded according to "semi-skills" (abilities and knowledge acquirable in less than six months, e.g. knowledge of company and departmental procedures) and the "skills" (abilities and knowledge taking a year or more to acquire, e.g. knowledge of company products, ability to exercise independent judgment). Once all positions have been ranked vertically in this way, it is much easier, according to Ells, for management to tackle the tough task of setting "horizontal" salary ranges i.e. pay spreads to cover seniority, differences in performance, etc., within each grade.

THE BOSS SETS THE PACE

Regardless of which system is adopted, certain fundamental questions must be decided. How many grades of pay are to be set up, and how broad should the ranges be within each grade? One large company that spent over two years revising its executive pay scales finally arrived at a total of twenty-seven levels from the lowest-paid job in the company to the president's, and over half of these were above the foreman level. Even in small companies, the number of managerial pay grades may run to six or seven, with several different kinds of positions within all but the top two grades. In Ells's Basic Abilities System, a company's whole hierarchy is divided into fourteen salary grades, with grades eight through fourteen covering the "managerial" and "executive" grades.

Once top management has decided what jobs belong in which grades, it has to establish the vertical salary differentials between the grades, and the "horizontal" salary ranges within each grade. The differentials for the top four grades are usually set by "historical relationships," i.e., in terms of percentages of the president's salary. All differentials, however, are partly set by the going market prices on executive jobs.

In a company whose president is paid $25,000 a year, the annual "salary normals" and differentials under Ells's system might run roughly as follows: vice president $16,675 (66.7 per cent of the top salary); division manager $11,250 (45 per cent); assistant division manager $8,325 (33.3 per cent); department head $6,875 (27.5 per cent); department manager $5,000 (20 per cent); department supervisor $4,062 (16.25 per cent).

In actual practice, of course, salaries will vary considerably from this schedule. This is particularly so in the upper ranks where the assessment of an executive's worth depends not only on intangible factors but on what pay level he has reached through past raises, many of which may have been due simply to his seniority in a job. Small, steady raises, which one executive calls "tips for tenure," may indeed have distorted a company's pay schedules far beyond the market prices for comparable jobs.

Considering this fact, and considering the staggering variety in the sizes of executive salaries, it is remarkable that roughly the same ratios between top salaries seem to have been observed within all kinds of companies, both large and small. (The ratios cited above have been generally typical until recently, according to Ells.) Many executive pay programs begin with a search for such differentials, and a lot of companies subscribe to the American Management Association's Executive Compensation Service just to get the list of average differentials in pay between twenty top-level jobs in some 2,400 companies.

A company, however, may use A.M.A.'s tables only to check its "impressions" of the market prices on executives; it may make independent inquiries or check with a management consultant. Sometimes management finds out by asking job-seeking executives what they expect to get.

In recent surveys of the executive market, Ells has found that the differentials between the top man and the No. 2 man have been widening. Whereas A.M.A.'s survey of 1953-54 top-executive salaries shows an average differential of about 30 per cent. Ells has found that presidents of companies employing over 1,000 are often receiving approximately twice as much as their No. 2 men. Conversely, he has found that the differentials between the second to the sixth ranks (e.g., down to the level of $6,000 technical engineers) have been growing narrower as a result of pay raises. This would indicate that the pay squeeze on middle management is being maintained by a ceiling imposed by a No. 2 man whose pay has not gone up so far or so fast as the president's.

Some companies have relieved this squeeze by overhauling their whole management pay-scale structure in one operation. Thus one large corporation, whose salary curve rose sharply in the top ranks, has recently stepped up its salary scales for all positions in its lower, middle, and upper-management levels. And it has largely offset the added expense of this move by eliminating nearly all the assistant and "assistant to" positions that formerly surrounded the president.

INVADING THE UPPER REACHES

More typical, perhaps, has been the gradual approach of a midwestern oil company whose directors after ten years finally finished extending a salary-evaluation program into the top executive levels in 1953. Back in 1943 this company's controller began to study the classification of managerial jobs below the $5,000-a-year level, visiting other large corporations, in and out of the oil industry, that had such programs.

The wartime controls imposed on salaries had stimulated wide interest in salary schedules, since the government required companies to show they had a systematic salary scale when they attempted to justify pay raises. But when the salary freeze was removed after the war, interest in pay systems subsided, and it was not until 1949 that this oil company finally installed a system covering ten grades of men earning up to $595 a month. A year and a half later two more grades were added, taking the classification up to $875 a month. Then, toward the end of 1950, when another salary freeze seemed imminent because of Korea, the company's board of working directors decided to complete the classification of all executives below their own pay level, which started at $50,000 a year.

The directors were by then quite concerned about salary squeezes, which were making some of their valuable men complain. Though some of the directors felt "natural revulsion" to a weighing and pricing system for high-ranking executives, they all studied the company's pay scales and cross-checked the pay relationships. In "free-style fashion" they worked out ten salary classifications covering all jobs between $928 a month and $35,000 a year, the top salary below their level.

But then came the hard part: how to assort into the ten salary groups some 250 men holding 150 different titles. Each board member classified all the executives operating in areas he was familiar with, a process that soon exposed some wide differences of opinion. "There was," the top executive says, "quite a bit of chewing about where men belonged," and in fact it took long hours of discussion to bring the board into final agreement on all the rankings. Some executives who were earning more than their classifications called for were shifted to the next-higher range, others were not (although their salaries were not cut).

In 1953 the directors checked up on their handiwork by collecting data on salaries, comparisons of titles with job responsibilities, etc., from other companies, including several competitors. They found wide differences in pay ranges, even in comparable jobs. In many companies the maximum salary in each range was 50 or 60 per cent above the minimum. The directors, however, thought such spreads too wide to provide any real pay control, and they retained the 30 per cent spread they had adopted, with the midpoint of each range marking, as in most pay schedules, the starting point of the next-higher range.

The number of men in each range varies widely; one of the top ranges, for example, includes only one executive, while the range right below includes five. All those who are classified know the salary ranges for their own subordinates, and unofficially they know that their own salaries are governed by the range system. But the complete list of classifications is known to only three men outside the board.

PAY AND EXPECTATIONS

Setting up salary classifications for sales and manufacturing jobs is somewhat easier than for staff jobs. Company and market rates for middle-management line jobs in companies with roughly the same sales volume are often comparable. But the price tags placed on staff men can vary tremendously between companies—up to 200 or 300 per cent on men holding similar titles. This is partly because a staff man's performance often does not have the tangible results as, say, a sales manager's, but also because of the tremendous differences, between companies, in what top management <u>expects</u> of the staff man.

Pay differences between both staff and line executives in a company often reflect the degree of decision-making top management expects of the man in the job. Thus a president who knows little about marketing is likely to pay an expert marketing vice president more than a manufacturing vice president if the latter's decisions are actually made by the president. However, the president may conceivably pay his nominal manufacturing chief the top scale, simply because, as an old manufacturing man himself, he thinks this is the important job in the company.

It is at the very top of the management pyramid, of course, that the application of any pay scale or system is most difficult. Consider the words of Sidney Weinberg, who as a director of twelve companies has helped determine the compensation of many top executives: "There is no pattern in setting top salaries. Every company is different just as every child is different. You don't relate the salary to profits or sales; the fact that there have been no profits or dividends just makes for a different climate of judging. You take everything into account--what a man is getting, why he should be raised, what the competition is paying, what the prevailing market is, whether a raise would throw the pay scale out of kilter, and so on. We ask everything we can think of."

INCENTIVE IN THE FUTURE

A system of rationalized salary scales may correct some of the inconsistencies of executive compensation. It may relieve the squeeze on middle-management pay--at least temporarily--and management pay levels will probably be raised as well as rationalized. There are limits, however, on how far and fast any company's executive payroll can be increased, and the basic problem in years to come may be how to motivate managers through other means than the promise of higher pay.

Even today the motivation problem is not solved simply by installing standardized salary ranges for all executive jobs. There are many executives who want the security of slow and steady raises on one job level. Other men want the spur of knowing that if they produce fast they can rise fast in the pay-scale hierarchy. To shape salary ranges to different kinds of executive performance, one consultant suggests this scheme: "If you want a man to move ahead, set a narrow salary range for his present job, say 20 per cent between minimum and maximum pay; but if he's to stay on the same job for life--as a director of research or legal vice president, for instance--the maximum salary should be 100 per cent greater than the minimum." And he adds, "Have a 100 per cent range for your top three or four key men, for they can't all become president, and you want to be able to pay the passed-over candidates enough so they won't quit when a new president is named."

But for the long pull even such tailoring of salary ranges will not be enough. If income-tax rates must remain about where they are for some years to come, straight salary increases are not going to regain the incentive power they once had. And if the general level of executive salaries tends to rise, and if the squeeze on the middle-management men is relieved, more and more executives will be moving up into the brackets where straight salary matters less and less. The lure of higher pay may still goad a young manager to better performance, but most executives will not be roused to greater efforts simply by the prospect of making a few more pretax dollars. More executives down the line may have to be offered the peripheral tax-sheltered rewards and perquisites now confined largely to the top ranks of management. In the meantime, of course, very few executives are likely to turn down a straight salary raise.

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of discussions at Workshop on

TRENDS IN MANAGEMENT COMPENSATION AND RECRUITMENT

Some of the issues raised in this workshop are as follows.

Is Compensation for Managers a Real Problem? Few top management men leave a job because of compensation alone. How you devise effective and sufficient compensation methods remains a real problem.

What Yardstick: "Contribution" or something else? Although most compensation systems are justified in terms of some kind of contribution, or intrinsic worth to the company, realistically it's almost impossible to separate out any one person's contribution. "Replacement cost," how much it would cost to bring in a qualified man, or your willingness to meet a competing firm's offer is certainly a factor. Most often, top management's attitude toward the individual seems to be a greater factor than any measurement of contribution.

What Does Management Man Want? The best compensation provides the incentives which best answer the individual's motivations. Compensation in dollars and cents is only a part; security, dignity, prestige and the desire to advance are some others. Beyond a basic equitable level we may be overemphasizing the importance of compensation to the overall problem of management performance. Some notion of "the basic equitable level" remains important.

(Standard comparative surveys of management compensation are available: the "AMA Salary Surveys" and the surveys of the Industrial Conference Board were mentioned. Some companies conduct their own inquiries into practices of comparable firms. All such surveys suffer from the reluctance of reporting firms to give this kind of information.)

Estate Programs, or deferred payment plans designed to protect the individual's family are receiving new attention. These include inexpensive insurance plans and direct death benefits payable by the firm. Estate programs are even more important to the growing professional managerial class whose income tends to be restricted to annual salary, but who are required to maintain a standard of living somewhat more luxuriant than they can afford to provide for in the event of their death.

The Capital Gains benefits are the most effective method of indirect compensation. A firm might choose to arrange loans to enable certain employees to buy shares in attractive enterprises, and in time buy them from the individuals - thereby creating a capital gain. Stock options in the company itself is more attractive in companies with a high growth potential than in other companies.

Recruitment vs. Development. The decision often is between bringing in a new man or promoting from within. Sometimes this is a choice between gaining new blood at the expense of damaging internal morale, or promoting from within at the expense of loosing top management material. The important factor is new ideas. If a firm doesn't get them from new men, it must expose its own personnel to the challenge and stimulus of different ways of thinking about things.

Executive Development Programs attempt to supply a resevoir of executive talent within the firm. (The Andrews articles in the Harvard Business Review, January-February and March-April, 1957, and Mr. David Sheppard's speech, Standard Oil of New Jersey, give excellent discussions of management training programs.)

Such programs raise problems of their own. One problem is that of the highly "developed" man, with no place to go. Another problem is how to select those people whom you want to prepare for future responsibilities? Selection, these days, depends heavily on testing. And this brings in added problems for management. Making an early distinction between "potentially successful" management people and "others" is bound to have a damaging effect on both groups. Moreover, current testing methodology may have the long range effect of perpetuating the management types now holding top responsibilities. This may or may not be desirable. Nevertheless, some efforts to develop executive and management ability is necessary. The many co-operative efforts between management and universities are part of the answer. It may be that we are not asking the right questions in our selection process.

The answers to all of these questions must be arrived at finally in terms of a specific firm's needs. A large firm with a correspondingly large reservoir of potential talent to be developed and with a large number of responsible positions available which will make use of this talent, will find one solution. Another firm, with fewer avenues of future advancement and a smaller group of its own from which to select for its own training, will develop another policy.

One point might be emphasized here. The very real advantages of bringing new blood into the firm can be lost if the firm's own professional managers feel cheated. This feeling can be off-set if the firm has already established realistic policies on this problem and these policies are known, explicit and honest.

W O R K S H O P   S E S S I O N

COMPENSATION AND RECRUITMENT POLICIES FOR WHITE COLLAR AND PROFESSIONAL EMPLOYEES

Discussion Leader: William H. Smith, Director of the Department of Research and Analysis, Federated Employers of San Francisco, San Francisco

Resource Members: D. K. Garrison, Manager, Industrial Relations, California Packing Corporation, Berkeley

Jack B. McCowan, Secretary-Treasurer, Fireman's Fund Insurance Group, San Francisco

Dwight R. Zook, Director of Personnel Services, North American Aviation, Inc., Los Angeles

B I O G R A P H I C A L   S K E T C H E S

WILLIAM H. SMITH (Discussion Leader)

Present position: Director of the Department of Research and Analysis, Federated Employers of San Francisco, San Francisco.

Formerly: Mr. Smith's previous experience includes work as Senior Economist for the War Labor Board, Labor Economist in the U.S. Department of Agriculture, Instructor for the University of California and member of the Giannini Foundation research staff, Instructor for Golden Gate College, and Member of the California Agricultural Wage Board. He is a Member in the Advisory Committees to the U.S. Bureau of Labor Statistics, University of San Francisco, and University of California, Institute of Industrial Relations. Mr. Smith has written and published a wide variety of professional and business articles in the fields of personnel relations and labor relations.

Graduate of the University of California at Berkeley with Bachelor of Science and Master of Science degrees.

D. K. GARRISON (Resource Member)

Present position: Manager, Industrial Relations, California Packing Corporation, Berkeley.

Formerly: Employed by the California Packing Corporation as a Plantation Section Overseer, Hawaii, upon graduation from college. Mr. Garrison was Section Superintendent until September, 1949, at which time he was appointed Industrial Relations Manager for the Hawaiian Division. In this position, he gained experience in all phases of industrial relations and was transferred to California as Industrial Relations Manager of the California Division in 1956.

Graduated from the University of California, College of Agriculture with a B.S. degree in Agriculture in 1938.

B I O G R A P H I C A L   S K E T C H E S

JACK B. McCOWAN (Resource Member)

Present position: Secretary-Treasurer, Fireman's Fund Insurance Group, San Francisco.

Formerly: Between 1936 and 1942 Mr. McCowan served as Zone Manager with the Ford Motor Company in Salt Lake City and later became Personnel Manager for Columbia Steel. He served with the Personnel offices of U.S. Steel and Geneva-Steel in Pittsburgh and Utah for several years thereafter. In 1946 he became a Renegotiator with the United States Maritime Commission and then Personnel Manager with Fireman's Fund. Before he assumed his present position in 1954 Mr. McCowan was Secretary for Fireman's Fund.

Graduate of the University of Utah, continuing with two years of graduate study at Stanford University.

DWIGHT R. ZOOK (Resource)

Present position: Director of Personnel Services, North American Aviation, Inc., Los Angeles.

Formerly: Mr. Zook has served as President of the Stanford Business School Alumni Association and District Chairman of the Personnel and Industrial Relations Association. He is presently a member of the Board of Directors for the Personnel and Industrial Relations Association, the Centinela Valley Committee on Employment of the Physically Handicapped, the Urban League, and the National Vocational Guidance Association of Los Angeles. Mr. Zook is also a member of the Advisory Committee on Minority Employment to the California Department of Employment and teaches a course in personnel management for the University of California Extension, Los Angeles.

Graduated with a B.A. in Economics and an M.B.A. in Business Administration from Stanford University.

COMPENSATION AND RECRUITMENT POLICIES FOR WHITE COLLAR AND PROFESSIONAL EMPLOYEES

Outline

The recruitment and compensation policies followed by private industry in employing clerical and professional employees reflect in large part the influence of several basic economic and social trends. It is pointless to discuss compensation and recruitment policies merely in terms of hiring and paying people. This is superficial to an understanding of the problems we confront in recruiting and compensating these employees.

A better understanding of the underlying economic and social trends which dictate our recruiting and compensation policies may help us to adjust those policies more rationally to these trends with general benefit to all concerned.

RELEVANT ECONOMIC AND SOCIAL TRENDS

I. Complexion of the Labor Force is Changing

1. More professional, technical and clerical workers
2. More skilled workers
3. Fewer unskilled
4. Fewer factory production workers
5. Fewer agricultural workers
6. More non-production workers both in factories and non-manufacturing industries
7. More women especially in very young and older age group but fewer in the most sought after age groups
8. More very young men and older men but fewer in the most desired age groups.

II. Educational and Social Standards are Changing

1. Number of years of formal schooling is increasing
2. More youths are seeking higher education
3. More opportunities are afforded for higher education
4. Employment requirements reflect higher educational standards
5. The extension of public and private pension systems has made possible earlier retirement
6. More married women working
7. More mothers with school children working
8. More women in technical, professional and supervisory jobs
9. More part-time and temporary workers.

III. Development of Management Philosophy

1. Personnel Administration as a Management Function
2. Policies as a management guide and reflection of management philosophy
3. Determination of public relations policies
4. Determination of employee relations policies
5. Translating policies into day to day practices
    - (a) Recruiting
        - (1) Clerical, technical and professional employees
    - (b) Compensation
        - (1) Clerical, technical and professional employees.

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COMPENSATION AND RECRUITMENT POLICIES
FOR CLERICAL AND PROFESSIONAL EMPLOYEES

by

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Discussion Leader

Three general conclusions are apparent regarding the outlook for compensating and recruiting clerical and professional employees. These are:

(1) Compensation for both clerical and professional employees is steadily increasing in line with the rise in the general wage level and in advance of cost-of-living changes.

(2) There are general shortages of qualified and experienced clerical and professional workers which are serious. These shortages are aggravated by outdated and stereotyped attitudes toward more efficient use of clerical and engineering skills.

(3) Our expanding economy is outrunning our available labor force both in terms of skill needs and age distribution of the labor force. Moreover, we face a continuation of these conditions for at least the next decade, assuming no marked decline in business activity during that period.

These facts are self-evident to most informed persons. One would assume therefore that most employers would adjust their operations to these conditions in a rational manner. Some employers have done so; others are in the painful process of doing so; but many are, like ancient King Canute, being overshelmed by the tide of circumstances. They refuse to face the facts of the labor market as they are today.

In my view, it is pointless to discuss compensation and recruitment policies for clerical and professional employees in terms of how you get them and how much you pay. This is important in our daily work but it is superficial to any understanding of the problems which we confront in recruiting and properly compensating these employees. I propose, therefore, that we first look at some of the underlying reasons for our problems with the hope that if we understand them, we can make more rational adjustments to accomodate our operational needs to these basic manpower factors.

I. Complexion of the Labor Force is Undergoing Great Changes and Will Dictate our Recruiting Policies:

A. More Professional, Technical and Clerical Workers Will be Needed:

The United States has been a nation with manpower shortages throughout its history. Only during the depression years of the thirties was there any long period of heavy unemployment. Our population growth in the next decade will provide a labor force that is numerically adequate to meet future labor requirements but a new dimension has been added to our manpower problem—the quality of our labor force. Brawn is no longer at a premium. Skill and technological competence are in scarce supply and the industrial developments forecast for the years ahead demand greater and greater numbers of persons with these qualifications. These changes are already well advanced.

Today, production workers—people who produce goods—make up a smaller portion of the labor force than they once did. Non-production workers are becoming an increasing part of the labor force. Production workers now constitute 58% of the total, compared with 64% of the total in 1947. Non-production workers now constitute 42% of the labor force. Much of this growth is accounted for by the growth in service and sales industries, but the same shift is going on within factories. There was a gain of about 3% in factory production workers between 1947 and 1957, whereas non-production workers in factories increased by 50% in the same period. Factory non-production workers now represent 22% of the factory force as against 16.3% in 1947.

The Bureau of Labor Statistics finds three main reasons for this shift in the pattern of factory work:

(1) Larger investment in equipment and research requiring more engineers and scientists.

(2) Rising productivity requiring fewer additional production workers.

(3) Increasing overhead functions, calling for more clerical, professional, sales and personnel workers.

This trend is expected to continue for several years, suggesting that basic changes in the complexion of our labor force are taking place with significant implications for education, training and employment policies. Assuming a continuation of present trends, this is what we can expect to see in the occupational structure of our labor force by 1965.

Increase over 1955

Professional and technical	-	38% by 1965
Clerical and sales	-	28%
Skilled draftsmen	-	23%
Semi-skilled operatives	-	22%
Proprietors and managers	-	22%
Service workers	-	13%

Decrease over 1955

Laborers	-	3%
Farmers and farm workers	-	15%

B. More Women Will be Employed:

On the basis of recent trends and assuming no war in the next decade, we can expect a total labor force of about 79.2 million persons in 1965, an increase of 10.3 million over 1955. Of this, over half the increase (5.4 million) are expected to be women. Most of this increase will be in the very young (14-24 years) and the older groups. The 25-34 group will increase very little (150,000) whereas the 14-24 group will increase nearly two million; the 35-44 group will increase nearly one million; the 45-54 group will increase almost a million and a half and the 55 and over group about a million and a quarter. In other words, the much sought-after female office worker age 25-34 will increase in number only by 1/36th as much as all other age groups in the labor force.

C. <u>More Older Men and More Very Young Men Will be Employed</u>:

In the most sought-after age groups for men (25-34 and 35-44) there will be practically no increase in number in the next decade. In the 25-34 group a 700,000 decrease will more than offset a 600,000 increase in the 35-44 group. The largest increase will be in the 14-24 group (2.7 million) composed of young men entering the labor force for the first time. The next largest increases will be in the 45-54 year age group (1.3 million) and the 55 years and over group (one million).

<u>II. Educational and Social Standards are Changing</u>: These too determine our employment policies:

(1) <u>Number of years</u> of formal schooling is increasing. During the next ten years high school enrollments are expected to rise to 11.9 million—a whopping 60% increase over 1955.

(2) <u>More youths</u> are seeking higher education. By 1965 enrollments in higher institutions of learning are expected to rise to 4.9 million—a 75% increase over 1955. This is a continuation of present trends and is a response to the great demand for college-trained people.

(3) <u>More opportunities</u> are afforded for higher education. Enrollments in colleges and universities have increased steadily from 1.1 million in 1930 to 2.8 million in 1955. Despite this increase in enrollments, only four out of eleven high school graduates who are qualified go to college.

They either lack the motivation or they are financially unable to pay for it. A substantial assist is being given now from: increased number of scholarships, loans, grants, G.I. Bill of Rights and Veterans Benefits, refresher and retraining courses paid by industry. In addition, more students are able to enter colleges because increased physical facilities are becoming available--junior colleges, branches of state colleges, etc. Note: net effect is to withhold students from the labor market initially, but to provide a better-educated labor force later on.

(4) Employment requirements reflect higher educational standards. A high school education is a necessity for most jobs today. The growth of employment in clerical, trade and service jobs and the use of more efficient procedures place a premium on the ability to read, write and use business arithmetic readily.

(5) The extension of public and private pension plans has made possible earlier retirement. Even so, higher living standards, better health and longer life for older persons actually operate against early retirement. For many persons retirement means looking for another job. The problem of integrating oldsters into the labor force is complicated by their need for new training skills and by the barriers in the job market.

(6) More married women working. In 1940 married women were only 30% of the woman labor force. By 1955 the proportion was 52%. These are married women with husbands and includes widows, divorcees and women with husbands absent. Since from two-thirds to three-fourths of the women in each marital group are in clerical, operative, or service occupations you can see how these two are related to the growth of such occupations in the future.

(7) More mothers with school children are working. Half of all married working women in 1955 had children under 18 years of age. This represented an increase of one-third over the number in 1950. It has become common for

young married women to work for a time to help establish their homes. It is also becoming increasingly common for wives to re-enter or enter the labor force after their children are in school or well grown. The first peak in labor force participation occurs in the 20-24 year-old group. Marriage and childbirth reduce that substantially in the 25-34 year group, but in the 35-44 and 45-54 year groups labor market participation is now greatest of all for all women and especially for married women.

(8) <u>More women are in technical, professional and supervisory jobs.</u> By 1950 there were nearly a million women classified by the census as proprietors or managers. This was almost double the number in 1940. By 1956 there were over two million women performing professional and technical work, comprising the fourth largest group of women workers after clerical, operatives and service workers. This was a third higher than in 1940. Employed women with college training are found mostly in professional and technical occupations today. Seven out of ten women workers graduating from college, according to our 1950 census, found employment in these occupations as did three out of ten who had one year or more of college but did not graduate. In 1955-56 women represented over one-half of the students in teachers colleges, over 40% in the liberal arts colleges and nearly 30% in universities.

(9) <u>More part-time and temporary workers</u>: Many women, especially those with family responsibilities, do not want to work full time and some prefer intermittent temporary work rather than steady work. The short work day and short work week; the four-hour day or two on a shift practice is becoming common, particularly for machine clerical work which can be done on a volume basis. During the past few years, specialized private employment agencies providing part-time and temporary workers have had a remarkable growth. In addition, companies in the banking, insurance and finance

fields and larger retail trade units have learned how to integrate this kind of employee into their operations.

III. Development of Management Philosophy

During the first half of this century we have seen a major change in management attitudes toward employees and the importance of good management of human resources of the business. These attitudes have led to the development of certain accepted public relations policies and employee relations policies. The "public be damned" attitude is not quite dead but it certainly is in disrepute.

Similarly, these policies now reflect ethical considerations for the well being of employees as to working conditions, fair compensation, personal liberties and provision for their future. Some one has called this a kind of private socialism. Another has labeled it a return to paternalism with the unions as partners in the process. Whatever you wish to call it—these developments have had much to do with our policies for recruiting and compensating clerical and professional employees.

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of Discussion at Workshop on

COMPENSATION AND RECRUITMENT POLICIES FOR WHITE COLLAR AND PROFESSIONAL EMPLOYEES

1. Problems in Recruiting and Compensating Engineers

At the outset of this discussion, the question was raised as to whether there is a real shortage of engineers. This brought on a consideration of the economic forces determining the current value placed upon the services of engineers. It was pointed out that while the usual supply and demand factors may not bear their customary relationship at the present time in this field, engineers are available for those willing to pay the necessary wage to get them. While there was general agreement that the available supply of engineers is low, relative to present demand, there was a feeling of optimism that various remedies exist to lessen this problem.

The first type of solution considered dealt with steps which might be undertaken at the academic level. It was pointed out that despite a shortage which has existed for several years, the problem has become increasingly acute and the colleges are not turning out a substantially increased number of graduate engineers. Many felt that this was partly the result of the failure to force more people at the high school level to take math courses. Math and other prerequisites for engineering are looked upon as difficult by students whose interests run increasingly toward campus social life. If more of these courses were required of all students, this would not be such a hurdle. Mention was also made that the colleges were having difficulty staffing in this field and in getting necessary facilities and space for expansion, with the result that engineering schools have not been able to take on a substantial increase in enrollment. Furthermore, high standards "reportedly" being required for entrance to engineering schools have discouraged high school students from slanting their programs in that direction.

Another approach in dealing with the problem of shortage in engineering graduates is that of examining carefully whether the company can find ways of getting along without additional engineers. Several reported that they have been able to break down their engineering jobs in such a manner that their employees who have merely received special technical training are able to perform the more routine aspects of the work. This procedure has served the double purpose of reducing the need for engineers and at the same time permitting the engineers who are required to devote themselves exclusively to basic engineering duties.

Mention was made of the availability of what has been up to now largely untapped sources of manpower in the field of engineering, including women, non-whites and older workers. Many people in these categories are fully trained, but have not been accepted by business. Of course, if the need becomes sufficiently great these resources will be utilized.

Considerable discussion was devoted to the many unfortunate results of the fanfare of publicity and the "promise-everything" recruitment policies currently observed with reference to engineers. The comment was made that such practices benefitted only the newspapers and employment agencies. While the companies have suffered, the most serious feature is the extremely undesirable effect upon the graduating engineers themselves. With all the job offers available, with the lavish promises for the future before him, the average graduate is quite likely to acquire a distorted view of his place in the economic world. This may be expected to manifest itself later in impatience for advancement and in an unrealistic attitude toward the job itself.

From the compensation standpoint, the starting salaries at the present time are running from about $450 to $475, not including supplementary inducements. While this is clearly a high figure and while the engineer continues to move ahead financially for a few years, the general experience seemed to be that after five years or so the wage line usually flattens out rapidly for those who are not able to move into administrative work. The engineers, like most technically trained and professional groups, have had little or no background for supervisory or executive responsibilities with the result that the majority come to the end of their blind-alley, albeit a high one, before other comparably educated employee groups.

These factors have led to considerable discontent in engineering departments as manifested by direct complaints, turnover, and union affiliation. All of this poses another major problem to American business leaders.

2. <u>Problems in Procuring and Compensating Office and Clerical Employees.</u>

The major problem in this field is apparently one of quality rather than of quantity of available manpower. This situation is largely, or at least partly, due to the inadequate salary structure for this group. In the past, low pay for such employees was apparently justified on the basis of more favorable working conditions and fringe benefits in comparison with production workers. Recent gains largely through collective bargaining have brought similar or even greater benefits to workers in the plant, along with still higher wage differentials. This situation has emphasized the problem which exists with respect to wages and general work conditions for the office group. There was some indication of plans for increased automation if major wage advances were encountered.

Consideration was given to the question of whether wage increases should be given to the company's non-union clerical employees before a wage settlement is reached for other groups in your organization covered in current contract negotiations. The general feeling expressed seemed to be that usually the company will make such wage adjustment to the office group immediately after contract settlement for the unionized employees is reached -- and in the same amount, unless unusual circumstances exist.

Stenographers and secretaries continue to be in short supply, a condition that has existed for many years. At least one company represented has adopted the policy of paying rates for such personnel well above current market figures. This is done on the basis of recognizing the many high qualifications required in this work, and the importance of this job's being well done.

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of Discussions at Workshop on

LONG-RANGE IMPLICATIONS OF RISING LABOR COSTS

While the workshop members agreed in general with the forecast of rising labor costs for the future, there was some disagreement about the role of union or worker pressure on wages in this development. The view was expressed that existing inflationary pressures were primarily the result of the high rate of capital expansion which had occurred in the past several years and appeared to be in prospect for the foreseeable future. Competition for resources of all types, including labor was regarded as being the basic factor in forcing up prices in general. With the prospect of a continued rapid population growth, the economy faces a need for further expansion of capacity which would continue the inflationary conditions for an indefinite period. Proponents of this view argued that what looked like overcapacity in certain fields along with higher unit costs and relatively slow growth in productivity was simply a temporary lack of balance due to the necessity to expand not only to meet current demand but anticipated future demand as well. A balancing or adjustment process is required under these circumstances.

Income Shifts

Discussion also centered on the contention that income shares have shifted in favor of wage and salary workers. A member of participants reported that in the particular industries with which they were familiar there seemed to be no trend in wage costs as a percentage of the sales dollar or of value added by manufacture. The question seemed to hinge on the type of statistical material used as a source.

Questions were raised about two types of problems that seemed involved in the adjustment of the economy to a long term increase in costs and unions. First, how do you protect those parts of the population who are no longer active and receiving current income from suffering a decline in living standards. It was noted that certain systems of post-retirement adjustments of health and welfare and pension programs were being developed. Also, the governmental security programs were being used to meet this problem; for example, the Social Security system. A member pointed out that this problem was made much more difficult by the lengthening span of life which appeared to amount to fifteen or more years in retirement for a larger proportion of the population. This increases the burden of providing for retirement, particularly when the retired people see the living standards of the active members of the population rising rapidly. The political implications of the existence of a large group of retirees was brought up. Increased attention in "inflation hedges" was emphasized.

Problems for Industry

In addition to the problems of the protection of the living standards of some groups, were the issues posed by rising costs for business, particularly smaller businesses. The need for continued creative thinking by management was stressed. Included in this idea was the mobilization of the creative contributions of all members of management and particularly the work force. This not only promises advantages in management efficiency but also would act to increase worker productivity through satisfying the worker's desire to participate in affairs.

Several participants related examples of how particular companies had met this problem by changes in methods of production, more effecient utilization of by-products and diversifying their product lines to maintain profit levels. The long-range solution, if any, involves keeping up a continuing efficiency increase to offset rising costs. This appears to be a never-ending process, but some views were expressed that the productivity increases in the past could not only be repeated in the future but might be surpassed. The role of new products, new processes, new materials and new energy sources was pointed up in this connection.

The suggestion was made that when prices and costs in general were rising, it was even more important to exploit every avenue of increasing productivity since the differential results of this management competition between firms was likely to be vital to the success of the enterprise.

W O R K S H O P   S E S S I O N

LONG-RANGE IMPLICATIONS OF RISING LABOR COSTS

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"WAGE INFLATION" AND PRODUCTIVITY
(presented at 375th meeting of the Conference
Board, San Francisco, March 28, 1957)

by

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Wage and price behavior in the past year has stimulated a widespread interest in the phenomena of "wage inflation". While this striking phrase is seldom defined very carefully, most of us understand it to refer to price increases resulting from the "push" of increased labor costs rather than the "pull" of increased demand. Bringing productivity into a debate about wage inflation points up the key question at issue: When do wage increases turn into wage inflation?

A look at the record of wage-price relationships in the United States makes it clear that all wage increases are not automatically translated into price increases. Our economy has historically distributed the gains of increased productivity by raising incomes, including wages, relative to prices. The typical pattern in most periods has been one of rising prices with wages rising more rapidly. This state of affairs has been possible because of the performance of the economy in raising productivity.

This gives the clue to the answer to the question of the point at which increased wages may be termed inflationary. Most economists would agree that wage increases pose the danger of wage inflation when they are greater than the increase in productivity over a substantial period. Behind this statement is reasoning like this: An increase in productivity (usually measured in terms of output per man-hour) reduces the quantity of labor required per unit of product. If increases in the price of labor do not offset this reduction in quantity, unit labor costs are not increased and the price of the product need not be affected.

Using this simple notion as a starting point suggests an investigation of two major areas. First, how have changes in wages compared with changes in productivity over the past several years? Second, what are some of the likely consequences of this behavior?

Experience in Manufacturing

Data on changes in productivity are notoriously inadequate both as to quantity and quality. While the Bureau of Labor Statistics has been understandably cautious in dealing with these problems, they have published official estimates for all manufacturing industries combined up through 1953 and for selected nonmanufacturing industries through 1954. Looking at the figures for manufacturing, we find that, depending on the method of calculation, the annual average increase in productivity ranges between three and three and one-half per cent. This coincides with the average rate of increase which seems to have been characteristic of the past half century. Informal estimates for the years since 1953 have been made public by responsible officials on various occasions. These preliminary figures indicate that there has been little change from the previous rate of increase, the usual figures cited averaging out approximately to the same three and one-half per cent for the past three years. A rough calculation using the manufacturing component of the Federal Reserve Board and manufacturing employment also suggests that the average annual rate of productivity increase since 1953 has probably been no greater than this familiar figure.

The best available information as to what is happening to wages in manufacturing is found in the data on straight time average hourly earnings of production workers.

Concentrating on the period from 1953 through 1956, we find that hourly earnings increased at a rate just under four per cent per year. As a measure of employment costs average hourly earnings need to be supplemented by information as to the costs of fringe benefits which do not appear in these figures. While a few of the fringes (e.g. paid vacations and holidays) are included in average hourly earnings figures, the majority of fringe costs must be added to changes in earnings to get a complete picture of changes in employment costs. Once again reliable data are hard to come by. Probably the best source of fringe benefit data for comparative purposes is the U.S. Chamber of Commerce series of publications on the subject. Though considerable controversy exists over the problem of exactly what should be included in the list of fringe benefits, there is general agreement on the major cost items. For our purposes the problem is minimized by the fact that we are not interested in the absolute level of fringe costs but in the change in their level over a short time span. The figures suggest that since 1953 fringes have risen about three and one-half cents per hour per year. If the estimated per hour cost of fringes is added to average hourly earnings and the rate of increase for the combination is calculated, we arrive at a figure of just under five per cent as the average annual rise in employment costs from 1953-1956.

It might be argued that hourly earnings ought to be permitted to rise not only in proportion to increases in productivity but also to offset increases in the cost of living. The difficulty in dealing with this point of view is that it raises the question of whether wages went up to offset prior increases in prices or whether the price increases were brought about by prior wage increases.

Fortunately this question is not vital for the time period under discussion. Since 1953 the consumers price index has risen at an average annual rate of only about one-half of one per cent per year and most of this increase occurred in the latter part of 1956, the last year included in the discussion. Even if we accept completely the argument that these increases were not the result of prior wage changes and should have been offset by wage increases, it appears that hourly earnings plus fringe benefits increased from one-quarter to one-third faster than productivity from 1953 through 1956. Put differently, the annual rate of growth in employment costs appears to have been about one per cent higher than the annual rate of growth in output per man hour in manufacturing.

Outside of the manufacturing sector data on productivity changes are almost nonexistent for the period since 1953. Judging by the figures published by BLS for four nonmanufacturing industries for the years up through 1954, the productivity pattern seems to be roughly similar to that in manufacturing. For these four industries the average increase in hourly earnings since 1953 has also been about equal to that in manufacturing. For a dozen other nonmanufacturing industries the earnings comparison with manufacturing shows about half of them above and half below the average increase.

In general, there seems to be little reason to believe that the conclusions reached above for the manufacturing sector would be substantially changed if the figures for the rest of industry were available.

Effects on Prices

What are some of the implications of a divergence in the rates of change of wages and productivity? One of the areas of interest is the effect on the distribution of the national income.

Many people mistakenly assume that if one form of income, wages, rises at the same rate as productivity increases that this means that all the gains of higher efficiency generated by the combined efforts of various elements in the economy are being appropriated by a single group. A little reflection will reveal that this is not true. If wages and profits each received half of every dollar of national income and income rose by ten per cent, the amount received by both labor and capital could be increased by that same ten per cent leaving the relative shares unchanged. In other words it is possible for all claimants to a share of the national income to increase their absolute income at the rate at which productivity rises.

If one source of income, wages, rises faster than productivity increases one of three things (or some combination of these things) happens: (1) either prices go up, (2) the percentage of national income going to wage earners rises, or else (3) the constant percentage of income is shared among fewer workers with other workers becoming unemployed. While the third possibility is an interesting one it will not be explored further at this time since it is not directly relevant to the issue at hand.

If wages have indeed been going up faster than productivity since 1953, we would expect that the effects would show in prices and/or income shares.

There is some question as to what the best measure of the pressure on prices would be for our purposes. We have already noted that the index of consumer prices was relatively stable during this three year period, rising only a total of less than two per cent. While this was due in part to a small drop in the price of food, a look at the component parts of the index shows that the largest annual rate of increase (three per cent) was in medical care, a category subject to wage inflation pressures to only a limited extent. Though the substantial annual increases in the cost of personal care and "other goods and services" (more than two per cent in each case) are probably more directly the result of wage pressures, the picture presented by the consumers price index is not of severe inflation.

A better and more sensitive index of the strength of wage inflation can be found in the industrial component of the wholesale price index. These figures measure changes in the prices quoted by producers for the first commercial transaction involving their products. They indicate an annual rise of about two and one-third per cent.

Without getting involved in the intriguing question of the degree to which the one per cent per year excess in the rate of wage increase over productivity changes has been responsible for the overall price changes, the fact is that prices have risen and our analysis suggests that some part of the increase has been due to wage pressures.

Effects on Income Distribution

Shifting our attention to the problems of what has been happening to employees' share of the national income points up what is to an economist a most interesting development.

Here again, if economists were asked how employees' share of the national income behaved over the years, a majority would (at least until very recently) have had little hesitation in answering. They would have stated that the percentage share of employees was relatively stable in the long run but that it varied with the business cycle, being higher in depressions and lower in prosperity. The reasoning behind this answer goes like this: As income falls the percentage going to profits, corporate and other, drops drastically because the absolute amount of profits is very volatile and may even become a negative mount; the percentage going to wages and salaries rises because the absolute levels of wages and salaries are much more stable than profits. During prosperous periods the positions are reversed. At the present time this answer appears to be in need of considerable revision.

Labor income is usually measured by the category of national income known as compensation of employees. Unfortunately this figure lumps together wages and salaries but it is the best we have for analysis.

From 1946 to 1951 the share of employees in the national income behaved in rather routine fashion, fluctuating only mildly around an average of just under 65 per cent. In 1952 a two point jump occurred, followed in 1953 by another jump of almost two points. From 1953 to 1956 inclusive the figure has been both remarkably high and remarkably stable, averaging well over 69 per cent. During this four year period the lowest annual figure was higher than the percentage of all but three of the years since 1929, the year the data were first collected. It is comforting that the three higher years were, as our theory would have led us to expect, in the depths of the Great Depression, 1932-1934.

While only a short time period is involved, the fact that a long term shift in income shares appears to be a possibility plus the fact that this apparent shift is occurring during a time of high level prosperity calls for serious investigation. It is probable that some part of the shift in the figures cited is due to changes in the distribution of employment from industries in which a low percentage of income is paid to employees to industries in which a high percentage of income is paid out as wages and salaries. Examples of this shift can be noted in the growing importance of the service industries, including government as a special case. In these industries wages are a larger proportion of total costs than in many of the manufacturing industries. Without having completed a thorough investigation of the data, it seems very unlikely that changes in the distribution of income of the magnitude noted can be entirely accounted for in this manner. I suggest that one of the factors at work explaining this change has been the apparent increase of wages relative to increases in productivity.

So far as shifts in income distribution have occurred, pressure on prices has been reduced, but this shifting process obviously has limited possibilities. If the earlier conclusions about the wage-productivity relationship are correct and this situation continues, in the future price increases are more likely to be the prevalent form of adjustment to wage changes.

In concluding this section I might point out that if a shift in income shares is one of the results of wage inflation as we have defined it, it is not so widely accepted as an undesirable development as is price inflation. In fact union spokesmen often declare such an objective as an avowed goal of union wage policy.

Variations in Impact

Many persons will be surprised at the relatively small excess of the annual increase in employment costs over productivity gains which are reported here. While not underestimating the significance of comparatively small percentage differences in rates of change, the question may arise as to why this development has led to such varied and vocal attention to the problem of wage inflation in the past year.

One of the more important reasons is the variations in the degree to which different firms in the same industry or firms in different industries experience wage and productivity changes. Under the impact of post-war economic developments wage patterns within many industries have been applied to firms in substantially uniform fashion. Likewise wage patterns have displayed an ability to spread across industry boundaries to diffuse themselves through large sectors of the economy. Though it is easy to exaggerate the extent of the "pattern following" which has occurred, especially as among different industries, it is undoubtedly true that wage changes have been more uniform in their impact than have productivity changes. These differences probably affect the growing service industries with their high labor content more drastically than other occupations and industries more susceptible to improvements in productivity. The list would run from barbers to doctors and television repairmen. In a dynamic economy some individual businesses and some individual industries are always feeling the pinch of "wage inflation" even when overall wage pressures are being kept within the bounds of rising efficiency for the economy as a whole. When wage changes break out of these bounds, the number of affected groups rises rapidly.

A second important reason stems from variations in the timing of changes in productivity and wages. For reasons which are only partially understood, greater-than-average productivity changes appear to be associated with greater-than-average changes in production. For example, the BLS figures for manufacturing for the period 1947-1953 show that more than one third of the total increase in output per man-hour took place in the recovery from the 1949 recession and shows up when the figures for 1950 and 1949 are compared. Contrariwise, years when output is stable or growing relatively slowly are marked by below-average increases in productivity.

On the other hand, wage changes tend to lag behind changes in business activity. The wage pattern for 1955, a year marked by a major expansion of business activity, was substantially set in the first half of the year before the corporate performance record was available. As a result, some of the wage pressures generated in 1955 did not make their appearance until 1956. While management argues that they can't pay future wage increases out of past profits, unions can't be blamed for bargaining like baseball players with an eye on last season's averages. The result was that a slower rate of expansion in 1956 was accompanied by a productivity increase of less than half of the long term average while increases in employment costs were about 50 per cent greater than average. In consequence, the "visibility" of the impact on margins imposed by wage increases was greatly increased.

Conclusions

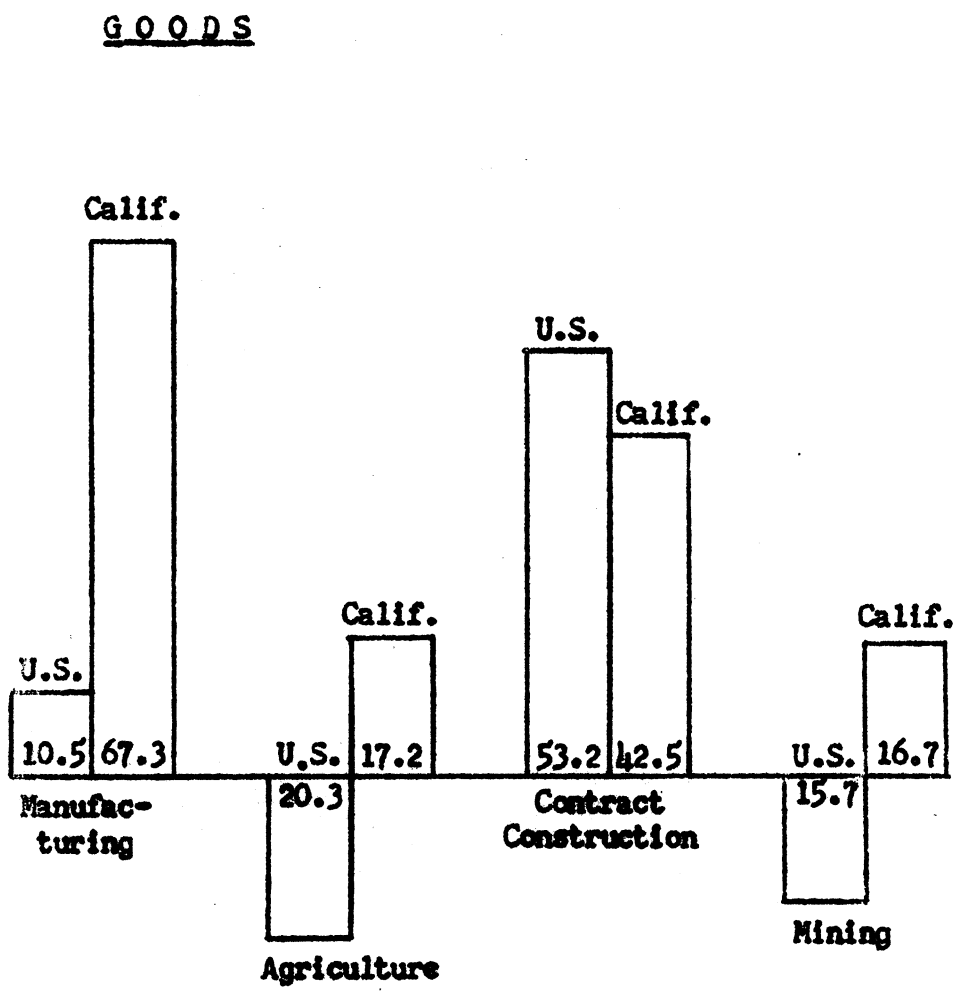
In summary I think the discussion has brought out two major points:

(1) Wage inflation becomes a danger when wages rise faster than productivity. Available evidence, while not conclusive, indicates that since 1953 employment costs, including fringe benefit costs, have increased at an annual rate of one-fourth to one-third faster than productivity. This amounts to about one per cent per year difference in the annual rates of increase.

(2) The wage-productivity relationship has important consequences for price behavior and income distribution. Since 1953 the economy has apparently adjusted to the wage pressures by a combination of moderate price increases and shifts in shares of national income in favor of wage and salary earners. If this pattern of wage-productivity changes continues, future adjustments are more likely to take the form of price increases.

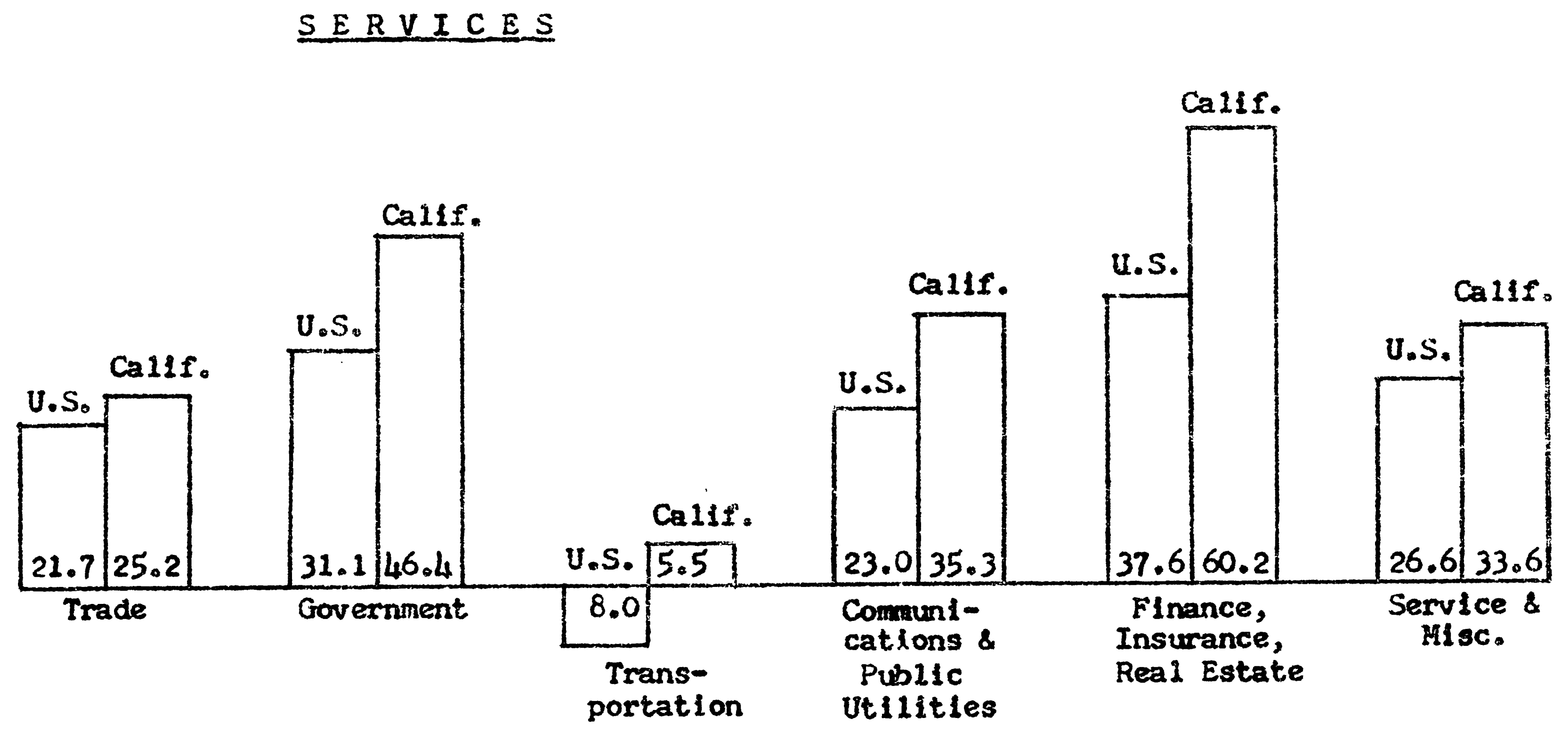
THE LABOR FORCE -- U.S. AND CALIFORNIA, 1947-1956

Figure 1. Percentage Changes in Wage-and-Salary Employment by Industry, 1947-1956



Note: Agriculture -- includes self-employed, also fishing, forestry
Contract Construction -- excludes operative builders
Finance, Insurance, Real Estate -- includes operative builders

Figure 2. Percentage Changes in Wage-and-Salary Employment by Industry, 1947-1956



Note: Agriculture -- includes self-employed, also fishing, forestry
Contract Construction -- excludes operative builders
Finance, Insurance, Real Estate -- includes operative builders

THE LABOR FORCE -- U.S. AND CALIFORNIA, 1947-1956

Figure 3. Per Cent Distribution of Increases in Labor Force

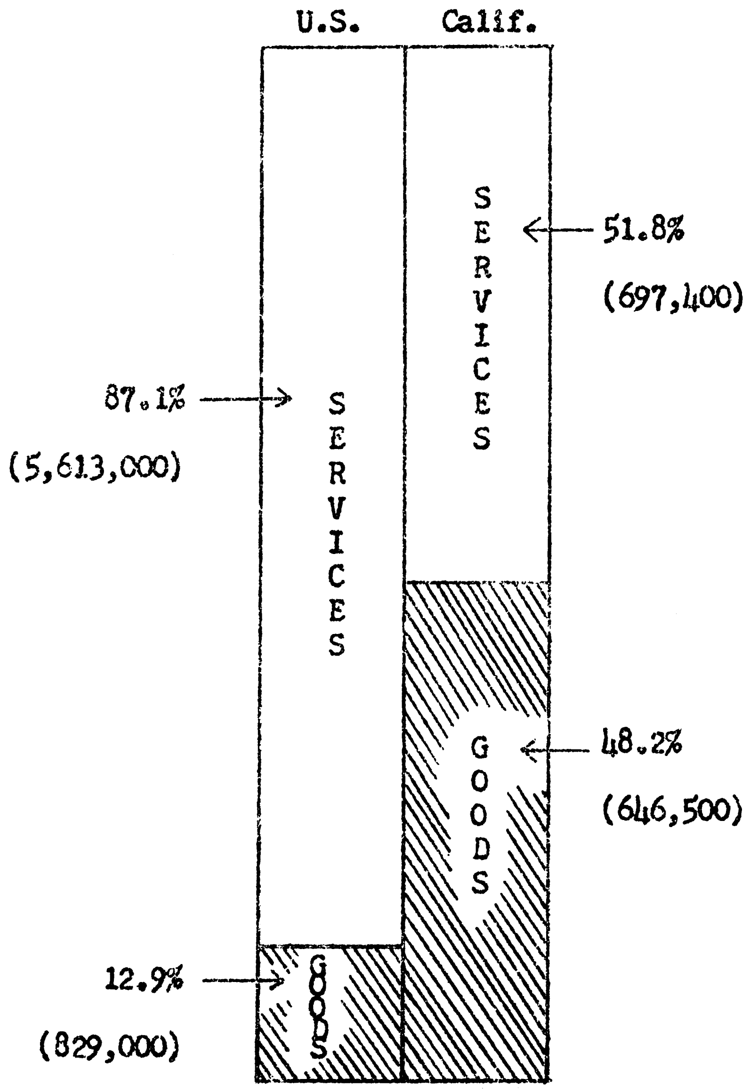


Figure 4: Percentage of Organized Wage and Salary Workers, By Industry; Total Number of Wage and Salary Workers in Each Industry, 1956.

Industry	Total Number (1000's)		Per Cent Organized	
	U. S.	Calif.	U. S.[1]	Calif.[2]
Agriculture[3]	6,585.0	490.0	(n.a.)*	(n.a.)*
Manufacturing	16,893.0	1,099.1	55%	49% [4]
Government	7,176.0	707.0	7	(n.a.)*
Mining	795.0	37.9	63	30
Contract Construction	3,037.0	283.0	80	92
Transportation	2,745.0	125.9	80	74[5]
Communications and Utilities	1,400.0	123.3	45	67
Wholesale and Retail Trade	11,194.0	792.4	5	20
Services	6,000.0	595.4	10	28[6]
Finance, Insurance, Real Estate	2,300.0	186.7	5	3

*Not available

Notes on Unionization

[1]U. S. -- Per cents are from Business Week, January 28, 1957, p. 154.

[2]California -- derived from Union Labor in California, 1955, State of California, Department of Industrial Relations, Division of Labor and Research. (Figures for unionization represent the per cent of workers covered by a union contract.)

[4]Manufacturing -- organization of "production and related workers" is 67%.

[5]Services -- organization ranges from 93% in "Motion Picture Production, Distribution, and Services" to 5% in "Professional, Educational and Related Services."

[6]Transportation -- includes warehousemen, but excludes interstate railroads.

Notes on Employment

[3]Agriculture -- includes fishing, and forestry; self-employed.

Selected Economic Indicators
(Data are from the Bureau of Labor Statistics unless otherwise noted)

Table 1 Wages

Gross Average Hourly Earnings -- Average Annual Rates of Increase

	1947-1953	1953-1956
Metal Mining	7.7%	4.1%
Contract Construction	6.7	4.1
Manufacturing	6.1	3.8
Local Railways and Buslines	5.8	4.7
Telephone	5.8	3.5
Gas and Electric Utilities	6.2	4.6
Wholesale Trade	5.7	2.6
Retail Trade (except eating and drinking places)	5.6	3.9
Hotel, year-round	5.8	4.2

(No hourly-rate figures for Finance, Insurance, and Real Estate)

Table 2 Prices

Average Annual Rate of Increase or Decrease

		1947-1953	1953-1956
Consumer Price Index (All Items)		+3.1%	+0.5%
Wholesale Price Index	Industrial	+3.0	-3.1
	Farm	-0.5	+2.3

Table 3 Productivity

Output per man hour in manufacturing, average annual rates of increase.

		1947-1953	1947-1956
Output per man hour	Low Estimate	3.0%	3.0%*
	High Estimate	3.6	
Real Private Product per man hour (non-government output divided by total man-hours)		3.6	

*The 3% figure for the increase in manufacturing productivity for 1947 to 1956 is taken from an Article in Fortune, December, 1956, p. 33.

Table 4 Income Shares

Percentage Distribution of National Income

	1946-1952	1953-1956
Compensation of Employees	65.2%	69.3%
Farm	6.4	3.9
Business and Professional	9.9	8.5
Rental Income of Persons	3.4	3.2
Net Interest	2.2	3.2
Corporation Profits	12.9	11.9

(all figures before taxes)

Table 5 Fringe Benefits

(*Fringe Benefits, 1955*, Chamber of Commerce, 1956, p. 29)

Comparison of 1947, 1949, 1951, 1953, and 1955
Fringe Payments for 124 Identical Companies

	1947	1949	1951	1953	1955
1. As per cent of payroll, total	15.1	16.7	19.0	20.1	21.7
a. Legally required payments (employer's share only)	3.0	2.9	3.1	3.0	3.3
b. Pension and other agreed upon payments (employer's share only)	4.4	5.1	5.7	6.5	6.8
c. Paid rest periods, lunch periods, etc.	1.5	1.5	2.3	2.4	2.9
d. Payment for time not worked	5.0	6.0	6.4	6.8	7.1
e. Profit-sharing, bonuses, etc.	1.2	1.2	1.5	1.4	1.6
2. As cents per payroll hour	22.5	25.8	32.9	38.0	46.1

FRINGE BENEFITS: ARE THEY RELATED TO WAGE RATES?*

by

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The business man, the trade union leader, the public administrator, and the economist have all had to learn to adjust their thinking on wages to include elusive, ephemeral notions of fringe benefits. To arrive at some workable concept of market or going wages, it is essential to take fringe benefits into account, since not only do base wages of different companies vary, but the same benefits are not characteristic of all or even the majority of firms in any single labor market.

There is a feeling that companies paying higher base wages also tend to pay more valuable fringe benefits. Since these higher-paying companies are usually the larger ones in the market, it is a working hypothesis that large companies pay more in fringe benefits than smaller ones. If this is true, it follows that a comparison of base rates in a given labor market would not present a true picture of the distribution of wages in the area, since the inclusion of fringe items would raise the gross pay of employees in the lower-wage companies by a smaller amount than it would raise the gross pay of the higher-paying concerns. Thus base rates would tend, on the net, to underestimate the dispersion of wages paid by different companies in a particular labor market.

This point of view has been expressed by Professor Robert L. Raimon:[1]

> To date, about the only generalizations forthcoming in this field are that fringe benefits are increasing in importance to employers and to unions, and that high-wage companies seem to offer more liberal non-wage aspects of employment (congeniality

*Reproduced with the permission of Virgil C. Crisafulli and Sidney C. Sufrin and Personnel, May, 1956.

[1] "Sources of Wage Data," Proceedings of the Sixth Annual Meeting of the Industrial Relations Research Association, Washington, D.C., December, 1953, p. 264.

of the work situation aside) than do low-wage companies. Hence, surveys of only money wages tend to understate the relative attractiveness of conditions of employment.

An alternative hypothesis (logical if not empirical) is that fringe benefits are a compensatory factor where wages are lower than the market rate. Thus it may be assumed that a firm whose base pay tends to be low in comparison with its competitors makes up the difference with fringe payments. Schools, hospitals, and government agencies sometimes act as if this were a factor in their wage policies.

MEASURABLE AND NON-MEASURABLE TERMS OF EMPLOYMENT

Regardless of the hypothesis chosen, one of the functions of fringe benefits is to supplement base wages and so provide an attraction for people to work at a particular plant. Clearly, all the attractions that a plant holds out to employees cannot be measured in terms of money. Its physical layout and cleanliness, its distance from the employee's home, its reputation in the community, the nature of its supervision--all these, along with a number of other significant factors, defy measurement by the yardstick of dollars and cents. Yet they are part of the general or total job attractiveness. The terms of employment which attract the employee to work in a given plant can be reduced to five categories:

1. The basic money rate or earnings.
2. Monetary fringe benefits.
3. Fringe benefits which are convertible to monetary value.
4. Non-monetary fringe benefits.
5. Non-wage terms of employment.

The first category, basic money wage rates, clearly includes the bulk of take-home pay. The second, the fringe benefits that are measurable in monetary terms, includes such conventional items as paid holidays, vacations, shift differentials, etc. The third, non-monetary fringe benefits which may be converted to a monetary value, includes such things as free medical care, free food or refreshment, uniforms and work clothing, paid clean-up time, rest periods, special tools, etc. The fourth and fifth categories include the innumerable factors which make one job better than another insofar as the employee is concerned. While these may be important in determining where an employee may seek a job, they do not lend themselves to any straightforward statistical analysis.

This paper is concerned with analyzing, for a given labor market, the fringe benefits that are reducible to monetary value, i.e., categories 2 and 3 above. The basic data were obtained from 15 firms in the Mohawk Valley in the Utica-Rome area. This area has a population of over a quarter of a million people, of whom more than 100,000 are in the labor force. About 40 per cent of the labor force are employed in manufacturing. The area, while depressed as compared with the high prosperity of upper New York State or the United States as a whole, is nevertheless diversified from an industrial point of view.

On the whole, wages in the area tend to be slightly lower than in other, more prosperous industrial sections of upstate New York.

THE STUDY'S FINDINGS

The 15 firms covered by the survey were randomly chosen and represent a cross section of industrial activity in the area. All told, they employ nearly 8,000 production workers.

The data obtained covered: (1) paid holidays; (2) paid vacations; (3) non-production bonuses; (4) free goods and services; (5) employee welfare benefits; and (6) shift differentials. As shown in Table 1, the gross value of each company's total benefits was averaged on a per-man-hour basis. The average for each category was then reduced to a value per man-hour by assuming that every employee worked an eight-hour day, and a total of 2,000 hours a year. Certain items, such as non-production bonuses, food discounts, etc., did not occur often enought to list them in a separate column in this table. The value of such benefits reduced to a man-hour basis has been included in the total, and indicated in an appropriate footnote. Where a service is given as the fringe benefit, e.g., insurance and welfare plans, the costs to the firm in question have been averaged for the number of employees.

As may be seen, the total value of the fringe benefits paid by the 15 companies shows considerable variation, ranging from $0.145 an hour to over $0.52 an hour. Though, in most cases, overtime and shift earnings represent the largest single item in the over-all value of fringe benefits, paid vacations, holidays, and welfare benefits make up a considerable proportion of the total. In other words, while overtime and shift earnings are significant items, they are not the major factor in determining the total value of the fringe benefits paid by a company.

Here, it may be pointed out that overtime payments differ from the general run of fringe benefits in that they cannot be estimated in advance, but depend, in great part, upon the exigencies of business and unpredictable changes in both the labor market and the manufacturer's selling market.

The median value of the 15 companies' fringe benefits was $0.207. In Company J, which paid the lowest benefits in terms of man-hour value ($0.145), the total expenditure represented 9.3 per cent of the plant's average base-pay rate. In Company K, the top-ranking firm, the $0.522 paid in man-hour fringe benefits represented 46.3 per cent of the basic hourly rate. Further, as may be seen from Table 2, though Company K paid the highest fringe benefits, it had the lowest base rate reported by the 15 firms. On the other hand, Company J was a concern, generally speaking, of central tendency, ranking tenth in the listing of firms from the highest base rate to the lowest.

RELATIONSHIP BETWEEN WAGES AND BENEFITS

Further examination of Table 2 shows that there is no obvious relationship between fringe benefits and the level of basic wage rates. To test the relationship between straight-time earnings and fringe benefits more objectively and scientifically, a rank correlation was computed between the ranking of firms in accordance with their straight-time earnings, and their ranking in terms of straight-time earnings plus fringe benefits. This correlation resulted in an index of +0.954, which is extremely high.

It shows that the addition of fringe benefits to straight-time earnings (an approximation of "base pay") has almost no effect in changing company ranking according to average base hourly pay (or hourly straight-time earnings) levels. In other words, rank order remains approximately the same with or without fringe benefits. Therefore, the competitive relationship between companies is scarcely altered by the fringe benefits they pay, insofar as their attractiveness to labor is concerned. This statement, of course, must be considered in the context of monetary rather than non-monetary considerations, and as applying to the sample covered by this study.

Conversely, the correlation between the ranking of companies in accordance with straight--time earnings, on the one hand, and their fringe benefit payments on the other, resulted in an index of +0.10, which is small to the point of insignificance. This means that the ranking of companies in accordance with their wage policies (high or low) bears little, if any, relationship to their ranking according to their fringe benefit policies

This conclusion does not accord with Professor Raimon's generalization that "high-wage companies seem to offer more liberal non-wage aspects of employment (congeniality of the work situation aside) than do low-wage companies." Admittedly, the data obtained from the present survey are limited to 15 companies in a rather depressed industrial market in 1953. Nevertheless, the results are sufficiently at variance with the generally, and perhaps uncritically, accepted conceptions about wage and fringe policies to warrant some doubt being cast upon the idea that the larger, better-paying companies also lead the parade in fringe benefits. Insofar as these data are concerned, the monetary value of fringe benefits may be almost randomly distributed, regardless of whether the companies are high-wage or low-wage concerns.

TABLE 1

VALUE[a] PER MAN-HOUR OF FRINGE BENEFITS, IN 15 MANUFACTURING COMPANIES, UTICA-ROME LABOR MARKET AREA, 1953

COMPANY	TOTAL ALL SHIFTS	Straight-time Value of PAID HOLIDAYS	Straight-time Value of PAID VACATIONS	Straight-time Value of WELFARE BENEFITS	OVERTIME & SHIFT EARNINGS
A	\$0.184[b]	\$0.040	\$0.066	\$0.054	\$0.020
B	0.207[c]	0.031	0.054	0.012	0.110
C	0.196[c]	0.035	0.058	0.036	0.067
D	0.393[d]	0.030	0.059	0.030	0.230
E	0.244[e,c]	0.047	0.036	0.030	0.123
F	0.264[f]	0.036	0.072	0.105	0.040
G	0.225	0.050	0.109	0.056	0.010
H	0.280[c]	0.057	0.087	0.016	0.120
I	0.182	0.034	0.068	0.029	0.051
J	0.145	0.037	0.063	0.025	0.020
K	0.522	0.032	0.058	0.045	0.380
L	0.188	0.038	0.073	0.057	0.020
M	0.185[b]	0.039	0.042	0.030	0.070
N	0.299[c,g]	0.054	0.038	0.026	0.102
O	0.150	0.034	0.053	0.033	0.030

a All computations are based on an 8-hour day, a 2,000-hour year, and average straight-time hourly earnings in the case of paid holidays, vacations, and percentage-type shift differential. Value of paid vacations is based on average seniority.

b Includes \$0.004 per-hour value of non-production bonus (a Christmas ham)

c The rate of differential is 10 per cent.

d Includes \$0.044 per-hour value of non-production bonus (attendance bonus).

e Includes \$0.008 per-hour value of non-production bonus (stock purchase plan).

f Includes \$0.011 per-hour value of food discount in company cafeteria.

g Includes \$0.009 per-hour value of medical services.

TABLE 2

RELATIONSHIP OF FRINGE BENEFITS, AVERAGE STRAIGHT-TIME EARNINGS, AND NUMBERS OF HOURLY RATED WORKERS IN 15 MANUFACTURING COMPANIES, UTICA-ROME LABOR MARKET AREA, 1953

COMPANY	STRAIGHT-TIME EARNINGS		FRINGE BENEFITS		NUMBER OF HOURLY RATED WORKERS	
	Amount	Rank	Amount	Rank	Number	Rank
K	$1.127	15	$0.522	1	85	14
D	1.310	14	0.393	2	96	13
O	1.400	13	0.150	14	530	5
C	1.442	12	0.196	9	459	7
B	1.530	11	0.207	8	260	11
J	1.550	10	0.145	15	61	15
L	1.590	9	0.188	10	518	6
M	1.615	8	0.185	11	1,223	2
A	1.620	7	0.184	12	300	10
I	1.636	6	0.182	13	369	8
E	1.659	5	0.244	5	881	4
F	1.660	4	0.264	4	117	12
G	1.809	3	0.225	7	1,151	3
N	1.910	2	0.229	6	1,617	1
H	2.020	1	0.280	3	315	9

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of Discussions at Workshop on

LONG-RANGE IMPLICATIONS OF RISING LABOR COSTS

While the workshop members agreed in general with the forecast of rising labor costs for the future, there was some disagreement about the role of union or worker pressure on wages in this development. The view was expressed that existing inflationary pressures were primarily the result of the high rate of capital expansion which had occurred in the past several years and appeared to be in prospect for the foreseeable future. Competition for resources of all types, including labor was regarded as being the basic factor in forcing up prices in general. With the prospect of a continued rapid population growth, the economy faces a need for further expansion of capacity which would continue the inflationary conditions for an indefinite period. Proponents of this view argued that what looked like overcapacity in certain fields along with higher unit costs and relatively slow growth in productivity was simply a temporary lack of balance due to the necessity to expand not only to meet current demand but anticipated future demand as well. A balancing or adjustment process is required under these circumstances.

Income Shifts

Discussion also centered on the contention that income shares have shifted in favor of wage and salary workers. A member of participants reported that in the particular industries with which they were familiar there seemed to be no trend in wage costs as a percentage of the sales dollar or of value added by manufacture. The question seemed to hinge on the type of statistical material used as a source.

Questions were raised about two types of problems that seemed involved in the adjustment of the economy to a long term increase in costs and unions. First, how do you protect those parts of the population who are no longer active and receiving current income from suffering a decline in living standards. It was noted that certain systems of post-retirement adjustments of health and welfare and pension programs were being developed. Also, the governmental security programs were being used to meet this problem; for example, the Social Security system. A member pointed out that this problem was made much more difficult by the lengthening span of life which appeared to amount to fifteen or more years in retirement for a larger proportion of the population. This increases the burden of providing for retirement, particularly when the retired people see the living standards of the active members of the population rising rapidly. The political implications of the existence of a large group of retirees was brought up. Increased attention in "inflation hedges" was emphasized.

Problems for Industry

In addition to the problems of the protection of the living standards of some groups, were the issues posed by rising costs for business, particularly smaller businesses. The need for continued creative thinking by management was stressed. Included in this idea was the mobilization of the creative contributions of all members of management and particularly the work force. This not only promises advantages in management efficiency but also would act to increase worker productivity through satisfying the worker's desire to participate in affairs.

Several participants related examples of how particular companies had met this problem by changes in methods of production, more effecient utilization of by-products and diversifying their product lines to maintain profit levels. The long-range solution, if any, involves keeping up a continuing efficiency increase to offset rising costs. This appears to be a never-ending process, but some views were expressed that the productivity increases in the past could not only be repeated in the future but might be surpassed. The role of new products, new processes, new materials and new energy sources was pointed up in this connection.

The suggestion was made that when prices and costs in general were rising, it was even more important to exploit every avenue of increasing productivity since the differential results of this management competition between firms was likely to be vital to the success of the enterprise.

W O R K S H O P   S E S S I O N

NEW AREAS OF SUPPLEMENTAL COMPENSATION

Discussion Leader: Michael T. Wermel, Research Director, Benefits and Insurance Research Center, Industrial Relations Section, California Institute of Technology, Pasadena

Resource Members: Robert H. Canan, Attorney, Legal Division, Lockheed Aircraft Corporation, Burbank

Robert Fox, President, Food Employers Council, Inc., Los Angeles

H. J. Stroud, Director, Employee and Public Relations, Signal Oil and Gas Company, Los Angeles

B I O G R A P H I C A L   S K E T C H E S

MICHAEL T. WERMEL (Discussion Leader)

Present position: Research Director of the Benefits and Insurance Research Center at the California Institute of Technology, Pasadena.

Formerly: An economist and actuary by training, Mr. Wermel has been engaged in private practice as a consulting actuary specializing in employee benefit programs. He is Vice President of the firm of Woodward and Fondiller, Inc., consulting actuaries of New York and Los Angeles, and has served as consultant to a number of state government departments, state legislatures, business firms, and labor organizations. During the past 20 years Mr. Wermel has at various times taught economics and insurance at Brooklyn College, American University, Tufts College, University of California at Berkeley, University of Hawaii, and University of Southern California. He is a member of the Casualty Actuaries Society.

Received his Ph. D. degree from Columbia University in 1939.

ROBERT K. FOX (Resource Member)

Present position: President, Food Employers Council, Inc., Los Angeles.

Formerly: Prior to the War Mr. Fox was employed in the industrial relations department of Stone and Webster Engineering Corporation. After a brief period in military service he joined the staff of the Food Employers Council, Inc., as a field representative. The Council is an employers' association serving all segments of the food industry in a labor relations capacity, covering a ten county area in Southern California; it negotiates and administers in excess of fifty labor agreements covering more than 60,000 employees.

Graduated from American University in Washington, D. C. in 1942.

B I O G R A P H I C A L   S K E T C H E S

ROBERT H. CANAN (Resource Member)

Present position: Attorney, Legal Division, Lockheed Aircraft Corporation, Burbank.

Formerly: Served as attorney in the office of the General Counsel of the Farm Credit Administration, then attorney in the office of the General Counsel of the Federal Security Administration in Washington, D. C. Before going to Lockheed he was Regional Attorney for the Federal Security Administration assigned to the Western Region, during which time he did a great deal of work with unemployment compensation, including legislative drafting on State Unemployment Compensation Acts. In his present position Mr. Canan has developed special knowledge in the field of labor law and does all of the labor law work of the Corporation and its wholly-owned subsidiaries. In the fall of 1936 Mr. Canan was admitted to practice law in California and is now admitted to practice before several Federal District Courts, the Ninth Circuit Court of Appeals and the Supreme Court of the United States.

Graduated from U.C.L.A. with a major in Economics in 1933 and from the School of Jurisprudence, University of California at Berkeley in 1936.

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THE CHANGING NATURE

OF

EMPLOYEE COMPENSATION

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BIRC Publication Number 9
Preliminary Draft
July 1957

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INTRODUCTION

The concept of employee compensation has been undergoing a steady change as a result of governmental action, the development of large businesses, labor-management agreements, and the requirements of a maturing society. As a consequence of these developments, earnings to some considerable extent have become reapportioned. While a substantial segment of earnings continues to be paid to the worker in the form of direct wages, other and, apparently, growing proportions are allocated to various forms of worker protection or deferred for eventual payment. Recognition is given to this redistribution of earnings in the use of the term "wage package."

The trend toward the diversion of an increasing proportion of wages from direct pay to deferred or allocated compensation gives rise to a need for appraising this development and considering its possible eventual outcome. If such diversion continues and spreads, a major question has to do with the socio-economic implications of this budgeting mechanism for the employee. A related consideration is that of whether the deferred wages are channeled into programs which meet the greatest needs in terms of workers' security and the general good of society. Important, also, is the effect of total wage expense upon general economic processes.

1. LABOR CHARGES AS PART OF TOTAL BUSINESS EXPENSE

Labor charges make a significant demand upon total business expense. The cost of doing business, however, also includes many other claims upon operating budgets and profits. Among the other important expenditures are those for taxes, rent, interest, dividends, capital equipment, facilities, and, of course, materials and various other items of overhead expense. The proportions that all these various expenditures represent of total operating cost vary industry by industry and company by company and may fluctuate within any one firm or industrial activity at different time intervals. These business costs may be affected by the financial, production, and marketing situations prevailing during a given period or in a particular area and also may be influenced by various other pressures. Since all of these segments combine to make up total business expense, changes that may occur in the proportionate representation of any one of the operating costs of necessity affects the relative positions of the others and, in the last analysis, the price at which the product can be offered for sale.

The expenses connected with maintaining a work force are particularly vulnerable to internal and external pressures such as labor-management agreements, legislative developments, and labor market conditions. Such influences, of course, affect the portion of total operating expense which labor charges comprise. These pressures also can govern to a considerable extent the apportionment of compensation among the many elements which today make up the total wage expense of a firm. Wages no longer consist of a single item; rather, they are composed of many different pieces. This fragmentation has come about as a result of varied processes, including legislation of social insurance programs, governmental policy concerning personal and corporate income taxation, the spread of unionization, and the emergence of a professional managerial group. All of the fragments that have developed necessarily must be consolidated to arrive at total wage expense, for it is the total wage and not isolated fragments of it which is related to productivity.

Labor costs and also some of the other components of business expense may increase in accordance with gains in productivity. They also may expand in response to other pressures in a manner not related to productivity gains. In such instances, the expense affected will exact a larger share of the entire operating cost than may be warranted by productivity advances. What share of productivity should labor command as compared with the sums to be directed toward such other requirements as capital expenditures or investment returns? If labor costs rise out of proportion to increases in productivity, can price levels be maintained? Given price advances, what are the implications in regard to general purchasing power and the stabilization of living standards?

In addition to considerations relative to productivity, the development of the many and diversified forms of compensation present certain socio-economic implications for the wage earners. With increasing amounts of earnings diverted from direct pay to various allocated or deferred compensation arrangements, is the worker's free choice in spending being narrowed to an undesirable extent? In advance budgeting of wage compensation approaching an unwise course, both socially and economically? To what extent can taxes on earnings be levied without reducing a worker's living standard or job incentive? With substantial proportions of compensation not being reflected in the worker's wage base, what are the implications for such wage-related income continuation programs as Federal Old Age and Survivors' Insurance and state programs of unemployment or disability insurance? Should these wage continuation plans be based on a worker's cash earnings, his payroll rate, or the total amount of his compensation?

2. INDUSTRIAL RELATIONS IMPLICATION OF PERSONNEL AND WAGE EXPENSE

The trend toward allocating or deferring a portion of wage compensation rather than paying it out in cash has injected complexities into the industrial relations process. The employer must think in terms of the various wage expense items in order to keep the entire labor charge in line with total operating expense. He also must consider the apportionment of the various elements of labor cost in order to assure proper distribution. Since the components of wage expense are structurally related, any imbalance of an item disturbs the other proportions.

Labor, while concerned generally with the profit-making ability of a company is more concerned with the distribution of business expense in favor of the various wage elements. Labor also is faced with the decision of bargaining upon the proportionate distribution of the various components within the total wage expense. The union may be interested in establishing a particular benefit, such as supplemental unemployment benefits, and will conduct its negotiating strategy toward promoting that benefit to the possible sacrifice of other gains. In aiming for that "break-through," labor anticipates that other components of wages can be "leveled up" in subsequent negotiations, thus eventually restoring an equitable balance.

The growing complexity of the wage structure is of particular significance to the worker. A substantial share of his earnings is budgeted and disposed of in advance of his being paid cash earnings. Some of these budgeted items are paid out to satisfy legislative requirements and others to meet conditions of employment or voluntary allocations. Since, as a result, a large portion of compensation does not result in cash to the worker, his area of free choice in spending necessarily is curtailed. His individual spending, in other words, must be geared to the amount he receives in cash earnings rather than to his gross wages or the other components of compensation. A related concern for the worker is whether this advance budgeting of some of his earnings is to his best individual interest. That is, while statutory requirements must be complied with, there is a question of whether some of the other wage payments made in his behalf meet his needs.

The legislative claim upon the wage expense has contributed to the complexities of compensation. In addition, the government in its role of legislating and administering various payroll and other taxation measures, social insurance programs, and wage standards tends to create pressures from all the many groups concerned.

The increasing diversity of compensation presents certain implications for labor and management in the industrial relations field. For both, but for somewhat different reasons, bargaining strategy has had to be adjusted from the narrow field of wage rates to the wide area of total compensation. Both labor and management must think in terms of the whole "package." Labor has certain objectives, such as the introduction of new forms of pay, the acceptance of which could lead to a temporary imbalance among the various parts. Labor generally, however, can be expected to have as its objective increasing the total size of the package. Management also needs to bargain in terms of the total wage expenditure, approaching the negotiation from the standpoint of what the company is willing to pay. Company recognition also needs to be given to the apportionment of the various segments of wage expense. Management needs to understand that when one segment of compensation is given undue emphasis the other components will be raised eventually to restore balance. Thus, agreement to one facet of the compensation picture is tantamount to eventual acceptance of a general increase.

Administration of the industrial relations and other affected activities has become more complex as the wage structure has become diversified. More programs mean more people to handle them, more channels for the distribution of monies, and more areas of possible labor dissatisfaction and grievance.

The diversion of increasing proportions of wages also has given a new role to management. The employer in effect becomes an agent for the employee in spending some of the worker's wages. Where once the employer could pay the worker and consider the labor contract met, now the employer handles the worker's income tax payments, his contributions to social insurance programs and pension plans, his insurance premiums, his purchases of stock, and other allocated items.

With the wage assuming a new and diversified form it becomes increasingly important for the worker to understand the amount and disposition of his earnings. While the cash he has for spendable earnings may be of major importance, in the interest of employee morale it also is essential that he recognize the other wage expenditures made in his behalf as well as the statutory and other obligations for which he is liable and which reduce his spendable earnings.

The trend toward withholding, deferring, and allocating certain segments of the wage places upon management, labor, and the government a new and growing responsibility. In place of the wage a worker might otherwise receive directly is substituted various protective arrangements for his possible or eventual need. It is incumbent upon all parties influencing the wage form to make sure that the diversion from direct to indirect payments is in the best interests of the worker. Involved is a weighing of the social needs against the rights of a worker to spend his earnings in a manner of his own choosing. A related consideration is that of guaranteeing that the amounts of earnings diverted are spent in forms of protection which will serve the worker best.

3. COMPONENTS OF EMPLOYEE COMPENSATION

Wage expense to the employer no longer comprises the agreed-upon wage or salary. The concept of wages has been expanded to include, in addition to the direct pay, those wage charges arising out of statutory requirements, those bargained for in labor-management negotiations, and those initiated unilaterally by the employer. Some of these costs which constitute part of the employer's wage expense in addition to direct pay include taxes toward the support of the Federal Old Age and Survivors' Insurance and state unemployment insurance systems, premiums for workmen's compensation coverage, contributions to private pension and supplemental unemployment benefit plans, medical insurance premiums, and paid time off.

Just as the employer has to think beyond the direct wage payment to the total wage expense, the employee also must consider the amounts over and above his paycheck which are set aside for his protection or eventual use. Instead of receiving in his paycheck the total amount he has earned, a certain segment is withheld, being earmarked for specific purposes in accordance with the "package agreement." The concept of earnings for the employee has undergone a further change. Because of statutory as well as other considerations, the worker needs to think in terms of "take-home pay" as well as of gross wages. Taxes on personal income and for his contributions to Federal Old Age and Survivors' Insurance and, in some states, to disability and unemployment insurance, constitute a recuction in his gross wages. What he receives in the form of spendable earnings may be further reduced if he elects additional payroll deductions for such purposes as insurance coverage for his dependents or contributions to a company pension, profit sharing, or stock purchase plan.

To illustrate what a personnel and wage expense represents to the employer and what a wage means to the worker, we have selected the hypothetical example of the employee who is being paid at the rate of $90 a week. The development of this illustration is carried forward in the sections below. The case we have selected is intended to illustrate a range of personnel and wage expense costs to the employer and the many possible variations of employee compensation. In this development, we have assumed that the company has a full-functioning personnel department, that the leave policy is liberal, and that the firm has agreed to a variety of employee benefits over the statutory requirements. For the employee, we also have theorized that he has incurred certain monetary obligations in accordance with the union agreement and, in addition, is participating voluntarily in a number of savings and insurance plans. The situation presented undoubtedly would vary company by company and employee by employee.

Total Personnel Expense

The growing complexity of the wage structure has given rise to differing interpretations of those elements which are properly chargeable to wages and of those which should be allocated to related personnel expense. Definition of the problem of the changing concept of employee compensation initially involves differentiating between wage expense and related personnel charges in order to assess the total employment cost. The cost of employing a worker involves considerably more for the company than paying the wages agreed upon at the time of hire, specified in the union contract, or detailed in the wage and salary schedule. The actual wage payment is becoming an increasingly smaller part of total employee compensation and, in addition, various company services have had to be initiated to handle the processing of this entire compensation.

Personnel expense generally is composed of two distinct parts. The most important component, termed the total wage expense, represents those charges which result in payments to or on behalf of the workers. These payments may be made directly to the worker, withheld in accordance with statutory requirements, allocated to certain pre-paid protection arrangements, or deferred for later distribution. Secondarily, there is the charge for the function of providing personnel and labor relations services to accommodate the employment of a work force.

Total personnel expense to a company for an employee with weekly earnings of $90 amounts to almost $115 or approximately 22 percent above the direct earnings figure. Of this additional cost, almost all, 98.7 percent, can be charged as wage expense. The small remaining proportion is accounted for by the personnel expenses accompanying the employment of a worker.

Over and above the total personnel expense, recognition needs to be given to an added employment cost, that emanating from the below-standard productivity of the newly hired employees. The extent of this cost depends, of course, upon the nature of the job for which a worker is employed. Regardless of the work complexities, however, a new employee during the training and learning process seldom performs in accordance with the standards set. During the job adjustment period, other workers may be required to take on part of the new employee's work, the supervisor may need to devote added time to work direction and inspection, and spoilage of materials may be abnormally high. Moreover, before the new employee is producing a standard amount of work of the desired quality, he may quit or be released and the process of initiating a new worker necessarily would begin anew. This possibility is demonstrated by labor turnover studies which indicate that terminations are the heaviest among the groups of employees having the shortest job service. While this cost resulting from the employment of new workers is more or less immeasurable since it varies not only among but within companies and involves many obscure time and material charges, it is a significant, although indirect, factor in the over-all employment expense.

Personnel Expense Exclusive of Wage Compensation

The cost of furnishing personnel and labor relations services is one which is attached to the maintenance and compensation of a work force. While this activity represents a personnel expense, it is not, however, properly chargeable as a wage cost since the activities performed do not culminate in individual employee compensation. Rather, it is a facilitating service designed to promote the smooth operation of the employment process.

The functions of this personnel activity may be defined in varying amounts of detail. In general, however, they appear to fall within the following groups:[1/]

1. Administration of the personnel function, including administration, planning, record maintenance, audits, and reviews
2. Staffing the organization, including recruitment, hiring, promotion, transfer, termination, personnel rating, job analysis activities
3. Training
4. Labor relations, including collective bargaining, negotiation, contract administration, and the handling of grievances
5. Wage and salary administration

1/ Dale Yoder and Roberta J. Nelson, "How Much Should an Employee Relations Program Cost?" Personnel, Vol. 33, No. 3, November, 1956, pp. 214-226.

6. Employee benefits and services, including such activities as handling the various employee benefit programs, counseling, employee communications, leave policies and practices, safety programs, physical examinations, nursing services
7. Research

Studies indicate that the costs of the personnel function vary by size of firm, industry, single-plant or multi-plant operation, extent of unionization, management policy, and region. Costs of the program range widely, from $3.36 to $450.50 per employee in 1956, with the mean falling at $76.88.[2/] Reducing this average to a weekly cost per employee yields a personnel cost of $1.49.

Total Wage Expense

The most significant component of personnel cost is the wage expense. In labor-management terminology, this expense might be properly called the "package." Included in this charge are all the elements of compensation which accrue to the tangible advantage of individual workers. Wage expense involves not only the earnings payments in accordance with agreed-upon rates but also those financial obligations which the company incurs in behalf of employees that are related directly or indirectly to the payment of earnings.

The trend in employee compensation appears to be in the direction of diverting increasing proportions of the "wage" from direct earnings to deferred and allocated payments. Where not more than twenty years ago the worker expected to receive in a paycheck the full amount of the wages he earned, currently the employees are increasingly interested in having

2/ *Ibid.*, p. 218.

certain portions of the "package" handled outside the direct earnings structure. The growth and spread of personal income taxation has contributed in considerable part to this trend. While tax policies hinder individual workers in saving part of their earnings to meet eventual or possible needs, the same tax policies make it financially easier for companies to assume this function.

Using our example of the worker being paid $90 a week, the excess cost to the employer over the gross weekly wage amounts to $23.50. The total wage expense to the employer for this worker thus adds to $113.50 or almost 21 percent above the weekly wage figure.

Expenses Related to Wage Payments

Costs accruing from the employment and compensation of a work force but which are not directly attributable to the hours worked and the production achieved represent one segment of the wage "package." While these charges do not add to so significant a portion of the whole as do the wages and wage-connected expenses, they still constitute a significant cost and need to be considered in any calculation of total wage expense.

The major element in this particular charge is that for the time an employee is paid but for which he does not work. The payment of compensation for nonproductive time is more closely linked to labor-management considerations than it is to direct wage and hour factors. For this reason, it seems advisable to separate this segment of compensation from those attached to the earnings structure. While paid time off has long been granted salaried employees, such provision for hourly workers is of fairly recent origin. Estimates of pay for time not worked range from five to fifteen percent of payroll. Typically, however, the cost appears to approximate ten percent of payroll for the majority of workers. Included in the nonproductive time charge are such elements as vacation and sick leave, holidays, jury duty, severance pay, military leave, rest periods, and stand-by time. For our $90 a week worker, pay for time not worked would cost the employer an additional $9 a week.

Another and considerably smaller charge to this category of wage expense has to do with the provision and maintenance of facilities and services, the need for which arises out of employment. Furnishing and maintaining such facilities as rest rooms and shower rooms have been estimated to cost somewhat less than one percent of payroll for a medium-size manufacturing establishment. The cost of furnishing such facilities for the use of our $90 a week worker would approximate $.50 a week.

Wages and Wage-Connected Expenses

Employee wages need to be considered from two standpoints, the cash wages a company agrees to pay an employee and the indirect wages a company pays on behalf of an employee. The latter segment of wages, while comprising the smaller part of the total wage, is coming to comprise an increasingly significant proportion of this total. Some of these additional payments made on behalf of employees are required by law, while others are agreed upon in the collective bargaining process or are initiated unilaterally by employers. The combination of these two elements, the direct wage payments and those which are allocated or deferred, make up the chief part of both total wage expense and total personnel expense.

Wage-Connected Payments

The wage expense the company incurs on behalf of the employee and which constitutes that segment often termed the indirect wage is significant in terms of monetary outlay. A more important consideration, perhaps, is that these costs combined with pay for time not worked mark the basic change in the concept of employee compensation. Where once the company was relieved of all wage obligations when the worker was paid his earnings, currently the firm is committed to pay in indirect wages an increasingly larger proportion of the "package."

The cost factor involved in pay for time not worked was discussed above. Other charges which are connected with wage payments add up to a further and sizeable amount. Statutory requirements impose an initial financial obligation on employers. In support of Federal Old Age and Survivors' Insurance, the company is required to pay a tax amounting to $2\frac{1}{4}$ percent of the first $4,200 in annual earnings of each employee. Until our $90 a week employee earned the $4,200, this employer tax would amount to $2.03 a week.

State unemployment insurance taxes constitute another company expense. Depending upon the experience rating of the employer and the tax schedule in effect, a California employer might be charged with no taxes at all in a year or with taxes as high as 2.7 percent of the first $3,000 each employee earned in a year. Assuming that the firm employing the $90 a week worker was assigned a tax rated of 1.7, employer costs for this program would total $1.53 a week until the employee's annual earnings exceeded $3,000. Workmen's compensation comprises another employment expense companies under law are required to furnish. Assuming that the company employing the $90 a week worker carries this protection through an insurance company, the cost of such coverage is estimated to approximate $1 a week per employee.

In addition to these payroll taxes and requirements, the employer may incur other wage-connected expenses arising out of collective bargaining or because of employee benefits he subscribes to voluntarily. One such charge is that of maintaining a pension plan. Cost estimates indicate that pensions cost the company an average of about five percent of payroll. Applying this percentage to the $90 earnings of our worker yields a cost of $4.50 a week. Company payments for various kinds of medical protection account for another payroll cost. At an average payroll expenditure of 2.1 percent, the company would pay $1.94 a week for our $90 a week worker. If the firm has a supplemental unemployment benefit plan, the per-worker cost likely would amount to five cents for each hour worked or $2 per worker a week assuming a 40-hr workweek. Other insurance protection and miscellaneous benefits for the worker--added coverage for traveling, for example--would incur a cost of another $1 a week for the $90 a week worker.

These required and voluntary costs add to $14 a week over and above the weekly wage rate.

Gross Wages

The wage rate for work performed, as agreed upon between the employer and the employee or his representative, is the gross wage. To the employer, this amount accounts for that segment of the wage expense which is paid to the employee directly and which is over and above any deferred or allocated payments made on behalf of the worker. To the employee, the gross wage represents his direct monetary earnings for work performed before any statutory or other deductions are made from it and which is an amount apart from that portion of his earnings which are earmarked for other purposes. Thus, the employer must consider gross wages as a major but not complete part of the wage expense. The employee, on the other hand, must recognize that his gross wages are subject to certain deductions and that he is not entitled to this stated wage. The employee necessarily also must understand, however, that he receives indirect compensation over and above the stated wage rate.

In our theoretical example, the worker is hired to perform a certain job, and the agreed-upon wage rate for his work is $90.

Gross Wages Less Statutory Deductions

Before the worker is provided with his direct pay, certain legally required deductions are made from his gross earnings. Some of the amount withheld is in satisfaction of his obligations as a citizen. Federal income tax policy requires that the employee's taxes be collected on the basis of his earnings and responsibilities in advance of the payment of his wages. This collection, in essence, is a budgeting process. The high level of personal taxation that has prevailed since early in the World War II period requires that most workers make relatively substantial contributions toward the support of the government. The payroll deduction technique assures the government a regular flow of income and allows the worker to fulfill his obligations on a "pay-as-you-go" basis rather than being required to pay the entire amount in a lump sum at a specified time.

In addition to income tax, other statutory deductions are required from the worker's gross pay. These, however, are designed as income protection devices for the worker rather than being taxes for the general good. One such tax payment affecting the majority of wage earners is the worker's contribution toward the Federal Old Age and Survivors' Insurance program. Matching the payment of the employer, the worker currently is taxed at the rate of $2\frac{1}{4}$ percent of his earnings up to $4,200 a year as his contribution toward his federal retirement income or the income protection of his survivors in the case of his premature death.

Under the laws of a few states, workers are taxed for the support of unemployment and disability insurance programs. In California, for example, most employees contribute one percent of their annual earnings up to $3,000 to finance the state temporary disability insurance program.

In some states, the income tax requirements are such that most workers are obligated for income taxes to support the state government. These tax rates are considerably less than those of the federal government, and payment generally is handled on a lump-sum basis. Such a requirement does, however, reduce the gross earnings of a worker on an annual basis and therefore well may be considered as a statutory payroll deduction.

Using the illustration of our worker whose gross wages are $90 weekly, statutory deductions would amount to $9.39 a week or 10.4 percent of his gross pay. In arriving at this amount, we have assumed for the purpose of computing federal income tax deductions that the worker has three dependents other than himself. Also taken into account were tax payments for Federal Old Age and Survivors' Insurance, state disability insurance, and state income tax.

Gross Wages Less Union Dues

The worker under a collective bargaining agreement is obliged to pay union dues. In some cases he makes these payments directly to his local organization, and in other instances, under the terms of the contract, the company collects these dues in the form of deductions from the worker's gross pay and makes a group payment to the union. This latter system, the "check-off" approach, is generally prevalent in industrial unions. Regardless of the method of collection, however, as a condition of employment the employee is required to fulfill his financial obligations to the union. Thus, the grosswages figure necessarily must be reduced by the amount of dues if union membership is an employment requirement.

Assuming that our $90 a week worker belongs to a union, his gross wages are further reduced by this added cost on his employment. An estimated cost of $1.75 a week or almost two percent of his gross wages has been assigned this charge.

Gross Wages Less Contributions Required by Union Contract

Collective bargaining agreements in providing for various insurance and pension plans may require worker contributions in support of these programs. While generally the trend is toward company-supported programs, many plans currently in effect call for some contributions by the employees. If the union contract specifies employee participation, the worker is required as a condition of employment to contribute toward the plan. Such a contribution accounts for an additional deduction from the employee's gross wages.

Assuming that our $90 a week worker is employed under a contract requiring weekly contributions for group life and medical insurance and for the pension plan, his gross wages would be subject to an added reduction in the amount of this payment. We have estimated that participation in the three plans would cost him $3.50 a week or almost four percent of his gross pay.

Gross Wages Less Voluntary Deductions

In addition to satisfying the statutory requirements for payroll taxes and those requirements which may be conditions of employment, the worker's gross pay may be further reduced because of his voluntary assignment of part of his wages for protection or savings purposes. Many companies make savings programs available to employees through such devices as profit sharing, stock purchase, or credit union arrangements. Those employees desiring to participate authorize deductions from their paychecks. Frequently, too, company group medical insurance plans may be extended to include the worker's dependents, with the cost of this added protection being paid by the worker by means of a payroll deduction.

Our $90 a week worker is assumed to have voluntarily authorized payroll deductions to pay group insurance premiums for his wife and two children and also is participating in the company's stock purchase plan. Deductions from his gross pay for these protection and savings arrangements are estimated to amount to $5 a week or 5.6 percent of his gross pay.

Net Cash Paid to Worker

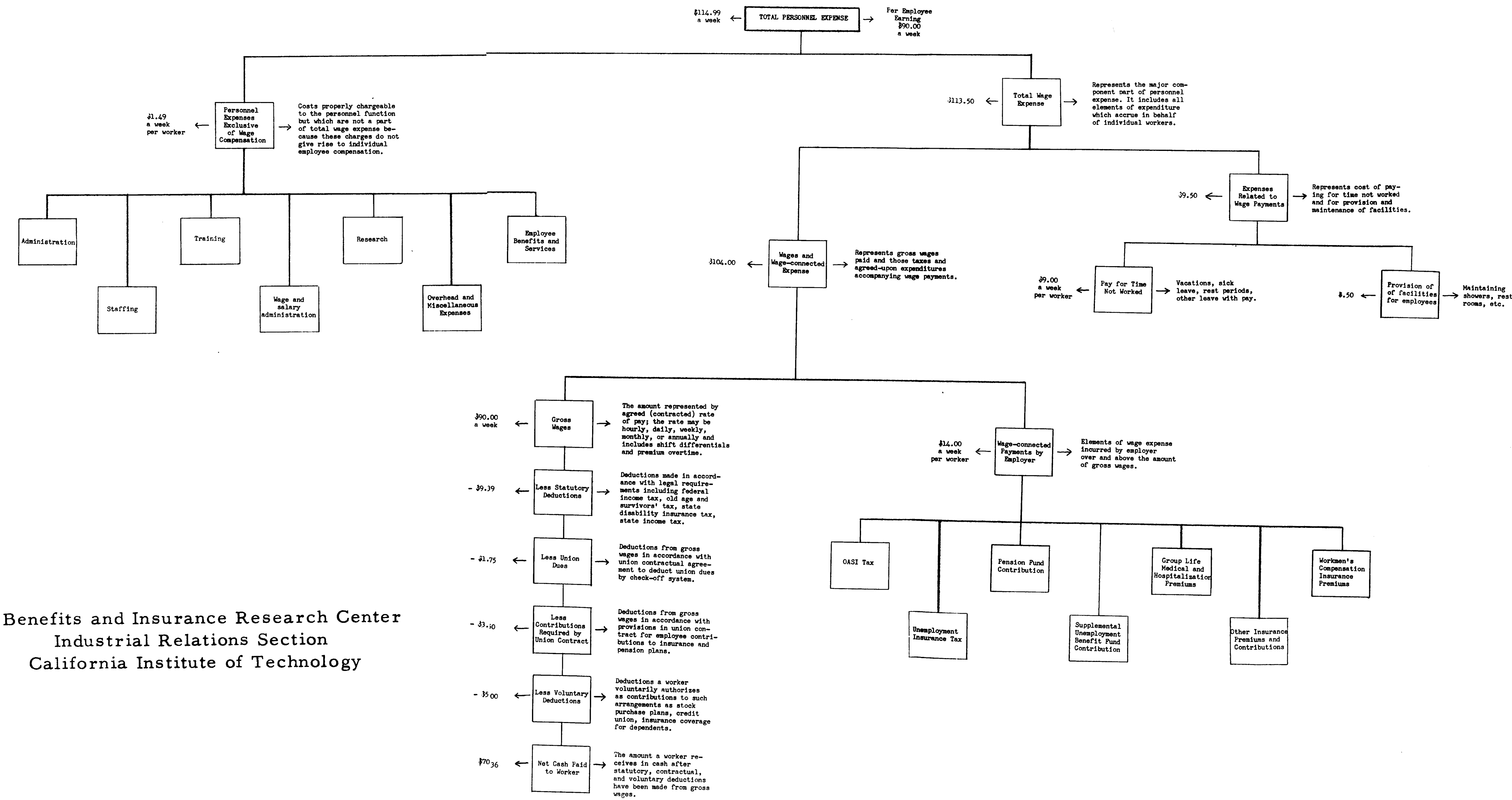
The amount of cash wages a worker receives depends, as has been illustrated, upon the kinds of deductions that are made from his gross pay.

Generally, any worker may expect that federal income taxes will be withheld. The majority of workers are included in the Federal Old Age and Survivors' Insurance program, and this payroll tax reduces further the cash pay a worker receives. In states levying taxes on personal income and on earnings to support such wage loss programs as unemployment or disability insurance, other amounts must be subtracted from the gross pay of those workers so qualifying. Where union membership is a requirement for employment, still another reduction in spendable earnings results from the dues-paying obligation. In instances where the union contract calls for employee contributions toward group insurance or pension plans, additional amounts are deducted from the agreed-upon wage. Beyond these wage deductions required by law or by the nature of the employment, the worker may have the option of allocating segments of his pay for added insurance protection for himself and his family or for participation in some savings arrangement.

In the example of the $90 a week worker, allowances made for a variety of possible deductions reduces his weekly earnings to a net cash amount of $70.36, a decline of 21.8 percent from the gross wage.

In evaluating this sizeable reduction in earnings, recognition should be given to the existence of the savings and protection arrangements inherent in many of the deductions from the worker's gross pay. That is, although the net cash wage income available for spending is reduced considerably from the gross earnings, the worker is contributing toward his eventual retirement income, saving some amounts in the form of stock purchases, guarding against liability for the cost of medical services for himself and his family, providing for some wage income

COSTS OF EMPLOYEE COMPENSATION



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protection in case of disability, and furnishing life insurance and other protection for his dependents in the event of his premature death. In addition to these considerations, he also is afforded various deferred savings and protection devices by virtue of the employer's payments in his behalf.

SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLANS

(An Outline)

by
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SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLANS

(An Outline)

I. IMPORTANCE OF REGULAR INCOME TO EMPLOYED INDIVIDUALS

A. Growing importance of income continuity is a consequence of changing economic patterns.

1. The steady process of industrialization has developed a labor force which is increasingly dependent upon wages or salaries for subsistence. The growing complexity of economic society has given rise to a situation in which most persons in the labor force are wholly dependent upon their earnings for their livelihood. With the increased urbanization of society, neither can most families manage to maintain themselves on subsistence farming during spells of unemployment. The increasing importance of wages in the present economy is demonstrated by the distribution of cash income. Wages and salaries now account for about three-fourths of all cash income as compared with only two-thirds in 1929.

2. The expansion of the economy, resulting from industrialization, has contributed to a sizeable increase in the labor force and, consequently, to an increase in cash income from wages.

3. The shift in the economy from an agrarian type to one of industrialization also has been accompanied by a change in the composition of the labor force. Opportunities for self-employment, both farm and nonfarm, have diminished proportionately. Percentage-wise, the jobs for skilled artisans

to perform diversified tasks within a variety of work situations also has decreased. A vast gain in work opportunities has come about in the salaried executive, professional, technical, and clerical classifications and in machine operator jobs. Employment has become increasingly highly specialized, and workers are trained and experienced in tasks characteristic of the work performed within a particular plant or industry. Thus, industrialization has given rise to a situation in which workers to a considerable extent are dependent upon a particular company or industry for their jobs since their skills are not readily transferable to many other kinds of employment. Industries, too, must rely upon retaining special labor supplies to meet their specialized job requirements in order to avoid the time and cost of recruiting and training new employees.

B. The increase in work force and the accompanying rise in wage income have led to certain changes in marketing and consumer purchasing patterns.

1. Ever-widening markets are created for goods produced.
2. Credit availability has been expanded.
3. Workers' anticipation of continued wage income has encouraged many to spend up to and frequently ahead of income for low-cost items and to make long-term commitments for home buying and the purchase of expensive durable goods.

C. There has evolved a social awareness that in an industrial economy workers cannot maintain economic self-sufficiency in times of adverse business conditions. Various devices have been created to protect in part the income continuity of wage and salary workers, with private and governmental programs of insurance and deferred income being examples of such arrangements. Layoffs may be of potential as well as actual threat to workers.

1. The almost complete dependence of most workers upon job and wage continuity carries with it the desire to perpetuate that continuance. In addition to incurring financial obligations which must be met from future earnings, some workers fear recessions, plant relocations, and technological advances as threats to their job tenure.
2. Laid-off workers' difficulty in finding re-employment is particularly a problem if:
    a. They have been engaged in work of a highly specialized nature characteristic of a particular company or industry; retraining, a downgrading of wages, or moving to new areas could be required for relocation;
    b. They have been released for a short period of time and intend to return to their permanent employers as other companies may be reluctant to hire such workers even on a temporary basis.

II. ATTEMPTS TO DISTRIBUTE TOTAL ANNUAL INCOME IN EQUAL, REGULAR PAYMENTS

A. School teachers once were paid only for the months in which they worked, that is, September through June. Some school systems now spread earnings to allow for 12 monthly paychecks.

B. Some companies have initiated guaranteed annual wage or employment plans to provide income continuity to employees. Usually, these firms were able to stabilize production before inaugurating such plans, the concerns being concentrated in consumer goods and service industries which experience a fairly steady long-range demand. The best known plans of this type of guarantee include:

1. Procter and Gamble plan, initiated in 1923, guarantees employees with two years' consecutive service 48 weeks of work a year or its time equivalent. The number of hours of work per week may be adjusted to production needs within certain limits. Thus, while the workers can count on 48 weekly checks, the amounts of the checks may vary considerably.
2. Hormel Meat Packing Company plan, which began in 1927, provides workers with a stable income during the work year. Overtime worked during peak periods is "saved" and paid out during slow seasons. Workers are assured an average of 38 hours' pay per week throughout the year.
3. Nunn-Bush Shoe Company plan, begun in 1935, guarantees workers 52 checks a year although the amount of the checks may vary. The amount of wages is computed quarterly by estimating the labor cost of the sales value of the product.

III. STATE UNEMPLOYMENT INSURANCE SYSTEMS AS INCOME CONTINUITY DEVICES

A. State unemployment insurance systems initiated during the 1930 decade were designed to furnish temporary, partial substitution for wage income loss to persons unemployed through no fault of their own.

1. The systems were devised to allow jobless persons time to look for suitable work; that is, they would be able to seek

new employment without being forced by financial pressure to downgrade their skills.

2. The full extent of wage losses has not been compensated, largely because of the belief that jobless benefits should be sufficiently below usual wages to maintain work incentives.

3. Eligibility for unemployment benefits is based primarily upon attachment to the labor force (as expressed in terms of amount of earnings and/or duration of work in insured employment), the worker's employability, and his active search for work.

B. By means of payroll taxes to the states concerned and to the federal government, employer contributions generally have provided the financing for state unemployment insurance benefits. Originally nine states, of which California was one, also required contributions from employees. Currently, only Alabama, Alaska, and New Jersey collect employee contributions.

C. The related system of disability insurance in California calls for the collection of employee contributions. California legislation, enacted in 1946 to provide temporary disability insurance to workers covered by the Unemployment Insurance Code, transferred the required employee tax from the unemployment insurance system to the disability program. The California disability plan is financed by an employee tax of one percent of taxable wages. Thus, California employees now contribute only to the support of the disability program and employers, only to the unemployment insurance system.

IV. UNION OBJECTIVES IN DRIVE FOR "GUARANTEED ANNUAL WAGE"

While labor has long objected to many of the features of the traditional guarantee plans, unions have in the past several years evinced considerable interest in the broad field of guaranteeing income security. As a result of various long-range studies, some labor groups developed proposals for private jobless pay plans of an insurance type integrated with state systems of unemployment insurance. In promoting these programs, the unions had several major objectives.

A. A major goal announced by unions is that of achieving general employment stability. Labor's aim is to equalize the working time throughout the year, thus reducing or eliminating heavy overtime schedules in some periods and short workweeks and layoffs during others. Labor leaders suggest that the costs of supporting a supplemental unemployment insurance plan will provide the incentive for employers to stabilize production and, therefore, employment.

B. Union members with substantial job tenure have, in effect, comparatively guaranteed employment in that seniority provisions furnish a considerable degree of protection against layoffs. The less senior workers are the ones most likely to experience employment fluctuations, and the supplemental unemployment plans have been designed for the benefit of this group.

C. Labor also has as an expressed objective the removal of inequities in the state systems of unemployment insurance. Contending that state benefits are inadequate in relation to wage rates and living costs, the supplemental plans will, they hold, bring combined benefits of included workers more in line in terms of reasonable comsation for earnings losses. Union interest has been primarily in the direction of:

1. Increased state benefit amounts,
2. Added duration of benefit periods, particularly in some states paying benefits for less than a uniform 26-week period, and
3. Liberalization of various eligibility and disqualification features.

D. Fear of unemployment as a result of technological advances also has given rise to labor's interest in added jobless insurance. Union representatives hope that the supplemental plans will influence the timing of technological innovations. If employers, seeking to minimize costs of supplementation, introduce new mechanical equipment when employment is expanding, the dislocation impact upon the work force will be lessened materially.

E. Employment disruptions arising from company relocations also has been a concern of labor. While the movement of plants from industrialized areas to more rural states is made for a variety of reasons, one of the many considerations has been put forth as being the lower state unemployment insurance tax rates. The provision of supplemental plans, by bringing about a near-equalization of the cost of combined benefits, would tend to remove this argument. Should other considerations outweigh this one factor, workers covered by supplemental plans would at least have added income protection during the periods in which they would be looking for other jobs.

V. FORD MOTOR COMPANY PLAN: ITS OBJECTIVES AND MAJOR FEATURES

Ford Motor Company was the first major firm to agree to initiate a supplemental unemployment benefit program. In large part, the Ford plan set a pattern upon which many other plans subsequently were based. This plan is of an insurance type in that the risks of unemployment of all workers are pooled. It also calls for integrating the private plan with state systems of unemployment insurance. Because it formed the basis for other plans, the objectives of the company in instituting it and the major characteristics of the plan are worth noting.

A. Since union objectives in reference to a plan of supplemental unemployment benefits had been well publicized in advance of negotiations, the company had an opportunity to study the union plan and formulate principles and practices which would be compatible with its operations and viewpoint. The firm expressed its willingness to accept responsibility for cushioning the effects of short-term layoffs with respect to its employees as long as the devised system fulfilled certain considerations.

1. Ford held firm to the principle that any form of guarantee agreed upon must contain the element of limited cost. That is, the company would not be committed to any plan which did not provide for limitations on the firm's liability and for predictable maximum costs.

2. Ford also maintained that an acceptable plan must provide adequate protection for long-term employees. That is, safeguards must be incorporated which would guarantee availability of benefits for the senior workers. Without such provision, funds could be depleted to such an extent by the less senior

workers released first that employees older in service would upon release receive inadequate benefits or perhaps none at all.

3. Another aim of the company was to integrate the supplemental plans with the state systems of unemployment insurance. While the integration feature has been criticized by many employer groups, Ford held that this feature would serve to strengthen the state systems. According to the company, such integration would guarantee maximum job exposure of released workers and prevent the setting up of private administrative policies and procedures.
4. Ford also was interested in providing supplemental benefits in amounts which would not destroy work incentives. The company has stated, however, that inadequacies exist in state benefit amounts and, in some cases, in duration.
5. The company believed that only workers laid off through no fault of their own should be eligible for supplemental benefits. Private compensation would be paid in cases of force reductions, plant closings or relocations, or temporary reduced or discontinued operations. No benefits would be payable, however, for layoffs caused by labor disputes, enemy action, sabotage, or acts of God.

B. Significant features of the Ford plan are outlined below.

1. The cost of the plan to the company amounts to five cents per employee hour worked until the trust fund reaches maximum funding. At that point company contributions are suspended; when withdrawals for benefits reduce the fund, contributions are resumed. The company, therefore, has predictable costs

and the total expenses for the plan are limited to the contributions based on employee hours worked. Even if the trust fund should become depleted or exhausted, the firm is not obligated beyond the stipulated cents-per-hour expense.

2. To protect the availability of funds for employees in the event of heavy and possibly repeated layoffs, benefit duration is limited to the relative size of the fund and to seniority status of the employees. For example, if the fund is just below the half-way mark, the plan is a 13-week plan rather than a 26-week plan for the low seniority employee. The lower the relative size of the fund, the more weighted protection is in favor of the higher seniority groups. Workers must have acquired one year of seniority before they are eligible to participate in the plan.

3. Integration with state unemployment systems is a requirement of the plan. States in which two-thirds of the employees work must approve the plans. If this condition is met, employees in states not approving the plans are provided with an alternate method of payment; after a week's waiting period, two weeks' state benefits are alternated with three weeks' SUB in a lump-sum payment until state benefits and SUB expire. Eligibility for state benefits generally is a requirement for SUB, and SUB payments usually are made only on proof that a state benefit has been paid for the same week. Thus, administration is simplified, and duplication of state determinations as to eligibility and qualification is avoided. More important, jobless workers are assured maximum opportunity to find other jobs through state employment services.

4. Combined benefits are sufficiently low to provide a gap between regular pay and unemployment pay to allow for the maintenance of work incentives. For the first four weeks, total benefits are limited to 65 percent of take-home pay and for the remainder of the period, benefits approximate 60 percent of take-home pay. Maximum weekly SUB payments have been set at $25.

VI. CHARACTERISTICS OF OTHER INSURANCE TYPE PLANS

A. In addition to Ford, insurance type plans were negotiated with the United Auto Workers by many automobile and automobile parts manufacturers, several firms in related industries, and farm implement companies. In general, the plans of such firms as Chrysler, General Motors, International Harvester, and Allis-Chalmers followed that of Ford in terms of benefit amounts and duration, funding, and eligibility requirements.

B. The plans negotiated by American Can Company and Continental Can Company with United Steelworkers in 1955 introduced several distinctive features.

1. Both plans originally called for a three-year service requirement for eligibility, but this period later was reduced to two years.
2. While the requirement for the serving of a one-week waiting period is included, longer waiting periods are specified for workers having previously worked a considerable amount of overtime.
3. Dependents' allowances, amounting to $2 per week for each dependent through four, are provided in addition to the primary benefit.

4. The maximum duration of benefits is 52 weeks as compared with the 26-week maximum found in automobile and similar plans.
5. The company benefit increases once the state benefit period has expired.
6. While the American Can Company plan calls for a company contribution of five cents per man hour until maximum funding is attained, as does the Ford plan, Continental Can Company contributes three cents per man hour to the trust fund but is liable for an extra two cents if additional funds are required for benefit payments.

C. The "Big Steel" plans negotiated in 1956 contain many features of the auto and can companies' plans but also present several variations.

1. Employee eligibility requirements are two years' continuous service.
2. Company contributions are three cents per man hour plus a two-cent "contingent liability" per employee for each hour worked.
3. Maximum duration is 52 weeks, and weekly benefit amounts are 65 percent of take-home pay up to a maximum of $25 until state benefits are exhausted. For the remainder of the benefit duration, maximum weekly benefits are $47.50.
4. Dependents' allowances in the amount of $2 weekly for each dependent through four are added to the primary benefit.
5. The administrative costs are borne by the companies, while the auto plans call for the payment of these costs out of the funds.

D. In the rubber industry, the four major companies—Firestone, Goodrich, Goodyear, and U. S. Rubber—recently signed agreements granting supplemental unemployment benefits. The plans, of the insurance type, are financed by company contributions of three cents per employee hour worked and pay benefits amounting to 65 percent of take-home pay for a maximum of 26 weeks.

VII. INDIVIDUAL EMPLOYEE FUND PLANS

A. As a departure from the insurance type of supplemental unemployment benefit plans, some companies have inaugurated savings type programs which provide individual vested funds for each employee. These plans are designed to furnish added jobless income and usually also supplement vacation and disability pay. The employee also is entitled to the amount in his account when he retires or leaves the company; in case of death, any balance is paid to the employee's estate. Generally, these plans are not integrated with state unemployment insurance programs; therefore, an employee may not have to be eligible for unemployment compensation to draw from his account.

B. The Security Benefit Plans negotiated between Libbey-Owens-Ford Glass Company, Pittsburgh Plate Glass Company, and the United Glass and Ceramic Workers, CIO, provide an example of this type of plan.

1. The companies originally were required to contribute five cents to an individual account for each hour an employee works; in September of 1956, the contribution was increased to 10 cents per employee hour worked.

2. Maximum funding is $600; when an employee's account reaches this amount, company contributions are continued but are diverted to a special vacation fund for the worker.

3. The employee who is laid off may draw upon his account. Under the glass plan's formula of a 10 percent weekly benefit with a $30 maximum and a $15 minimum weekly payment, a $600 account gives 27 weeks of benefits, the first 11 at $30 and the remaining 16 at diminishing amounts.

C. Similar plans have been negotiated at General Motors' Euclid Division, Timken Roller Bearing Company, Eaton Manufacturing Company, International Nickel Company, and several other firms.

VIII. TAX CONSIDERATIONS OF SUPPLEMENTAL PLANS

A. Company contributions under both insurance type and savings type supplemental plans may be deducted by the employer as "ordinary and necessary business expense," according to United States Treasury rulings. It also has been ruled, however, that a company may not deduct for tax purposes funds which it earmarks for a contingent liability under a supplemental plan. The sums are deductible only if and when the money is actually paid by the company into the fund.

B. Supplemental unemployment benefits paid under an insurance type of plan are treated as nonwage income to the recipient by the Internal Revenue Service. Workers receiving benefits must report them as income annually and pay taxes on them. Their benefits may be paid, however, without withholding taxes being deducted at the time of payment. Since the employer contributions are not deemed to be wages, the contributions are not subject to taxation for income tax, OASI, and federal unemployment compensation purposes at the time they are paid into the fund.

C. Contributions to individual employee accounts, such as those provided for in the plans of the glass companies, have been ruled to constitute additional but undistributed income at the time the contributions are made. As such, the company contribution is taxable as wages and subject to withholding. The contribution also is taxable for OASI and federal unemployment compensation purposes. Because the contributions are taxed at the time they are made, it can be assumed that the benefits or withdrawals will not be taxed although no ruling relative to this issue has been noted.

IX. OBJECTIONS TO INSURANCE TYPE PLANS

A. Some union leaders and members have expressed various objections to the types of programs negotiated in auto, steel, and other industries providing for the pooling of unemployment risks.

1. Some object to the pooling of funds so that only the workers who are laid off can benefit.

2. Others are disappointed that the plans do not provide them with guaranteed annual wages or employment. From the worker's point of view, he is protected for a limited period of time and by only a limited amount of money against such contingencies as recessions and labor dislocations resulting from plant moves and technological advances. Once the obligations set forth in the contracts are discharged, the laid-off worker is entitled to no more income nor has he any assurance of re-employment.

3. Workers with considerable job tenure have contended that contributions made in their behalf will work only for the

good of the more junior employees. The high seniority worker may be sacrificing a potential pay increase for a program in which he may never benefit.

4. Criticism also has come from low seniority workers who cannot meet the eligibility requirements although they undoubtedly would be the first to be laid off.
5. Another source of dissatisfaction concerns the integration of the plans with state systems of unemployment insurance. Many workers would prefer separate programs incorporating more liberal qualifications procedures than those of the state programs. While labor representatives favor the system of combining state and private benefits, divorcing the administration of the two is advocated by some workers.

B. Management objections are concerned with the two major facets of the program: that of supplementing state unemployment insurance benefits and that of integrating the private programs with the compulsory one.

1. A general concern is that the existence of private plans will increase costs of the state program by limiting worker mobility. Workers receiving private benefits in addition to the state amounts will tend to remain unemployed for longer periods than if they were dependent upon the state program alone. As a consequence, benefit duration under state systems would rise and costs for the entire business community would increase accordingly.
2. It is also argued that benefit provisions under the state systems may be pushed beyond desirable limits by the existence of private supplemental plans. Pressures emanating

from the existence of two classes of claimants--those with supplements and those without--could result in a general increase in state benefit programs.

3. Concern has been expressed, too, that private supplemental plans will spread to encompass firms in the high unemployment insurance cost categories. Companies that contribute less to the state programs than their employees draw in benefits thus would be supporting private plans although they do not carry their own expenses under the state systems.
4. In terms of administration, it is maintained that the supplemental and integrated plans will present many complicated problems and make state enforcement of the "independent search for work" provision particularly difficult.
5. It also is feared that the inauguration of supplemental plans may result in a split in employer interest. Those employers negotiating private plans could lose interest in the maintenance of a compulsory program financed within the limits of all firms' financial capabilities.

X. LABOR-MANAGEMENT CONSIDERATIONS OF SAVINGS TYPE PLANS

A. Various labor groups have expressed objections to individual fund plans.

1. Many union representatives believe that the benefit account plans less exemplify unionism than do the insurance type programs. The account plans emphasize individualism while the insurance plans embody the union principle of collective benefits for the general good of all workers. Moreover, unions feel that the purpose of SUB, to provide for unemployed

workers, can best be served by pooling the employer contributions for all employees into one fund.

2. Another objection advanced is that the individual plans provide no incentive to management to stabilize employment. Since companies with security benefit plans must continue to make contributions at least for the duration of the contract, they are under no pressure to equalize work schedules throughout the year. The insurance type plans, on the other hand, it is maintained, tend to furnish employers with a financial incentive to effect production and employment stability since contributions cease when funds reach and maintain maximum.

3. Since the security benefit account plans are not integrated with state systems of unemployment insurance, they may not work toward liberalization of the state programs. Labor's inability to achieve a state system of unemployment compensation they consider satisfactory gave rise to the movement for private, supplemental benefits. Coincidentally, it has been the expectation of labor that by injecting unemployment insurance into the collective bargaining field, desired improvement in the state systems will be forthcoming.

4. Security benefit account plans provide little security for the low seniority worker who is most likely to be affected by employment reductions. Since each worker has an individual account, upon layoff he could only draw from that account rather than from a pooled trust. Because of his low job tenure, the amount in his account would be limited. Union

representatives contend that the security benefit account plans work to the advantage of high seniority employees who are least subject to layoff.

5. Income taxes must be paid on the contributions a company makes to the individual accounts in the workers' behalf under savings type plans. Thus, the build-up of accounts may be slowed by the deduction of withholding taxes. Income received by workers under the insurance type programs, on the other hand, is taxable if and when it is received. Therefore, no tax is paid on the company contributions at the time the money is placed in the trust fund.

6. Union leaders also fear that the security benefit account provisions for withdrawal in the event of layoff, illness, separation, or vacation will lead to less favorable sick leave, vacation, and severance benefits. Labor would prefer to keep the unemployment benefit program separate from other benefit plans so that it is identifiable and will not impinge on any other benefits.

B. Many employer groups favor the individual account plans over the insurance type of program; others, however, foresee some over-all disadvantages to the individual benefit accounts.

1. Advantages of the individual account plans from employers' viewpoint include the following:

   a. Work incentives will be maintained to a greater extent than under the insurance plans because employees will be more reluctant to exhaust their own savings than they would be to diminish a pooled fund.

b. State unemployment insurance programs would remain unaffected by the individual account plans since the savings programs contain no integration features. Because a laid-off worker's eligibility for state unemployment insurance and the amount of state benefits he receives is not necessarily related to the withdrawals he makes from his account, pressures will not be exerted upon the state system to increase either the level of benefits or eligibility requirements under the compulsory program.

2. Disadvantages of the individual account program have been presented by other employers:

   a. Under the insurance plans, the costs of financing the programs may be reduced once maximum funding is attained. For companies with an individual account plan of the glass company type, there is no indication that company contributions will ever be discontinued.

   b. A glass-type plan could offer a greater incentive to malinger than does an insurance type program in that it offers a much higher percentage of take-home pay to low-rated employees.

   c. Vested accounts may tend to encourage employee turnover. Workers in need of funds might quit their jobs in order to draw the balance in their accounts.

XI. PROGRESS OF INTEGRATING SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLANS WITH STATE SYSTEMS OF UNEMPLOYMENT INSURANCE

A. As of January 1, 1957, twenty-eight states and the District of Columbia have ruled that an otherwise eligible claimant can simultaneously receive state benefits and supplemental unemployment benefits under a plan similar to those in effect in the auto industry without state benefits being reduced or eliminated entirely. These states are:

1. Alabama
2. Arizona
3. Arkansas
4. California
5. Colorado
6. Connecticut
7. Delaware
8. District of Columbia
9. Florida
10. Georgia
11. Illinois
12. Iowa
13. Kansas
14. Kentucky
15. Louisiana
16. Maryland
17. Massachusetts
18. Michigan
19. Minnesota
20. Missouri
21. New Jersey
22. New York
23. North Dakota
24. Oklahoma
25. Pennsylvania
26. Tennessee
27. Washington
28. West Virginia
29. Wisconsin

B. States in which integration is not permitted are:

1. Indiana
2. North Carolina
3. Ohio (has, however, approved the "Individual Income Security Plan")
4. Virginia

C. In California,

1. The Attorney General rendered an opinion early in February of 1956 to the effect that payments under the Ford-type plan would not make the recipients ineligible for state unemployment compensation benefits.

2. Subsequently, the California Department of Employment announced its decision, in line with the Attorney General's opinion, to pay state benefits to workers receiving payments under a supplemental plan.

XII. FUTURE OF SUB - IS IT HERE TO STAY?

As in the case of other kinds of employee benefits, it can be expected that supplementation of state unemployment benefits in one form or another will endure and spread. What specific forms the various programs take depends upon experience under the types of plans already inaugurated, the protection needs of particular groups of workers, and what the individual companies can afford. Generally, it can be assumed that the plans will be promoted initially by industrial unions. Because of employment patterns and traditional bargaining concerns, the craft unions will be slower to propose supplemental plans.

A. Approximately two million workers are now covered by some kind of supplemental unemployment insurance plan. Of these, the majority are in automobile and parts manufacture, the farm equipment industry, in steel production, and, most recently, in the rubber industry.

B. The trend toward legalizing integration is light at the present time. Most important industrialized states and many others already have accepted the supplemental programs within the framework of their state unemployment compensation systems. Some court tests are inevitable, however, and legislation may well be introduced in coming years. Forms this legislation might possibly take include:

1. Limiting the total benefit to a laid-off employee to a fixed percentage of his average weekly wage and placing a ceiling on private weekly supplements,
2. Restricting integration of private plans with state systems to employers with positive balances in their state reserve accounts,
3. Requiring that eligibility standards under private plans conform to those prescribed by law for the state programs,
4. Holding supplementation to only those employees who are laid off and are actively seeking work.

C. Because of the newness of the plans, the effect of their existence upon the state unemployment insurance systems cannot be determined with any exactness. Possible areas of impact can be identified, however.

1. The wide-scale revisions in state unemployment insurance legislation that occurred in 1955 to increase benefits may have taken place partly in anticipation of bargaining on supplementation. The expectation that some liberalization of state benefits would postpone or eliminate the need to negotiate on supplemental plans may have been an important factor in accelerating the trend towards the liberalization of benefits. Whether the existence of private plans will give rise to eventual modifications of state programs can

only be surmised. If a significant number of workers receives supplemental pay, however, it can be expected that pressure will be brought to bear to bring state benefits more nearly in line with combined benefits. Stimulus for increases in state benefit awards comes from many sources, however, including federal government encouragement, and the supplemental plans will likely comprise only one facet of this general movement.

2. Whether the private plans will encourage employer-attachment and impede labor mobility has been a matter of concern to many management groups. Any employee benefit can, of course, foster attachment of workers to companies. If the private plans are used for the purpose intended, that is, to provide a cushion against income loss during periods of temporary layoffs, they should have little influence upon labor mobility. Workers released temporarily would ordinarily have little opportunity to find short-time employment elsewhere. If private payments are made to workers permanently or indefinitely released, however, the plans could have the effect of prolonging unemployment spells for the duration of benefit payments.

3. The fear also has been expressed that the supplementation of state unemployment benefits will bring combined jobless pay up to a level sufficiently high to reduce work incentives. As long as a sufficient gap exists between unemployment benefits and wages, it generally can be assumed that persons will maintain the incentive to work. If the

gap is narrow, however, work incentives could well be reduced for some workers.

4. The reduction in labor mobility and work incentives will, many employer groups believe, serve to increase all employers' costs of supporting the state systems by prolonging unemployment spells. The extent to which this situation develops depends, among other things, upon the number of workers drawing private benefits, the purpose for which the private plan is used, and the level of combined benefits as compared with take-home pay.

5. There also is the concern that because of private plans, supplementing companies may support or at least would not oppose undue liberalization in state programs. Certainly, as a result of integrating private plans with the state programs, the compulsory systems are brought indirectly into the orbit of industrial relations. Whether this will have a significant effect upon alignment of forces relative to legislation concerning state benefit amounts, duration, and eligibility features cannot be determined at this time. Because supplementing companies have signed contracts agreeing to the private programs, however, it already has been demonstrated that these firms will not join other employers in testing the legality of the private plans.

D. Labor moves toward liberalization of the private plans can be expected in subsequent negotiations. Union representatives expressed the view that the plans agreed to in 1955 negotiations represented an "opening wedge." The success of testing the value of present plans may well point the direction of future bargaining. Whether the general memebership of a union that has negotiated a supplemental plan favors the continuance of the private benefit program as compared with other forms of employee benefits or direct wage increases also will affect eventual union demands. Future bargaining aims may be directed toward:

1. Lowering service requirements so that more employees will be eligible for benefits,
2. Liberalizing eligibility requirements and divorcing them from those of the state system,
3. Extending and increasing dependents' allowances,
4. Increasing benefit duration,
5. Raising benefit levels,
6. Providing for vesting of funds, at least for longer-service employees,
7. Increasing company contribution rates.

P R E L I M I N A R Y   D R A F T

PROBABLE FUTURE TRENDS
IN
HEALTH AND WELFARE PROGRAM EXPENDITURES

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BIRC Publication Number 7
May 1957

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CONTENTS

INTRODUCTION

The cost of employee health and welfare programs is a part of the total wage expense incurred by management in the course of employing the services of labor. Conversely, it is also a part of the total compensation received by labor in payment for services rendered. This, of course, is equally true of the cost of all benefits received by workers from their employers in connection with their employment.

Forecasting the outlook for health and welfare programs therefore needs to be performed in relation to the larger picture of all employee benefit plans and the entire field of total wage expense. Health and welfare programs constitute only one segment of employee benefits. Employee benefits, in turn, form an integral part of total employee compensation.

Within this framework, it appears that an important element in considering the future of health and welfare benefits is the eventual level of expenditures for these plans in comparison with present spending. The trend in dollar expenditures is significant, but equally so are the relationships these amounts bear to total wage expense and to the other forms of employee compensation to which labor aspires.

Another element has to do with the respective roles of government and private enterprise in the future direction of health and welfare plans and the interaction of these roles. A third issue basic to the problem relates to the allocation of total future expenditures for health and welfare programs to specific channels or, in other words, the kinds of benefits on which the money will be spent.

Forecasts of any trends or developments of necessity require the formulation of certain assumptions. In the discussion to follow several assumptions have been made concerning the direction of total health and welfare expenditures, the place of government in the field, and the benefits upon which the money will be spent.

HOW MUCH WILL BE SPENT ON HEALTH AND WELFARE PROGRAMS?

Estimating the trend pertaining to the level of eventual expenditures for health and welfare programs gives rise to various questions. Will the current dollar amount in support of these programs increase, remain at present levels, or decline? What proportion of total labor compensation will payments for health and welfare programs comprise? Will the present relationship of health and welfare program expenditures to other employee benefit programs be maintained or changed? What effect will future expenditures for health and welfare programs have upon total employee compensation? To what extent will the amounts spent for health and welfare programs influence that portion of total compensation which the employee takes home in the form of spendable earnings?

In considering probable future expenditures for health and welfare programs, it should be recognized that such programs represent only one avenue of allocation. Other employee benefits, such as pension plans, savings plans, profit sharing arrangements, and supplemental unemployment benefits, as well as the statutory social insurance programs, lay claim to their proportionate share of total employee compensation. How much of this compensation will be diverted to health and welfare programs depends upon the total amount of compensation available and upon the demands for other employee benefits.

Certain factors point toward a likely increase in dollar expenditure for health and welfare programs. The consensus among economists appears to be that, except for temporary and rather minor readjustments, an expanding economy is in prospect. Productivity should continue to increase, the price level persist in advancing, and standards of living continue to rise. As a consequence, money compensation should increase and so, coincidentally, should the deferred or allocated forms of compensation. These economic indicators and the general recognition that there still are many unmet and pressing needs for health services point in the direction of an increase in health and welfare dollar expenditures.

While it is expected that more money will be channeled into health and welfare programs in coming years than currently is being spent, the proportion of total compensation to be diverted to these programs is likely to decline. Unsatisfied needs also exist in other areas of employee benefits and new forms of employee benefits are being devised. In addition, constant pressure will be exerted for additional money wages and shorter hours of work.

Although health and welfare expenditures may be expected to decline in relation to the entire benefit "package," it nevertheless must be assumed that total employee benefits will comprise a steadily increasing proportion of the employee compensation dollar. The trend prevailing during the past several years demonstrates that there is a strong employee interest in having part of wages allocated or deferred for various kinds of employee benefits.

The rapid spread and diversity of employee benefits has arisen in some considerable part as a result of federal income taxation policies. The high personal income taxes levied during and since the World War II period have made it difficult for employees to save money to provide for various contingencies. The same tax laws have, however, tended to make it less expensive for employers to provide certain forms of employee benefits. An employer is entitled to deduct for income taxation purposes "a reasonable allowance for salaries or other compensation for personal services actually rendered." Thus, the company payments for employee benefits generally can be treated as part of the "cost of doing business."[1/] Since the outlook appears to be for a high-productivity, high-tax economy, the taxation aspects can be expected to exert a continuing influence upon expenditures for employee benefits.

The wage stabilization policies of World War II also gave impetus to the increase in employee benefits. Companies were restricted in making cash wage and salary increases but were allowed to develop other non-inflationary forms of compensation. In order to attract and hold workers during that labor shortage period, a variety of fringe benefits was installed. Typical of any such innovations, the trend has been toward increasing the kinds and amounts of benefits despite the subsequent removal of wage stabilization regulations.

Because of these tax and industrial relations considerations, employee benefits have come to be recognized by both labor and management as an important part of employee compensation although such benefits may be

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1/ Dan M. McGill (ed.), Pensions: Problems and Trends, published for the S. S. Huebner Foundation for Insurance Education, University of Pennsylvania (Homewood, Illinois: Richard D. Irwin, Inc., 1955), p. 64.

deferred or may remain, at least for a time, undistributed. To labor, these benefits represent part of earnings in return for services performed—a matter of right rather than a gratuity from the employer. On the part of management, there also has evolved a kind of corporate consciousness of the need to provide protection to workers against certain contingencies and to share the profits of a growing business with its employees.2/ It, therefore, appears likely that total employee benefits will in the future claim a somewhat higher percentage of total compensation than has been the case so far.

Total compensation itself can also be expected to rise to accommodate increasing productivity, higher price levels, and rising standards of living. Despite the heavy commitments for wage allocations and withholding taxes, take-home pay or spendable earnings should increase. Gains in productivity have over the years been expressed partly in terms of shorter working hours and, consequently, increases have occurred in amounts of leisure time available. This added leisure has stimulated the need for more spending money.3/

WHO WILL SPEND IT?

Assuming that additional monies will be available for health and welfare programs, there is the question of the scope of governmental participation. Over the years, the government has assumed an increasingly active role in promoting the social welfare of the population, and

2/ "Fringe Benefits: Some Neglected Considerations," Personnel, Vol. 33, No. 4 (January, 1957), p. 338.

3/ Ibid., p. 339.

it appears a valid assumption that this trend will continue. Unsatisfied needs not met or not able to be met voluntarily lend themselves to some form of government action.

Closely related to the health and welfare field is the recently enacted provision for early retirement under the OASI program because of total, permanent disability. Governmental action in reference to disability may well be merely a step in the direction of expanded statutory programs in a variety of health and welfare fields. One area in which government attention may be directed has to do with medical plans for retired workers and social welfare recipients. The attitude seems to be growing that the problem of meeting medical costs of pensioners may fall within the province of government.[4] It would take a substantial amount of voluntary action to counter pressures now being exerted in the direction of governmental action in this area.

A few states have directed attention toward problems arising from temporary, nonoccupational disability, and have initiated statutory disability insurance programs to protect workers from the risk of unemployment resulting from illness or injury. Similar legislative action by other states or by the federal government is possible in coming years. Social legislation, it should be noted, will require added contributions from both workers and employers, thus presumably making less money available for expenditure on private plans.

4/ Ron Stever and Company Monthly News Letter (January, 1957), pp. 2-3.

Despite the possible diversion of added monies to support social legislation, private health and welfare programs also can be expected to expand. Federal encouragement of such expansion by private enterprise is illustrated in the January 23, 1957, Economic Report of the President to Congress:

> It is also time to enact the necessary statutory basis for expansion and improvement of voluntary health insurance plans under which smaller companies and nonprofit associations could pool their resources and experience.

Increasing interest of government in the benefit field on the one hand, and the incentives prevalent in the economy for private programs on the other, not only augur extensions and additions of benefits but also present complex problems of integration of private with governmental programs. Under state programs of temporary disability insurance, for example, where government and private protection exist coincidentally, the problems of integration are still largely unresolved and there is considerable duplication and confusion. The expansion of the Old Age and Survivors' Insurance program to allow early disability retirement already is causing some uneasiness on the part of those concerned with private pension planning. While many private pension plans allow early disability retirement, the definition of disability in terms of severity and duration may be at odds with that of the federal act. If a worker is granted an OASI disability benefit, however, it would be difficult to reject such an application for disability benefits under a private plan.[5]

[5] "Fear Social Security Interpretion of 'Disability' May Affect Private Plans," Employee Benefit Plan Review, No. 5 (November, 1956), p. 26.

WHAT WILL THE MONEY BE SPENT ON?

During the past several years, many different kinds of employee benefits have been introduced. In addition to these innovations, numerous variations of existing benefits also have developed. While the variety of benefits is expected to persist, there are some benefits which will exert more universal appeal than others. Based upon prevailing trends, it may be said with reasonable certainty that labor's interest and, in considerable part, the future direction of health and welfare plans will be in terms of:

1. Extending health and welfare programs to provide added coverage of all dependent members of the family
2. Extending the protection under the plans to provide health and welfare services after retirement
3. Extending the benefits to provide increased protection against major disasters and against health needs not now covered

Covering Dependent Members of the Family

Medical care costs not only may represent a considerable charge to the worker but, and perhaps more importantly, the existence of illness also interferes with his continuity of employment and wage income. These joint considerations have given rise to the institution of a variety of hospitalization and medical provisions to protect the wage earner's health. Illness in the family, while perhaps not interrupting wage earnings, also represents a considerable cost to the worker. Trends in the past few years have been in the direction of permitting employees to include their dependents in the health and welfare plans with the employee paying for the additional cost. This broadening of coverage is expected to continue to include increasing numbers of workers' families. More important, however, is the developing tendency to have the cost of dependency coverage paid for by the employers. In the long range, it can be expected that this latter development will be a significant one in the health and welfare field. Already some companies are meeting this cost, and an extension of this broadening coverage can be anticipated.6/

As long as personal income taxation continues high, the amount of money a worker can save to meet the emergencies that may arise in his family necessarily is limited. It appears likely that labor's interest will be in the direction of apportioning the entire compensation "package" to divert some of the gain toward employer-paid health and welfare benefits for the workers' dependents.

Post-Retirement Protection

Generally, health and welfare protection has been afforded the worker only during his employment tenure. The rising cost of medical services coupled with increasing longevity has pointed up the medical care problem of older persons. The frequency and duration of illness seem to increase with age, and retired persons living on limited incomes experience difficulty in paying for private medical care. As added numbers of people are being retired under private and government pension plans, a

6/ "Dependent Benefits for 'Non-op' Railroad Employees Announced," Employee Benefit Plan Review, No. 6 (December, 1956), p. 29.

new group of "senior citizens" is steadily being created. Replacing the class of indigent old are these persons who have some degree of financial independence. For a variety of reasons, they are unable or unwilling to qualify as "charity cases" dependent upon public health services. The growth of this group and the prospect that its size will increase has given rise to considerable interest in extending health and welfare benefits into the post-retirement period.

This extension in the duration that health and welfare protection is afforded can be expected to comprise a major objective of labor as well as being one in which there is developing public interest. Acceptance appears to be gaining for providing the retired worker and, in some cases his dependent spouse, with at least a modified form of the traditional hospital and surgical protection. In a few instances, the retired worker is continued under an active employee plan, but more often a limited benefit plan is set up for retired workers. There also is some move in the direction of pre-funding post-retirement medical plans. Under this approach, the premiums paid throughout the working years would be increased in order to accumulate a fund for meeting the cost of post-retirement benefits. Since future service costs are difficult to evaluate, it may be appropriate, as a cost control item, to give consideration to providing dollar amounts of benefits rather than promises of services in establishing benefit levels under a pre-funding arrangement.

One company recently has installed a paid-up lifetime hospitalization plan for retired employees and their spouses. The firm meets all of the cost of this single-premium policy for long-term employees and contributes part of the cost for employees with lesser service if the workers pay the balance.[7] This form of protection currently is being written on a pilot basis and is not generally available. The approach is noteworthy, however, of eventual developments in this field and is indicative of the recognized need retired persons have for some kind of medical protection.

Providing Additional Forms of Benefits

In addition to broadening the base of benefit protection and extending the duration of coverage, it also appears that health and welfare programs may be extended in scope. That is, more benefits may be afforded to provide increasingly greater protection against a variety of hazards.

A comparatively recent form of health and welfare coverage, the major medical plan, is gaining considerable acceptance. The outlook is for an expansion of this form of insurance to meet the contingency of expensive disabilities. Several forms of this type of coverage currently prevail as various employers and insurance carriers experiment with different approaches. In some instances, the major medical plan is separate from the basic medical plan and in others it is a superimposed one. Generally, the major medical coverage is a contributory plan. It also provides, as a cost control item, a basic "deductible" of $25, $50, or $75 before the coverage becomes effective. In negotiated plans, however, there appears to be a trend toward eliminating the deductible for hospitalization while retaining this feature as it relates to surgical coverage and out-patient expenses.

7/ "Employer Pays Partial Cost, Not Partial Benefits, for Short Term Employees under Paid-Up Plan," Employee Benefit Plan Review, No. 8 (February, 1957), pp. 8-10.

Coinsurance is also a typical feature of many major medical plans. The primary purpose of a coinsurance provision is to discourage "over-utilization" of a plan. Most plans call for payment of 75 percent or 80 percent of medical expenses up to the maximum policy limits. Generally, such plans call for evidence of insurability after a claim has been filed and before a claimant can be reinstated. There is a trend, however, toward allowing automatic reinstatement by substituting satisfaction of a specified period of employment for evidence of insurability.

Few of the existing policies extend such major medical coverage to retired employees. Under those which do, some place a lower limit on maximum benefits for retired persons as compared with active employees. Some others limit benefits for pensioners and their dependents to a separate maximum for all causes and allow for no reinstatement. Still others impose a 365-day waiting period upon pensioners before they may collect benefits as a result of recurring disability for the same causes.

In coming years, it can be expected that this major medical protection will expand materially to accommodate higher medical costs and the expenses coincidental with improved methods of treatment. The prevailing pressure, particularly in negotiated plans, for removal of both deductible and coinsurance features may lead to modification or the eventual elimination of these cost control items. Whether a major medical plan or a somewhat less comprehensive health and welfare coverage will be provided for the retired employees is an issue which still needs to be resolved. It would seem, however, that if such major medical protection is afforded pensioners it is likely to be handled as a separate plan from that for active employees, with maximum benefits somewhat scaled down and with various cost control items incorporated in the plan.

Coincidentally with the eventual development of major medical plans, it appears possible that added emphasis will be given to mental health, psychotherapy, and related forms of treatment for mental illness. The trend currently appears to be in the direction of covering all costs of psychiatric care under major medical plans, and it is likely that this will continue and spread.8/ The wide-scale publicity given to mental health and problems of neurosis and psychosis undoubtedly will give rise to an increasing awareness of the problem, including the prolonged treatment period characteristic of psychotherapy. The nature of the hazard will, on the other hand, require that much thought be given to the development of special controls to discourage over-utilization.

Considerable discussion is being carried on concerning the possibility of extending health and welfare programs to include diagnostic and preventive medical care. Some benefit plan consultants and insurance company representatives hold that while periodic, thorough physical examinations are desirable, such type of medical care essentially is not an insurance function. Because the examinations would be held at regular intervals in accordance with established fees, the element of risk would not be present in the service.9/ Other representatives have

8/ "Answers to Major Medical Coverage Questions Analyzed by Company Experts," Employee Benefit Plan Review, No. 9 (March, 1957), pp. 12-16, 31-33.

9/ Ron Stever and Company Monthly News Letter (January, 1957), p. 2.

expressed the belief that preventive care will be included in many health and welfare programs in coming years.[10] Regardless of how such care will be handled, that is, within the health insurance program or by some other means, it seems inevitable that increasing attention will be given to the prevention of illness. It might be noted that the steel industry contract negotiated last summer included provision for preventive medical care within the health and welfare program. Many executive health plans now being installed also call for periodic physical examinations in addition to other health controls, but these programs for company executives generally have been handled outside the framework of insurance programs. The arrangements for such health plans might differ, however, if the size of the group to be included were increased.

Prepaid dental care represents another area of likely expansion in the health and welfare field. Some experimentation already is underway in this field. In one instance in which dental care coverage is extended to workers and their dependents, minor treatment is more or less routinely handled and more costly care requires advance approval. Payments are made in accordance with a fee schedule, and the coverage allows part payment on such dental work as dentures, crowns, and fixed bridges.[11]

10/ "Blue Cross Executive Predicts Great Broadening of Benefits," Employee Benefit Plan Review, No. 7 (January, 1957), p. 16.

11/ "Dental Plan for Mass. Laborers," Employee Benefit Plan Review, No. 4 (October, 1956), p. 54.

It appears likely that prepaid dental care plans will eventually be incorporated generally into health and welfare programs. There is some difference of opinion, however, concerning the kind of protection to be afforded. Some of these questions have to do with whether the non-risk treatments such as periodic cleaning and check-up should be included, whether deductibles should be required in order to reduce the number of small claims, what form of maximum limits should be placed on the care given each patient, and whether treatment should include such fields as orthodontia and the making of dentures.[12/]

Other areas of possible expansion in the health and welfare field include added home nursing and convalescent home care, broader provisions for doctors' home and office calls, and ophthalmological treatment.[13/] Greater allowances for drugs, vaccines, and medicine also may be in demand, as may be provision for physiotherapy. Travel insurance may be expanded to cover the commuting hazards to which employees are exposed.

LIMITING CONSIDERATIONS

These appear to be the likely changes and innovations that may be expected in the health and welfare field in coming years. Undoubtedly many more kinds and variations of health and welfare benefits will also

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12/ "Trends and Signposts in Group Medical Care as F. T. Googins Sees Them," Employee Benefit Plan Review, No. 6 (December, 1956), pp. 27-28.

13/ "Blue Cross Executive Predicts Great Broadening of Benefits." loc. cit.

develop in future periods. As socio-economic changes occur, new needs arise and are met by the introduction of new forms of protection.

While health and welfare plans are expected to expand in scope in future years, the extension of these benefits will require the making of some real and important choices. Simultaneous pressures will be put forth to increase other forms of employee benefits. Better retirement systems, especially the protection of the retirement dollar against cost of living increases, are one area subject to future demands. Another is concerned with such income-protection devices as supplemental unemployment benefits, disability benefits, profit sharing, and security benefit accounts. Too, there will be the objective of providing more leisure time; shorter working hours will require direct pay increases if standards of living are to be maintained. While employee compensation can be expected to increase in accordance with productivity gains, the average annual productivity gains are not spectacular and in the short run total compensation cannot rise so high as to include all of the forms of protection and the additional spendable earnings which may be desired. Compromises will have to be effected within the framework of total compensation, and these compromises necessarily must be made at the expense of some of the alternatives. While all of the benefits described above and many other kinds not mentioned will be represented in the plans of some companies or health and welfare funds, universal application should not be anticipated. Common to most health and welfare plans in coming years, however, will be those health and welfare benefits which represent the most prevalent needs. It would appear that the major objectives for health and welfare plans will fall within the areas of dependency benefits, post-retirement benefits, major medical protection, and mental health.

Some recognized needs persist in the health and welfare field, and others can be expected to emerge in coming years. In providing for the existing and prospective demands for protection, however, the extent of the developments necessarily will be limited by the amount of total employee compensation available and the many conflicting demands relative to the distribution of this compensation. The ability to meet the real needs as they develop makes it imperative that the available monies not be dissipated on "nuisance" benefits and that all possible effort be exerted to avoid overlapping and over-utilization of the various forms of protection.

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Preliminary Draft

CONCEPT OF WAGE LOSS
IN
SOCIAL INSURANCE

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BIRC Publication Number 8
June 1957

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CONTENTS

INTRODUCTION

In recent years, a major development in the industrial relations field has been the initiation and spread of various kinds of employee benefit programs. Importantly represented among these programs have been those concerned with providing some forms of wage continuation. Some of these plans for income continuity have been established by legislation in order to meet various risks of income insecurity. Such programs as the federal pension plan, Old Age and Survivors' Insurance, and state systems of unemployment insurance were begun during the Depression years of the 1930's, and workmen's compensation programs were initiated in most states long in advance of that period. State programs for temporary disability insurance have been somewhat slower to develop; of the four now in effect, the first one began operation in 1943. Wage continuation plans within companies have been initiated over a considerable period of time but have experienced substantial growth in recent years. Included in these private programs are such income ontinuity arrangements as pensions, guaranteed annual wages, disability pay, other forms of compensated leave, supplements to workmen's compensation, and supplemental unemployment benefits.

These wage continuation programs, both statutory and other, relate the benefits under the plans to the wages that usually are received. The changes that have been taking place in the nature of wages over the past several years give rise to the question of the kind of earnings which should be reflected in the benefit structure of wage loss compensation programs. The purpose of this study is to examine the characteristics of wage loss in relation to changes in the wage concept.

1. CHANGING NATURE OF WAGES

The developing complexities of the wage structure have given rise to questions concerning wage loss compensation in social insurance programs. Income continuation programs are based upon the principle of compensating for a certain proportion of wages in the event employment and earnings are interrupted. When most of the social insurance programs were instituted, wages to be compensated were relatively easy to define since the amount of earnings a worker received was for the most part the equivalent of the agreed-upon rate of pay. During the past 20 years, however, the character of wages has undergone considerable change. As a result of a number of factors, a worker no longer receives all of his earnings in cash, and the gross earnings the employer contracts to pay the employee represent less than the entire wage expense.

Legislative action in regard to social insurance has required the deduction of specified amounts from a worker's earnings in support of those programs. Employer contributions in the form of payroll taxes also are required. Federal income taxation policies and procedures have led to the imposition of taxes on most earnings and have accomplished the collection of these taxes by means of payroll deductions from workers' earnings. Through collective bargaining as well as by employer initiative, certain amounts of earnings have been diverted from direct pay to indirect compensation. In addition, many employees have agreed, through union contract or individually, to allocate certain segments of their wages as their contribution toward pre-paid insurance protection, long-term savings, or union dues payments.

From the worker's standpoint, therefore, what he receives in cash earnings is considerably less than that expressed by the wage rate. Above the cash amount, however, he also receives some forms of indirect compensation. The employer, on the other hand, is obligated for expenditures in addition to the wages he has agreed to pay the worker. Contributions to social insurance programs and those made in accordance with union agreements and company policy constitute additions to direct pay.

Some of the socio-economic forces which have contributed to these complexities in the wage structure are worthy of brief note. The conditions of income insecurity prevalent during the Depression years of the 1930's led to a sustaining interest in economic security and thus contributed to the development of income protection programs, both governmental and private. The federal personal income taxation policies initiated early in World War II days and perpetuated since that time have made it difficult for workers to save from their earnings amounts needed to meet emergencies and long-term protection needs. The same federal income taxation policies in regard to corporate taxation have made it easier for employers to provide forms of indirect pay. These costs of indirect compensation may be considered as necessary business expenditures for purposes of tax deduction by companies and are not charged as income to the employees.

The tight labor market conditions prevailing during World War II days, accompanied by governmental restrictions on wage increases and the levying of excess profits taxes, led employers to add allowable indirect forms of compensation. Continuance of a labor shortage situation generally since the early 1940's has tended to perpetuate these indirect pay factors in the interests of competition for employees.

The expanding economy, increasing productivity, and rising output that have prevailed since early in the 1940 decade are factors which have made possible constant advances in wage compensation. In distributing this compensation to workers, the developing pattern has been that of allocating increasing proportions from direct to indirect pay.

The implications of these modifications in the wage concept complicate the interpretation of the basic objective of social insurance programs. The programs are designed to protect the worker against disruption in the continuity of his wages. This protection is provided by means of benefits which are related to the wages a worker receives. Wages, however, have assumed new meanings both to the employer and the employee since the social insurance protection originally was adopted. The changes that have taken place in the wage concept give rise to confusion in consideration of legislation and administration of social insurance programs. The problem, therefore, becomes that of determining upon which segment of the wage--gross pay, cash earnings, or total compensation--the wage loss program should be based.

2. OBJECTIVES OF SOCIAL INSURANCE PROGRAMS IN COMPENSATING WAGE LOSS

Social insurance programs as instituted imply an assumption of economic need in the social sense. The programs are based on the objective and empirical assumption that a general economic need exists when wage income is interrupted. As such, the programs are distinguished from those using the welfare approach which are concerned with provable needs established on individual bases.

As a general aim, social insurance is an income maintenance device which protects a worker against the risk of disruption in his wages. While specific social insurance programs have been instituted in recognition of the different risks to wage income loss, all the programs have certain objectives in common. One of these aims is that some relationship should be maintained between the social insurance income assured a worker experiencing wage loss and the earnings he received in previous employment. Too, the programs are conceived of as affording only basic income protection; therefore, compensation is provided for only a portion of the wage loss.

While social insurance programs have, as an underlying principle, the payment of compensation in relation to individual wages earned and contributions made, some modification of this principle has been necessary.

Since a program must compensate for a significant amount of loss or the program loses its objective, certain minimum compensation levels have been established. Thus, workers with low earnings are compensated for a higher percentage of their loss than are workers in the upper wage brackets. To keep the highest wage earners from drawing exceptionally large benefits, a maximum compensation level also has been established. Underlying this qualification is the theory that some expenses of well-compensated employees can be postponed in the event of wage interruption. The wage loss program therefore furnishes the basic floor of protection and is weighted at the low end of the income scale.

The coinsurance feature of wage loss programs, while common to all social insurance, is designed to serve a different intent depending upon the specific system involved. In a long-term program such as Federal Old Age and Survivors' Insurance, there is the expectation that some savings or other income will be built up and that heavy family financial responsibilities to a great extent will be discharged. While social insurance will provide basic protection, the benefits may well be supplemented by other income sources. In temporary compensation programs such as unemployment insurance, the preservation of work incentives has been a primary aim in compensating for only a portion of the wage loss. Since the program is intended to meet only short-term needs, the premise that some expenses could be postponed is a second consideration.

While the principles of wage-related compensation and coinsurance are basic to the philosophy of social insurance, these two features also contain fiscal implications. One aspect has to do with the amount of support of a program the contributors can be expected to bear. Another facet is concerned with the extent to which public responsibility lies in compensating for wage loss.

3. APPROACHES OF SOCIAL INSURANCE PROGRAMS TO WAGE LOSS COMPENSATION

The different social insurance programs express these concepts of wage-related benefits and coinsurance in somewhat different ways. Workmen's compensation laws, the earliest of the social insurance programs developed in the United States, were designed to indemnify losses in earnings arising from occupational illnesses or injuries. In addition to the money benefits, of course, is compensation for medical costs.

Because these programs were developed by each of the states and relate to differing economic, social, and political environments, the proportion of wage loss that is compensated and the maximum weekly benefit levels vary considerably. The maximum percentage of wages compensated for temporary total disability ranges from 50 to 97 1/2 percent, for example, with the majority grouped in the 60-66 2/3 percentage range. The extremes in maximum weekly benefits payable for temporary total disability similarly are widespread, ranging from $20 in Puerto Rico to $121.15 for employees of the federal government. In most jurisdictions, however, the maximum limitations on weekly benefits are placed in the $30 to $50 group.[1/]

In general, the formula for determing wage loss has been based upon gross wages, and the position of the federal government in

1/ State Workmen's Compensation Laws, Supplement to Bulletin No. 161, U. S. Department of Labor, Bureau of Labor Standards (Washington, D. C.: U. S. Government Printing Office, November, 1955), pp. 13-15.

recommending benefit standards as recently as late 1955 also was in terms of total direct wages.[2] The California workmen's compensation formula provides for the payment of 65 percent of average gross wage loss during the period of disability. Since average wages are considered to be 95 percent of the actual, in practice the formula applied against gross wages amounts to 61 3/4 percent. Because the maximum weekly benefits currently are set at $40 for temporary compensation, the maximum weekly earnings upon which benefits can be computed are $64.78.[3]

The federal pension system, Old Age and Survivors' Insurance, uses a somewhat different approach to wage loss experienced by persons no longer able to work or to find employment because of old age or of disability after a certain age. Under this program, the concept of wage loss is related to annual gross earnings over a considerable span of time. Against the maximum annual wage base of $4,200, the benefit formula takes into account 55 percent of the first $110 of the average monthly wage and 20 percent of the excess up to $350 of the average monthly wage. The application of this formula yields the worker a maximum pension benefit of $108.50 monthly; by statutory

2/ "Address of Under Secretary of Labor Arthur Larson at the 20th Annual Meeting of the Industrial Hygiene Foundation, Mellon Institute, Pittsburgh, Pennsylvania, November 17, 1955," News from the U. S. Department of Labor (Washington, D. C.: U. S. Department of Labor, November, 1955), p. 15.

3/ State Workmen's Compensation Laws, pp. 13-15.

provision, the minimum benefit is established at $30 monthly.[4] In effect, the maximum benefit payable monthly amounts to 31 percent of the first $4,200 of annual earnings. The proportion of wage loss that is compensated increases, however, as annual earnings decrease.

Unemployment insurance systems in effect in the various states compensate for a part of the wage discontinuance resulting from involuntary loss of employment. Under these systems, recent rather than long-term earnings form the basis for a worker's wage loss compensation since the unemployment condition is considered as a counterpart of employment.

Various techniques are used within the different states for measuring wage loss, these differing approaches being governed in large part by the reporting procedures adopted. In some instances, the method used in determining the wage base upon which benefits are computed is that of the "high-quarter formula," which bases benefits on earnings in that quarter of the base period in which wages are the highest. The calendar quarter was selected by 39 states as a basis for determining weekly benefits largely because it permits reporting for unemployment insurance purposes in accordance with the pattern adopted for Federal Old Age and Survivors' Insurance. A few states base weekly benefits on actual average weekly wages in the weeks worked during the base

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4/ Dan M. McGill (ed.), Pensions: Problems and Trends, published for the S. S. Huebner Foundation for Insurance Education, University of Pennsylvania (Homewood, Illinois: Richard D. Irwin, Inc., 1955), p. 15.

period or some recent segment of it. Weekly wage reports requested from companies whose former workers have filed claims form the basis for this "average weekly wage formula." The "annual wage formula," which bases benefits on aggregate annual earnings, is used by a few other states.5/

The establishment of levels of unemployment insurance benefits has varied somewhat state by state, and the levels have been subjected to considerable revision since the inception of the programs late in the 1930 decade. Originally, it was recommended that the compensation be set at some specified percentage of a claimant's average wages prior to unemployment, the federal assumption being 50 percent.6/ This recommendation of wage loss being compensated to the extent of 50 percent has been put forth to the states by the federal government on various occasions and most recently by the President in suggesting that the maximum benefit amounts be increased so that "the great majority of covered workers will be eligible for payments equal to at least half of their regular earnings."7/

5/ Comparison of State Unemployment Insurance Laws as of December 1955, U. S. Department of Labor, Bureau of Employment Security (Washington, D. C.: U. S. Government Printing Office, 1956), pp. 61-63.

6/ Report to the President of the Committee on Economic Security (Washington, D. C.: U. S. Government Printing Office, 1935), p. 11.

7/ Economic Report of the President, Transmitted to the Congress January 23, 1957 (Washington, D. C.: U. S. Government Printing Office, January, 1957).

Benefit amounts vary state by state and, within certain maximum and minimum limits, are related to wages paid during prior periods of employment. The benefit formulas generally do not specify any certain proportion of wage loss to be compensated; rather, the benefit amounts in relation to earnings usually are implicit in the formulas. In California, for example, a worker earning $64.62 a week for 13 weeks would qualify for maximum benefits of $33 or 51.1 percent of his weekly earnings. Given the 1956 average earnings of $90 weekly in employment covered by the program, the benefit compensates about 37 percent of the average weekly wage.

Temporary disability insurance systems in effect in a few states generally follow the pattern of unemployment insurance programs in terms of the benefit formula. The levels of benefits may differ somewhat, however, from those paid under the unemployment insurance programs.[8/]

In addition to the various social insurance programs designed to compensate for wage loss, it might be noted that a new type of private wage loss program, that of supplemental unemployment benefits, emerged about two years ago. While private wage loss programs, such as pension and disability plans, have been in effect in many companies over a long period of time, generally the formulas have not spelled out benefits so specifically in relation to wages as have these supplemental unemployment insurance plans.

8/ Comparisons of State Unemployment Insurance Laws as of December 1955, pp. 126-138.

Within certain maximum limitations, these plans in their most prevalent form contain specifications for relating the benefits a worker may receive to a definite percentage of his wages. In these cases, the wages to be compensated are not his "regular," "average," or "gross" earnings, but his "take-home" pay. Generally, this compensation is expressed in terms of 65 percent of take-home pay up to a certain established maximum. This pay usually represents straight-time earnings less legally required deductions. The use of take-home pay in wage loss compensation presents a new approach and one which may reflect trends which have been developing in the wage structure to a more realistic extent than do gross wages.

All of the social insurance programs which have as their common denominator the compensation of wage loss base this compensation for loss of earnings upon gross pay. In consideration of the changing nature of wages, the question arises of whether gross pay is the proper basis or whether some other component of the wage would form a more realistic approach.

4. WAGE FORMS OFFERING POSSIBILITIES AS BASES FOR WAGE LOSS COMPENSATION

The changing nature of job payments gives rise to the question of whether gross wages, the present form used for calculations of wage loss compensation in social insurance, offer the most representative base. Because of the complexities that have entered the wage structure since social insurance was initiated, it is no longer possible to assume that gross wages continue to offer the most appropriate basis for determination of loss. Two other possibilities present themselves for consideration; an examination of these as well as of gross wages in terms of definition and related aspects provides focal points for comparison and evaluation.

Gross wages, the current social insurance approach to wage loss compensation, comprise the direct earnings employers are committed to pay employees in exchange for services. Gross earnings include not only the agreed-upon pay rate--hourly, daily, weekly, monthly--but any regular additions which result from overtime, weekend, or holiday work, shift differentials, cash bonuses, and the like. Gross wages therefore represent the entire money wage for which the employer is regularly obligated. Gross wages do not, however, represent the money earnings the employee receives because certain deductions, statutory and other, are made from these earnings before he is paid in cash.

Statistical data pertaining to these total money earnings are available in some form or other. The Bureau of Labor Statistics maintains a series of average weekly and average hourly earnings of production workers in manufacturing and for certain other industrial classifications. State agencies having contracts with the Bureau of Labor Statistics to collect earnings data also compile and release reports of average weekly and hourly earnings of nonsupervisory employees in manufacturing industries and selected nonmanufacturing groups. Federal Old Age and Survivors' Insurance records furnish information on total and taxable earnings of workers covered under the program. State unemployment insurance records generally yield total and taxable earnings of workers in employment covered by the program. Similar information applies to disability insurance records where such statutory programs exist. State reports relating to some phases of earnings of workers covered by workmen's compensation are obtainable. In California, such records take the form of wages of injured workers.

Statistical series are developed for different purposes and on the basis of availability of information relating to various programs. While considerable overlapping exists in social insurance coverage, differences in coverage and the size of the excluded categories currently present sufficient discrepancies to preclude the construction of an average earnings series applicable to all wage and salaried employment.

Total employee compensation offers an alternative wage base to gross wages for use in computing compensation under social insurance programs. Total employee compensation may be defined as the total wage expense incurred by employers in maintaining a work force. Such compensation includes gross wages paid to employees, statutory payments based on these wages, such as payroll taxes in support of

Federal Old Age and Survivors' Insurance and state unemployment insurance systems, and insurance premiums or self-insurance costs required under state workmen's compensation legislation. Also covered are any contributions made in accordance with union contracts or initiated unilaterally by a company toward such deferred or allocated arrangements as group insurance, pensions, profit sharing plans, supplemental unemployment benefit plans, savings plans, and stock purchase plans. In addition, paid leave for time not worked represents a segment of total compensation. Such compensated leave includes that for vacations, disability, holidays, rest periods, severance, jury duty, and military duty.

In some instances, these wage costs over and above gross wages have been imposed by legislative fiat. In other cases, labor-management agreements and employer initiative have resulted in the diversion of segments of the wage from direct pay to deferred or allocated provisions for employees.

Statistical calculation of total employee compensation presents certain considerations. Average gross wages necessarily would form the base. Payroll taxes for Old Age and Survivors' Insurance are easily calculable for companies covered by the program, since they are established on a level premium basis. Payroll taxes for unemployment insurance vary by company and by state, and average rather than individual experience for companies covered by the program would have to be used. Workmen's compensation costs vary by company experience and state legislative requirements, and some form of average would be required. Nonstatutory wage expenses vary, among other factors, with the profit-making ability of a firm, company policy, union objectives, and the company's situation in labor competition.

Studies that have been made of employee benefit costs offer some basis for estimating total employee compensation. The result of the studies well may present considerable bias, however, because of size of firm, industrial composition, and geographic distribution of companies included in the research. Holding the additions to gross wages to those items required by law might present a more universally applicable and defensible average than would the inclusion of estimates of nongovernmental wage costs. The statutory additions, however, in many instances likely make up the smaller part of the indirect wage cost to employers. Moreover, they represent legislative endeavor to reduce general financial dependency and destitution by means of payroll taxation rather than comprising a part of the wage which employers and employees agree should be diverted from cash pay to some other arrangement.

Spendable earnings provide another alternative approach for determining the wage upon which compensation under social insurance might be based. This wage form is variously known as "spendable earnings," "take-home pay," and "disposable earnings." In terms of definition, such a wage in its most restricted sense may represent gross earnings less legally required deductions. In addition to legislative claims on earnings, deductions also may be required as conditions of employment or may result from employee's voluntary allocation of parts of his wage for various protective or savings arrangements.[9/]

9/ Glossary of Currently Used Wage Terms, Bulletin No. 983, U. S. Department of Labor, Bureau of Labor Statistics (Washington, D. C.: U. S. Government Printing Office, June, 1950), pp. 23, 25.

In considering the feasibility of calculating such a wage, examination of components and methods is indicated. Gross earnings would, of course, form the base for calculation. Beyond the average gross earnings figure, deductions would have to be computed on the basis of assumed averages. The Bureau of Labor Statistics reduces its average weekly earnings figure by federally required tax deductions to arrive at a spendable earnings series (See Appendix, Table 1). According to the Bureau, the series "....furnish a measure of changes in the money amounts available to factory workers from current earnings for spending on goods and services and for personal savings...."[10/] The Division of Labor Statistics and Research, California Department of Industrial Relations, has modified the federal formula to include statutory taxes on workers' earnings as required by the state. Thus, the average weekly wage series for California nonsupervisory wage and salaried workers in manufacturing and other selected industries can be translated into a spendable earnings series. For California, the formula may be similarly applied against wages in employment covered by the Unemployment Insurance Code and wages of injured workers reported under workmen's compensation (See Appendix, Tables 2 and 3).

The use of such formulas of necessity requires the assumption that for income tax purposes all individual earnings on which the

10/ Technical Note on the Calculation and Uses of the Net Spendable Earnings Series, U. S. Department of Labor, Bureau of Labor Statistics (Washington, D. C.: U. S. Government Printing Office, August, 1955), pp. 1-8.

average is based are subject to the same tax rate. Under a company-operated supplemental unemployment benefit plan, the number of exemptions each employee claims is a matter of current record, allowing the making of individual computations. Under a social insurance program, however, with the large number of firms and workers involved, the procurement of such individual information would be administratively unfeasible. Various sociological studies made present evidence, however, which may be sufficient to arrive at an average number of exemptions in computing income tax rates.[11] Recognition should be given to the fact that workers' gross earnings may be subject to deductions other than those required by law. Union dues, group insurance premiums, pension contributions, savings, and stock purchase arrangements are among the many items which may bring down the amount a worker receives in cash.

The attainment of an average spendable earnings estimate which reduces gross wages by more than the statutory deductions would present certain difficulties. Deductions from gross pay for such items as insurance premiums or union dues, while reducing cash pay amounts, usually are classified as personal savings or consumption expenditures. Beyond the technical elements of definition, voluntary allocations of pay ordinarily vary not only company by company but worker by worker. The computation of an average deduction from gross pay in satisfaction

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11/ Jules Bachman, "High Costs of Liberalizing SUB Plans," <u>Harvard Business Review</u>, Vol. 34, No. 6 (November-December, 1956), p. 71.

of nongovernmental requirements or allocations therefore would be open to justifiable challenge.

The acceptance of any of the three kinds of earnings as a basis for wage loss computation involves the making of certain estimates and assumptions. The complexity of these estimates and assumptions necessarily will vary with the particular wage form under consideration. The concept of averages needs to be applied in each of the forms detailed. Averages, of course, present certain disadvantages in that they represent a midpoint between two extremes. For legislative intent in measuring such factors as wage loss, however, separate determinations cannot be made in each individual situation.

Beyond the problem of selecting a representative wage base applicable to the various social insurance programs might be noted the desirability of achieving a universal average which, with appropriate modifications, could be used for any of the programs. At the present time, the construction of such a common average appears limited by the unavailability of employment and earnings data which are consistent among the programs. As social insurance coverage is extended and as statistical reporting programs progress, however, the possibility of constructing such a universal average appears an eventuality. For some time to come, it would seem that the wage base for each social insurance program needs to be established in relation to the specific program involved. The concept of a representative wage form can, however, be applied to all social security arrangements. As indicated earlier, all the statutory programs base wage loss compensation on gross wages. The preceding discussion of gross wages and the alternative approaches, total employee compensation and spendable earnings, offer a framework for evaluating each form in relation to social insurance aims and general economic considerations.

5. ASSESSMENT OF THE VARIOUS WAGE FORMS

Preliminary to the study of comparative values of the separate forms of wages as a base for compensation under social insurance is consideration of the extent of loss the worker experiences. Disruption of wage income may carry a somewhat different connotation for the worker who faces the long-term prospect of employment and wage cessation than for the worker whose job and earnings are only interrupted for a short time. Regardless of whether the loss is of temporary or extended duration, however, one element in common is the cessation of wages and the social need for income continuity. This need for income continuity relates to the amount of money the worker is accustomed to have available for spending and the extent to which his personal expenses may be postponed briefly or adjusted downward over a long period of time. In addition to personal spending and savings aspects, the worker may lose the protection afforded under group insurance arrangements, savings opportunities, and the other financial advantages which may accompany employment.

A feature not involved in the wage loss is the worker's obligation to pay various forms of taxes on his earnings. Since an employer is subject to taxes on his payroll in support of social insurance, neither is the employer obligated for tax contributions on behalf of released workers.

The three wage forms under review--gross wages, total employee compensation, and spendable earnings--are open to consideration as offering possible bases for calculating wage loss compensation. Each form may present certain advantages over the others and also may contain some inherent defects. The evaluation of the relative advantages and disadvantages of the forms in relation to general program objectives and to the specific wage loss that is experienced appears to involve the following three general considerations. One of these relates to the statistical aspects, including the availability of earnings data, the assumptions that need to be made in relation to those data, and the validity of the different computations. Another has to do with the taxation considerations, covering those which relate to the taxes on benefits as compared with those on wages. The third is concerned with the socio-economic implications of the separate wage forms.

The statistical elements involved in arriving at a satisfactory base cover the validity of earnings data which are applicable at least to a particular program. No matter how appropriate a particular wage form may be in terms of definition, if it does not yield valid and defensible calculations it is unusable in reference to wage loss considerations.

Gross earnings data are available program by program in some form or other for use in arriving at usable averages. Total employee compensation, as it has been indicated above, involves the making of certain assumptions. To gross earnings data would first be added an estimate to account for social insurance costs for which the employer is liable. This addition likely could be made on the basis of prevailing average contributions for some programs as well as upon the fixed cost attached to such a program as Federal Old Age and Survivors' Insurance. These wage expenses might range from three to six percent of payroll.

To arrive at an estimated total compensation average, another and perhaps more costly element would have to be added to the combined gross earnings and statutory contributions figure. This element involves all the other forms of indirect wages for which an employer may be obligated. The range in this case is considerably wider than that pertaining to payroll taxes, which have certain established limits. The privately instituted employee compensation amounts other than direct pay differ widely among companies, industries, and regioms. Such a cost may range from one or two percent to over 50 percent of payroll.[12/] Studies indicate that on an average these costs may approximate 17 or 18 percent.[13/] Research in this field, however, has been confined to a relatively small number of companies and generally excludes firms employing less than 100 workers. Whether the general application of an average expense of 17 or 18 percent could be supported is open to considerable question.

Spendable earnings calculations also involve the making of various assumptions. One element serving to reduce gross earnings is the payroll deductions in satisfaction of tax payments on earnings. Formulas as described above have been developed to yield a standardized average proportionate deduction. Considering federal taxation requirements only, the gross average earnings currently would be

12/ Fringe Benefits - 1955 (Washington, D. C.: Economic Research Department, Chamber of Commerce of the United States, 1956), p. 3.

13/ Ibid., p. 10.

reduced by almost nine percent. The addition of California taxation requirements would under present tax policies increase the total tax deduction to approximately 10 percent. Apart from taxation obligations, a worker's gross pay may be reduced further by other contributions subscribed to voluntarily or which constitute a requirement for employment. As has been noted earlier, however, these usually are considered as personal savings or consumption expenditures. In addition, as in the case of employers' contributions to indirect pay, worker allocations of pay segments demonstrate wide variance and thus present considerable difficulty in the construction of a standard average which would be generally representative.

Taxation policies present implications in reference to the establishment of a base for calculating wage loss compensation. Certain taxes are imposed on workers' earnings; also, employers' payrolls are taxed in relation to their employment levels and related factors. Since the taxes are based on earnings and on payrolls, the question arises of the relationship the taxes bear to income continuity arrangements during spells of unemployment. Gross wages are subject to tax while social insurance benefits are not. In this relation, it might be questioned whether the base for wage loss compensation should be related to taxable earnings or to earnings after taxes. Total employee compensation has among its components gross wages which are subject to taxes on workers and also includes employer taxes on payrolls in support of social insurance programs. This wage form, therefore, would be subject to the same kind of question as that raised in reference to gross wages.

Spendable earnings, in that they represent wages after taxes, would provide a base for wage loss compensation in line with the structure of benefits under social insurance. Changes in tax levels are reflected in the spendable earnings figure, while they may not be in the other wage forms. Rather than separate determination of tax levels being possible on individual earnings, however, standardized tax computations would be required. The use of these averages could, of course, have different effects upon different workers' compensation levels.

Socio-economic considerations which present themselves include the relationship of the different wage forms to consumption or spending patterns of workers, the changes that are occurring in employee compensation, and individual worker equities. Evaluation of the separate wage forms in these respects should be made against the current and prospective economic outlook. Assumed are the steady extension of an industrialized, urban society, an expanding economy, a rising population and labor force, and a continuance of high tax rates.

Gross wages, under present and anticipated economic conditions, represent an artifical wage standard. Such earnings constitute an overstatement of workers' cash earnings and an understatement of employers' total compensation costs. While this wage form once was closely related to the cash wages workers received and essentially represented total compensation, changes that have occurred in the wage structure during the past several years make it an unrealistic figure. From the standpoint of consumer consumption, this wage form represents a figure considerably in excess of the cash earnings workers have available for spending on goods and services and for private savings.

In terms of total compensation, the gross wage falls short of the direct and indirect wage components. The amounts of pay that are allocated or deferred as protective devices are not reflected in this wage base.

Total employee compensation includes both the gross wage and the employer contributions in behalf of workers to various statutory and privately initiated programs which protect the employees against different kinds of risks or which provide workers with various forms of deferred income. The spread in the proportion of compensation represented in the indirect pay categories has resulted in large part from income taxation policies. Since tax rates on personal incomes are expected to remain high in the foreseeable future, those facets of pay outside the direct earnings can be anticipated to remain a significant component of employment compensation for many years to come.

Because of the split in earnings between direct and indirect factors, there is some economic and social justification for considering the basing of wage loss compensation on the total wage expense. Workers, for example, may agree to take a somewhat lower increase in direct pay in return for the establishment of such indirect forms of compensation as a paid vacation plan or a pension program. Such bargaining carries implications in reference to consumer consumption. If the workers had preferred instead to receive the added wage in the form of direct pay, their cash available for current spending or individual savings would have been greater than that under the allocation. The workers' additional cash for private spending or savings would not have been as great as the amount allocated, however, since taxation would have absorbed some of the direct pay increase. Many segments of indirect pay do accrue to the individual workers in that they may provide the employees with such advantages as vested retirement rights or life and health insurance protection. While some parts of indirect pay have been diverted from direct wages by employer-employee agreement, other segments of this wage form come about as a result of legislation. The financing of social insurance programs is accomplished by taxes on payrolls. While these taxes comprise part of the total wage expense, they exist outside the private wage contract. The question well might be raised as to whether these taxes would be diverted to any form of the employee's wage if the social insurance programs did not exist.

Spendable earnings in comprising the cash wage available to the workers represents the amounts employees currently have for private purchasing and saving. In reference to consumer consumption, these take-home wages constitute what the workers have for individual spending. Such wages, therefore, bear a direct relationship to consumer purchasing power. The development of the take-home pay concept is, like total employee compensation, an outgrowth of the growing complexity of the wage structure. In comprising that segment of the wage structure which results in net cash to the workers, it reflects the influence income taxation and other socio-economic developments have had on wage developments. Spendable earnings represent the satisfaction of obligatory taxes on earnings.

On balance, among the three wage forms considered, it would appear that spendable earnings afford the most realistic approach to establishing a base for wage loss compensation. Spendable earnings in this context cover the wages that workers have available for spending after statutory obligations have been satisfied. In terms of consumer consumption, spendable wages more nearly approach the workers' spending patterns than do either of the other forms of wages. Gross pay overstates the cash a worker has available for personal spending and saving. Total employee compensation comprises some elements of the wage which if they had not been deferred or allocated would have resulted in somewhat higher cash pay. This wage concept also includes other components, however, which if not so spent do not represent alternatives to direct pay and which likely would not be directed toward cash earnings.

Spendable or take-home pay can, by means of certain, recognized assumptions, be calculated to yield acceptable earnings averages as long as the assumed deductions from gross pay are held to those prescribed by law. While estimates of average gross wages also can be obtained and with considerably more relative ease, the results are unrepresentative in the present economic context. Total employee compensation presents many substantive and calculating problems in terms of obtaining a representative and valid set of averages. It is doubtful in the present state of knowledge whether a competent approach to calculating average total compensation could be devised.

Take-home pay represents spendable earnings to the worker after tax obligations have been met; moreover, such a wage form reflects changes in taxation levels. In the case of gross pay, that part of a worker's earnings which is subject to tax comprises a part of his wage; it would not appear, however, that that part needs to be compensated in a wage loss program. Total employee compensation similarly includes taxable earnings as well as covering tax obligations of the employer on workers' earnings.

In terms of representing the concept of wage loss, spendable earnings seem to comprise the most acceptable wage form of the three. This wage reflects the worker's spending patterns and relates to consumer purchasing levels. Total employee compensation contains some elements which represent the deferred or allocated part of a wage which if not so disposed of would have been represented in some part in the direct wage. Other segments of this total wage, however, likely would not have resulted in direct cash pay. Although recognizing the diversion of direct pay to other aspects of compensation, the calculation of such indirect factors presents problems in terms of justifiable assumptions. Too, there is the question of whether wage loss compensation should be based on consumption patterns or upon all elements of the wage expense. The gross wage, the current base for wage loss compensation, no longer is meaningful in terms of either consumer consumption or of total employee compensation.

6. RELATIONSHIP OF WAGE LOSS COMPENSATION TO EARNINGS

The base for wage loss compensation has come, in the course of the changing nature of wages, to be a source of confusion and contention in considerations arising out of the legislation and administration of social insurance programs. The aim in assessing the value of the possible wage forms has been that of attempting to determine what the worker loses when wage income is interrupted. Out of this determination, it is intended to put forth a wage form which makes sense in the current and prospective economic situation within which the programs operate.

While the base should reflect the wage loss that is experienced, the important aspect of social insurance is what the worker gets in spendable dollars. The social insurance programs are intended to furnish the basic floor of protection. The benefit awards, therefore, should be sufficiently high to allay destitution and dependency. The benefit formula has two major aspects which determine the amounts workers are awarded in spendable dollars. One of these is the base which is used to represent the extent of loss. Equally important is the rate of compensation that is applied to that base.

The base for wage loss compensation should be representative of the loss and therefore, rather than being regarded as a permanent or static figure, should be modified to reflect economic changes. The rate of compensation, since it determines the benefit awards in reference to the wage base needs to be considered whenever a wage base is changed. The rate should be kept in line with social objectives because program distortion results when an unequitable proportion of the wage is compensated.

APPENDIX

Table 1

AVERAGE WEEKLY EARNINGS, GROSS AND NET SPENDABLE, OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRIES

Year[a]	Gross	Average Weekly Earnings — Net Spendable Earnings[b] — Amount: Worker with no dependents	Amount: Worker with 3 dependents	As Percent of Gross: Worker with no dependents	As Percent of Gross: Worker with 3 dependents
1939	$ 23.86	$ 23.58	$ 23.62	98.8	99.0
1940	25.20	24.69	24.95	98.0	99.0
1941	29.58	28.05	29.28	94.8	99.0
1942	36.65	31.77	36.28	86.7	99.0
1943	43.14	36.01	41.39	83.5	95.9
1944	46.08	38.29	44.06	83.1	95.6
1945	44.39	36.97	42.74	83.3	96.3
1946	43.82	37.72	43.20	86.1	98.6
1947	49.97	42.76	48.24	85.6	96.5
1948	54.14	47.43	53.17	87.6	98.2
1949	54.92	48.09	53.83	87.6	98.0
1950	59.33	51.09	57.21	86.1	96.4
1951	64.71	54.04	61.28	83.5	94.7
1952	67.97	55.66	63.62	81.9	93.6
1953	71.69	58.54	66.58	81.7	92.9
1954	71.86	59.55	66.78	82.9	92.9
1955	76.52	63.15	70.45	82.5	92.1
1956	80.19	66.02	73.38	82.3	91.5

a/ Average for the year.

b/ Net spendable average weekly earnings are obtained by deducting from gross average weekly earnings, federal social security and income taxes for which worker is liable.

Source: Table C-3, Monthly Labor Review, Vol. 80, No. 3, March, 1957.

APPENDIX

Table 2

AVERAGE WEEKLY EARNINGS, GROSS AND NET SPENDABLE, FOR EMPLOYMENT COVERED BY THE CALIFORNIA UNEMPLOYMENT INSURANCE CODE, WORKER WITH 3 DEPENDENTS

Year	Average Weekly Wage		Net Spendable as Percent of Gross
	Gross[a]	Net Spendable[b]	
November 1948	$ 65.71	$ 63.55	96.7
November 1949	65.78	62.45	94.9
November 1950	70.28	65.42	93.1
November 1951	74.76	68.45	91.6
September 1952	74.17	67.98	91.7
September 1953	78.39	71.36	91.0
September 1954	80.37	73.17	91.0
September 1955	85.53	77.47	90.6
September 1956[c]	89.96	80.59	89.6

a/ Gross average weekly earnings are derived by dividing the total quarterly wages by the number of employees earning wages during the pay period ending nearest the 15th of the designated month to obtain a figure of average quarterly earnings. This figure in turn is divided by 13 (the number of weeks in a quarter) to obtain a result of average weekly earnings.

b/ Net spendable average weekly earnings are derived by deducting from gross average weekly earnings the federal social security and income taxes and the state disability insurance and state income taxes.

c/ Preliminary

Source: California Department of Employment Report No. 127; the California Department of Industrial Relations formula was used to reduce gross earnings to net spendable earnings.

APPENDIX

Table 3

AVERAGE WEEKLY EARNINGS, GROSS AND NET SPENDABLE, FOR AN INJURED CALIFORNIA WORKER WITH 3 DEPENDENTS

Year	Average Weekly Wage		Net Spendable as Percent of Gross
	Gross	Net Spendable[a/]	
November 1948	$ 64.12	$ 61.04	95.2
November 1949	63.94	60.89	95.2
November 1950	66.87	62.62	93.6
November 1951	72.12	66.34	92.0
September 1952	76.50	69.85	91.3
September 1953	79.86	72.53	90.8
September 1954	80.32	73.13	91.0
September 1955	83.49	75.49	90.4
September 1956	87.68	78.94	90.0

a/ Net spendable average weekly earnings are derived by deducting from gross average weekly earnings the federal social security and income taxes and the state disability insurance and income taxes for which the worker is liable.

Source: California Department of Industrial Relations, Division of Labor Statistics and Research, "Weekly Wages of Injured Workers in California," and formula for reducing gross wages to net spendable earnings.

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of Discussions at Workshop on

NEW AREAS OF SUPPLEMENTAL COMPENSATION

The Growth of Supplemental Benefits. The proliferation of supplemental benefits in the last two decades is of decisive importance to the whole picture of compensation. Even so, it was pointed out, benefits in the United States is dwarfed by the fringe payments in other countries. Medical care and pension payments extending to the whole family of the employee are not unusual in Europe and South America. In fact, foreign supplemental benefits often extend to 100% and more of the basic wage rate.

The Role of Management in Compensation. One of the basic issues brought out early in the discussion concerns the point at which the substitution of group decision for individual decision must stop. This refers to the compulsory deduction of benefits from the employees pay. It was mentioned in this connection that although demands for newer and greater benefits continue to increase, there exists a failure to recognize the unique and different needs of each individual employee.

Uniform deductions fall upon employees and in a differential manner. Many individual employees would desire to do their own financial planning instead of having economic decision made for them, made against their will, and not made in their best interests.

Ostensibly, it would be profitable for a firm to avoid many of these "nuisance deductions" by merely providing the employee with the compensation necessary to provide his own needs as he sees them.

The contrary view was held by several discussants in pointing out that many of these benefits may aid the company as well; (1) in retaining good personnel, by provisions for generous pensions, and (2) in preventing unnecessary legal costs, by avoiding expensive court actions now cared for by Workmen's Compensation insurance.

It was also emphasized that corporations have a social responsibility that they have not exerted vigorously enough. There is a great need for more leadership, now provided chiefly by labor unions, in fulfilling the social needs of employees for the expanding necessities of life. In this context, it is the challenge of management to keep pace with the prevailing economic climate.

The Problem of Wages and Wage Expense. The issue posed as a question was, "how long can increasing and new types of benefits be added to wage expense?" It must be noted that total wage expense is limited by productivity, profits, administrative overhead, etc. It was mentioned that reality imposes certain limits upon what an employer can do to stabilize wage expense. That is to say, the framework of collective bargaining provides the limitations for most employers as to what they are able to do in offering social benefits to their employees.

It was suggested that during collective bargaining sessions management might well consider the entire compensation package, the total wage cost involved, and refuse to allow the dichotomy of supplemental items from other wage expense. The need here appears to be consideration of the total concept of wage compensation, inextricably binding together basic wage rates, personnel costs, and supplemental benefits -- instead of fragmentation.

The feeling was expressed that management is guilty of hindsight research on supplemental compensation instead of attempting to discover the needs and desires of employees before they make their demands. A need exists for anticipatory personnel administration. Continuing in this vein several members of the workshop expressed the need for management to give greater attention to communication. It is a problem of letting employees know what wage expense and the cost of supplemental compensation translated into real wages means to them.

Small Firms and Supplemental Compensation. It was noted, during the course of workshop discussions, that smaller firms have a terrific problem in being forced to compete with the larger companies in the field of fringe benefits -- a compulsion which is making survival difficult. One possibility mentioned at this point was that of divulging the company's entire financial status to the bargaining group. This can give the union a better understanding of management difficulties in compensation and encourage the union conferees to be more willing to make a settlement below the industry pattern.

Summary. It was noted that collective bargaining is here to stay and employers must work through its framework to achieve their goals. Although this is a great limitation, management still has a choice in the ways it can bargain and the things it can bargain for. It might be very desirable to negotiate on the basis of the costs involved in total compensation.

There is much confusion in management in naming some benefits and wage costs as wages and excluding others from this category. Essentially, the issue is whether to put total wage costs in the forefront or not; and what difference such an emphasis will make to management. In other words, "how can total wage cost be divided, even without an increase of the total concept of compensation." The need remains for management to be agressive and far-sighted in its analysis of the compensation picture.

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W O R K S H O P   S E S S I O N

COMPENSATION PROBLEMS OF THE SMALL AND MEDIUM-SIZED FIRM

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SOME COMPENSATION PROBLEMS OF THE "SMEDIUM-SIZED" FIRM

by

Wilbert L. Hindman
Discussion Leader

We could spend the entire workshop session worrying the bone of definition. Economists do it. Congress does it. The Small Business Administration does it. What, precisely, is a small or a medium-sized firm?

Today the truly tiny outfit isn't likely to be represented at a conference like ours. The wee enterpriser is so busy trying to do all those things we shall comfortably contemplate that he can't leave his shop to enjoy the somewhat rarified atmosphere of a Yosemite get-together. But we have an answer and an out. Just as they say to professors, "If you're so smart, why ain't you rich?" so they say to the Minute Men of business, "If you're so good, why ain't you big?"

If we actually represented a considerable number of the genuinely small units of the population of four million firms, I would suggest we refer to our area of consideration as the "smadium-sized" firm. However, with the representation clearly in favor of somewhat larger units, "smedium-sized" seems about right as an item of verbal economy.

But let's be a little more exact. In a current ad, General Motors tells us that 22,500 of its 26,000 suppliers are small business units with "fewer than 500 employees." Most of them, it says, are "very small businesses, employing less than 100 persons." So medium business in G. M.'s eyes would apparently embrace payrolls from 500 up, and we won't worry too much about the ceiling except to note that when we reach 10,00 we are in the company of the 260 largest corporations, who hire a quarter of our nonfarm work force. So if anyone here represents a hirer of 10,000 or more, he's in the wrong workshop. All others may remain.

Which brings us to the first area of inquiry. Is the smedium-sized firm at the mercy of the wage decisions of big enterprise and the wage policies of big government? Is it merely part of a great herd drifting along behind the bellwethers? This analogy flatters no one, for a bellwether is commonly a goat. So we are asking, is the docile lamb meekly following the big goats?

There are some who think that a projection of the trend line in big wage decisions indicates that a few years more will find us with the no-hour week, the guaranteed lifetime pre-induction retirement plan, and such extras as binge benefits to cover pay lost by those who stay home from work with hangovers. This is perhaps fanciful, but the American Management Association was recently told that unions have already indicated goals in the next few years which include wage increases of about 50% by 1966, welfare benefits paid entirely by management, a reduction of the retirement age to 60 for men and 55 for women, and pension and social security benefits to $300 a month. And while you may smile at the binge benefits, a lot of you know very well you are paying them right now, only under some other name.

It is not my role here to try to tell you what is or isn't so in these problem areas. I merely ask, is it true that little business is living on the scraps--a kind of pilot-fish for the shark, living on the leavings, setting wages by pressures of big decision? Or is there real latitude and discretion in the area of wage determination occupied by the smaller enterprise? And if there is some area of free decision open, how does the smaller business use it in determining compensation policy?

A second question relates to the efficiency of small business. Is it generally or inevitably true that the little concern is less efficient, because it lacks such things as "economy of scale?" This is an acute issue today, with substantial evidence that wage costs in general are at long last overtaking productivity increases. The report filed last month with the Joint Economic Committee of Congress, prepared by a Bureau of Labor Statistics expert, has received considerable prominence and quite varied interpretations. The New York Times headlined it as showing: "Inflation Linked to Pay Increases in New U.S. Study." Business Week, however, said it indicated: "Productivity Gains Outran Wage Rises for Most of Postwar Period, Says BLS." What is clear, however, is: (1) in the five years prior to 1956, productivity did outgain wages, so we had chiefly a demand inflation; (2) for some time now, wages have outrun productivity on the average, bringing us to the cost inflation which many people have been worrying about for a long time; and (3) in some industries productivity is still keeping its lead, but in many areas wages are ranging far ahead of productivity gains. Is it, then, in the realm of the smedium-sized business that wage costs are closing in on profits most dramatically? Or are there additional prospects for efficiency increases among such firms? And what happens when the smaller business tackles this challenge of productivity? If it attempts to increase production rates, for example, is it in a better or worse position than, say, Chrysler is in tackling this touchy task?

Third, is the smedium-sized firm getting into trouble by making impracticable and haphazard fringe concessions as an alternative to higher direct wage increases? Is it granting fringes in terms of some related *quid pro quo* from employees or in terms of fairly precise advantages in public relations and so on, or is this just a matter of drifting along with the tide? And the tide is running strong. The BLS tells us that "1956 witnessed greater average wage-rate increases than did 1955, and in addition, a larger proportion of the 1956 negotiations provided for changes in supplementary benefits. Thus, three out of four of the 1956 agreements (compared with two out of three of the 1955 contracts) liberalized supplementary benefits." Since this was the picture for the larger units in the business population, what is the implication for the small firm? The accompanying article by Crisafulli and Sufrin suggests that the fringe forest is in need of better planting and pruning if it is to provide a maximum yield.

A fourth issue related to compensation is the competition for management manpower. Looking at a recent report on management income among the big corporations, headed last year by Bethlehem's Grace with $809,000, it is evident that small business cannot very well compete for top talent on a strictly monetary level. But as we consider such works as Whyte's *The Organization Man*, it appears very possible that the small firm may enjoy some kind of competitive advantage in being able to offer a more satisfying way of executive life, earlier in the game, than is possible within the framework of the big corporation. Indeed, in the small business one may theoretically reach Marquand's "point of no return" and find it a better rounded role than in the upper reaches of big business. But does the smaller firm make the most of its case for role satisfaction?

And along this line, do the smaller companies do an adequate job of recruiting and developing junior management potential? I am sure that many capable young men from our colleges go into the glamorized big corporation training programs who would be happier in the smaller shop. It is certainly true that there are men whose personalities are geared to the way of bigness, and these people properly commit themselves to the corporate way. But there are other and equally desirable personality configurations which will find the small enterprise the place of best fit. But does the smedium-sized firm do an adequate job in presenting its case, and in opening avenues of contact with the competent young people from our universities?

Fifth and perhaps most fundamentally, does the enterprise under consideration here utilize all that is fruitful in the way of rational and updated method in determining its wage structure? Gray's "custom made" approach described in our workbook is an illustration of the sort of thing which can be used to set up a basic wage program. When does a business find such a procedure appropriate? Is this superior to the easier way of adopting a manual worked out by someone else—and often by someone a lot bigger? What is the sensible course to plot through the wage reefs? But this, of course, brings us back to our first inquiry—how much independence does the smaller enterprise enjoy in wage-setting?

With this circle of inquiry complete, let's open the discussion and get everyone in our shop to work.

CUSTOM MADE SYSTEMS OF JOB EVALUATION*

by

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Jobs have been evaluated since the beginning of employment but only in the last 25 years have any attempts been made to do this systematically. The term "job evaluation" now designates a systematic[1] attempt to weigh separately the worth of various elements or factors which constitute a job. This evaluation may be in money values (factor comparison), or point values (point systems), or some form of over-all classification. It is (or should be) preceded by job analysis, which also has been systematized in recent years. In other words, the trend in job evaluation and its concomitant activities has been toward systematization, with the assumption that more system will somehow result in greater validity.

This article presents one method of validating systems of job evaluation by elementary statistical procedure. Assuming that job evaluation is the determination of relative job values (i.e., the equitable distribution of a payroll--large or small) within an establishment, two other foundation theses are here presented. First, relative job values can be determined best by evaluating only those factors which are variables. If a factor exists in equal amount in all jobs being evaluated in an establishment, it is useless as a means of determining relative job values. This means that factors peculiar to an establishment must be used in evaluating jobs in that establishment. In other words custom made systems of job evaluation must be developed to fit each new job evaluation situation.

Second, the validity of any system of job evaluation (except factor comparison) can be determined by comparing its evaluation of key jobs with the wages already carried by those jobs. This means that when jobs are evaluated in points, the percentage of points as well as the percentage of wages for each key job can be calculated. It is then an easy matter to calculate the significance of the difference between the percentage of points and the percentage of wages carried by each of the key jobs.

On the basis of these assumptions the writer has developed and validated custom made systems of job evaluation for establishments in

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1The word "scientific" is often erroneously used instead.

both steel and textile industries and for the non-academic jobs in all 16 institutions of the University System in Georgia. In each case, a job evaluation system was developed to fit the peculiarities of the situation. It was then tested on key jobs and modified until it evaluated these properly. In the industrial situations, two lists of key jobs were used to double-test the validity of the system.

The procedure used may be described in seven steps:

1. All jobs to be evaluated are first carefully analyzed and described. Any thorough schedule of job analysis is appropriate but the one developed by the War Manpower Commission and reported in the Training and Reference Manual for Job Analysis, U. S. Printing Office, 1944 is recommended. Too often job evaluators study only those factors included in their ready made system and ignore other important aspects of a job. When a job is analyzed before the evaluation factors are known, the analysis is likely to be more thorough and more appropriate for other uses, such as employment, training, etc.

2. The next step is a careful analysis of the job analyses to discover the important variables which are to become the evaluation factors. Some of the standard factors—working conditions, experience, hazards, physical effort—are investigated to see if they differentiate jobs from each other. If they are fairly uniform from job to job they are not used as evaluation factors. The number of factors that are used depends on the number of differentiating characteristics. Frequency tables are made for each factor investigated.

3. The differentiating factors thus discovered are then assigned basic weights according to the estimated importance of each. The writer arbitrarily uses 100 as the total basic weight for all factors. The value of each factor is then the per cent of its importance in relation to other factors. This constitutes the value of the first degree. Higher degrees are arithmetically increased by multiplying this base value by the degree number. Thus factor A (perhaps working conditions) may carry a weight of 10 as a base (first degree) and 20, 30, 40, etc. for higher degrees. This means that if the first degrees of all factors total 100, the second degrees will total 200, the third 300, etc. Most point systems of job evaluation determine factor and degree weights in this way. Illustrative weights are given in Table 1.

A part of the weighting step in developing a custom made system of job evaluation, and yet a part that should come only after the weighting has been completed, is the development of a manual. Each factor must be carefully defined, as well as each degree under each factor. A job evaluation manual is intended to be used as a guide so that the rating of jobs will not be difficult. How much of a trait a job may have should be easily decided by referring to the manual. Job evaluation manuals should be written in the most simple yet the most exact language possible. They should be brief yet not ambiguous. The various key jobs can be added later as typical examples of the degree meaning of each factor.

4. The fourth step is to select 15 or 20 key or bench mark jobs, that is, jobs which already carry proper pay rates. These may be selected in various ways, but it is well to have an advisory committee

composed of individuals who are intimately acquainted with the jobs to be evaluated.[2] Men who have worked in an establishment for years are better able to select key jobs than is a job evaluator who has only a short and incomplete knowledge of job duties and even less acquaintance with pay rates. These key jobs should be representative of all the jobs to be evaluated. If some department has no job that is properly paid, in the opinion of the committee, a typical job can be selected and a fair wage assigned to it even though the actual wages are higher or lower. A key job with a hypothetical fair wage is just as good as one with an actual fair wage. With this system, jobs can be evaluated only as accurately as the rates on key jobs are accurate.

5. Obviously the next step is to evaluate key jobs, using the table of factors and weights as developed in Step 3. When the total point value of each key job is determined, a table of evaluation points and wages should be constructed. See Table 2, columns 2 and 4. Then the per cent of total evaluation points as well as the per cent of total wages should be calculated for each key job. See Table 2, columns 3 and 5. The difference between the percentage of total evaluation points and the percentage of total wages carried by a job indicates the accuracy of the job evaluation. See Table 2, column 6. The statistical significance of this percentage difference should then be calculated. See Table 2, column 7. If this difference is significant, it is evidence that the job is not accurately evaluated and the table of factor weights must be adjusted. Only when all key jobs are evaluated in such a way that no difference between percentage of total evaluation points and percentage of total wages is statistically significant can the evaluation system be called valid.

6. It is well to double check a job evaluation system, especially if the point values of factors and degrees had to be juggled repeatedly to fit the key jobs. This necessitates a second list of key jobs chosen with the same care as the first. The jobs should be evaluated and a table constructed as described in Step 5. Again, if the differences between per cent of total points and per cent of total wages are great enough to be statistically significant, the evaluation system is not yet valid. Only when a job evaluation system justifies the wages of the key jobs can it be said to be valid enough to justify using it to evaluate other jobs which carry wage rates that may be too high, or too low, or just right.

7. The final step is to evaluate other jobs in the plant for which the system has been designed.[3] This means the preparation of an

[2]Both management and labor should be represented on this committee. It can be used later to advise regarding the evaluation of more difficult and complex jobs.

[3]It must be remembered, however, that a custom made system of job evaluation is known to be appropriate for use with jobs typical of those represented in the key job sample. It may or may not fit jobs with different characteristics. If a group of jobs are found to be different from any one of the key jobs, it is then advisable to select the most typical one of them and add it to the other key jobs. This necessitates a repetition of

evaluation sheet for each job, a summary sheet showing the factor weights for all jobs, and a double entry graph showing the point values and present wage rates of all jobs. These results are then presented to the evaluation committee for their review and recommendations. These final steps are no different from those of any other job evaluation system.

SUMMARY

Two innovations in job evaluation have been proposed in this paper. First, jobs are relatively evaluated by factors that represent differentiating characteristics between them. Ready made systems of job evaluation seldom fit because their factors do not differentiate between jobs. Valid job evaluation systems must fit the jobs being evaluated. Second, systems of job evaluation can be validated by computing the statistical significance of the differences between the evaluation of key jobs and the wage rates they carry. Key jobs are defined as those that already carry proper wage rates. When properly paid jobs are properly evaluated the evaluating system is then valid.

[3](continued) Steps 4 and 5 and completely reworking the data tables. Often when jobs are greatly varied, it is necessary to develop more than one system of job evaluation. A system appropriate for evaluating production jobs is seldom appropriate for evaluating clerical jobs, or managerial jobs, or technical jobs. Different types of jobs are differentiated by different variables and should be evaluated by the use of appropriate factors.

TABLE 1

Factor and Degree Weights for a System of Job Evaluation

	Degrees				
	I	II	III	IV	V
1. Education	10	20	30	40	50
2. Experience	20	40	60	80	100
3. Physical Effort	10	20	30	40	50
4. Mental Effort	10	20	30	40	50
5. Working Conditions	10	20	30	40	50
6. Hazards	10	20	30	40	50
7. Responsibility for Safety	15	30	45	60	75
8. Tools, Materials, Equipment	15	30	45	60	75

TABLE 2

Key Jobs with Wage and Point Values

Jobs	Evaluation Points	Per Cent of Total	Hourly Wage	Per Cent of Total	Difference	S.D. of Difference	Difference / S.D. of Difference
Die Sinker A.	348	10.3	$1.95	10.5	0.2	.71	0.28
Hammersmith(Steam)	321	9.5	1.75	9.4	0.1	.68	0.15
Millwright(Maintenance)	305	9.0	1.65	8.9	0.1	.66	0.15
Machinist(Maintenance)	286	8.4	1.55	8.3	0.1	.64	0.16
Shaper Operator	275	8.1	1.50	8.1	0.0	---	---
Crane Hitcher	260	7.7	1.45	7.8	0.1	.62	0.16
Grinder(Cutters)	241	7.1	1.30	7.0	0.1	.59	0.17
Inspector(Bench)	229	6.8	1.25	6.7	0.1	.58	0.17
Scale Blower(Forge)	214	6.3	1.18	6.4	0.1	.57	0.17
Furnace Unloader	204	6.0	1.10	5.9	0.1	.55	0.18
Roll Mill Helper	190	5.6	1.05	5.7	0.1	.54	0.18
Tester(Brinell)	179	5.3	1.00	5.4	0.1	.53	0.19
Drill Press Opr.	172	5.1	0.95	5.1	0.0	---	---
Straightener	164	4.8	0.90	4.8	0.0	---	---
Total	3388	100.0	$18.58	100.0			

June 8, 1957
Yosemite

NINTH ANNUAL SUMMER
MANAGEMENT CONFERENCE

Proceedings of Discussions at Workshop on

COMPENSATION PROBLEMS OF THE SMALL AND MEDIUM-SIZED FIRM

Dimensions of a Major Economic Problem

Much concern was expressed about the difficult position occupied by the small enterprise in terms of its inability to:

1. Obtain profit rates comparable to large firms.

2. Pass increased labor costs along to the customer as its bigger brethen seem able to do.

3. Bargain with unions for contracts that depart from national patterns as appears economically equitable.

The squeeze on profit margins of small firms is becoming tighter as wage and fringe benefit demands keep going up in the face of productivity that at best increases at a rate substantially less than that for the durable goods manufacturing industry, for example. Comment was made that companies without unions share in this plight because they still tend to set wage rates and fringes on a basis comparable to like unionized firms in their industry. However, the nonunion firms obviously enjoy a flexibility in their decisions not possible under union contracts, and thus they can tailor a compensation package to their particular needs if they make wise use of this flexibility. Skillful negotiation by unionized firms can also lead to helpful modifications of wage patterns set in big industries.

It was brought home in the Workshop's second session that neither big unions nor giant-sized companies consider the impact on small business of the contracts which they negotiate. But their self-interested actions may be no more unusual or blameworthy than the actions which small firms take to their own immediate advantage. In fact, it is probably futile to ask big unions to pull their punches or to urge big business to steadfastly resist wage pressures, either on behalf of small business or as an aid to the economy as a whole.

The conferees discussed the several routes which seem open for small business to follow in finding its way out of the dilemma posed by the above considerations.

The obvious first answer appears to be "constantly search for ways to increase productivity." The pressure is upon management to improve methods and reduce costs on every front. For the small business some of the most significant improvements may lie in marketing techniques.

Too, small business enjoys peculiar opportunities for more productive labor relations than is true of the industrial giants. For example, in the small firm relatively fewer grievances and far less union politics should prevail, and preferential treatment has been obtained from unions by small firms whose managements have developed skill in countering union demands.

Too many presidents of small business, it was suggested, are overly fearful of a strike. These chief executives act hastily in the belief that it is a matter of "sign-off or take a strike," when in reality the unions may be quite willing to make special concessions to the small firm and unwilling to go to the trouble of striking. In the Workshop's second session, it was felt that, generally speaking, differentials from an industry pattern can often be won if the small firm's management has the bargaining skill and the intestinal fortitude to hold out. Perhaps the small business executive especially fears strikes because he often is the owner as well as the manager.

Another suggestion was to seek to base fringe benefits like pensions upon company profits, instead of undertaking these as fixed cost obligations.

It was also proposed that the small companies within an industry band together to unify and strengthen their collective bargaining position, and to exchange relevant information in this field.

One example was cited of small companies within a national industry effectively participating along with the giants in the planning and conducting of industry-wide bargaining, and it was suggested that ways and means be devised to give the small enterprise a more regular role in such bargaining.

Fairly regular informal discussions with union representatives between contract openings was put forward as a means of obtaining union appreciation of the firm's problems, ability to pay, and position on the issues subject to bargaining. A case history cited demonstrated that such a procedure resulted in union contracts departing in important ways from the industry pattern prevailing in the same geographical area.

While confronted with the sizeable problems of negotiating with big unions, the conferees also found room to examine their relationships with big companies. As one man put it, "Are giant firms just permitting small competitors to exist but not grow?" Does it remain for small companies to stay alive by always straining to develop new products and efficiencies, was the follow-up question, and when this struggle proves unsuccessful, to be absorbed by the successful giant?

Executive Compensation and Training

In a rapidly expanding small firm it is particularly difficult to establish appropriate intra-plant and inter-plant compensation relationships for upper management positions. The American Management Association's Executive Compensation Service (Top Management and Middle Management Surveys) provides a point of departure, revealing a pattern for setting executive salaries on per cent relationships to the president's salary. Local practices and the firm's wage structure for first level supervisors and non-salaried employees also influence the decisions on managerial compensation.

More an exception than a general practice is one firm's interesting plan for relating executive income to company profit, with the amount of basic straight salary being relatively nominal.

There was strong feeling that small firms enjoy certain real potential advantages in "on-the-job" general-manager training that are missing in large corporations. More effective planning of this training was singled out as a way to achieve maximum benefit from this potential.

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