DOUBLE OVERTIME PAY

Statement by

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representing

Automobile Manufacturers Association

before

Joint Committee of General Subcommittee on Labor and Select Subcommittee on Labor of the Committee on Education and Labor

on H.R. 9802, "The Overtime Penalty Pay Act of 1964"

WASHINGTON, D.C., FEBRUARY 28, 1964

MY name is Theodore O. Yntema. I am a Vice President of Ford Motor Company and Chairman of its Finance Committee. I serve on a number of economic policy committees of the Automobile Manufacturers Association.

In my appearance today I represent the Automobile Manufacturers Association which embraces all major producers of motor vehicles in the United States.

I have with me Mr. C. L. Bryan, Director of Labor Relations, The White Motor Company; Mr. Edward L. Cushman, Vice President, American Motors Corporation; Mr. Malcolm L. Denise, Vice President—Labor Relations, Ford Motor Company; Mr. William M. O'Brien, Vice President and Director of Personnel, Chrysler Corporation; and Mr. Louis G. Seaton, Vice President in charge of Personnel Staff, General Motors Corporation. They are members of the Manufacturers Committee of the AMA.

My competence lies mainly in economics and financial affairs. Before joining Ford Motor Company in 1949 I served on the faculty of the University of Chicago and since have continued to be active in the work of the Committee for Economic Development. My associates are able to speak from broad experience in labor relations and personnel matters in automotive operations.

At the outset I should like to make it clear that when I use the phrase "motor vehicle industry" or "auto industry," I should not be understood as using the term "industry" as it is employed in H.R. 9802. Neither the AMA nor I know what that word embraces as it is used in the bill. I shall develop this point later in my statement.

We are intensely interested in the expansion of our economy and the provision of more job opportunities. In the recent history of this country, no other industry has contributed so much to these ends. Starting from scratch in the early 1900's, the transportation of persons and goods by automobile and truck has grown until it now represents more than 15% of the total gross national product of this country. Although an exact employment count is not available, more than ten million workers, perhaps as many as twelve million, are engaged in providing automotive transportation of persons and goods—employment made possible by the development, production and marketing of our products.

We are interested in the expansion of employment and production because we know the strength of our nation and the soundness of our economic system depend on it. We are also interested in the expansion of employment and production because the health and growth of our automotive industry—and this includes our employes and suppliers, as well as shareholders—are dependent upon such expansion.

In our presentation we shall show what has been accomplished to provide more stable, well-paid jobs for our employes, in spite of great difficulties peculiar to our industry.

H.R. 9802 provides for increasing overtime penalties to 100% or more, after study and recommendation by tripartite committees, at the discretion of the Secretary of Labor.

In the testimony of the Secretary and in his prepared statement there were a number of matters on which I should like to comment.

1. The Secretary stated that overtime has increased in recent years. His Table I, however, shows that overtime (more accurately, premium time) in manufacturing actually decreased from 37,620,000 hours per week in 1956 to 35,240,000 hours per week in 1963. Per person employed, premium time was the same in 1956 and 1963—2.8 hours per week.

Comparisons of 1963 with 1957 or 1960, such as he made, are invalid because 1963 was a period of rising production and employment, while 1957 and 1960 were periods of declining production and employment. In the expansion phase of the cycle overtime is always abnormally high, and in the contraction phase it is abnormally low.

2. When the Secretary invoked the precedent of the Fair Labor Standards Act of 1938 he did not indicate whether it helped improve the unemployment situation. From the record it is hard to see that it did. Unemployment continued to stay above 15% until in 1940, when the European and United States military expenditures began to have a large expansionary effect.

The Fair Labor Standards Act of 1938 was enacted after seven years of unemployment ranging from 14% to 25% and a long series of ineffective efforts to remedy the situation. While the Fair Labor Standards Act of 1938 may have merit on other grounds, there is nothing in the record to show that it was effective in dealing with unemployment or that it affords a good precedent for action now.

It is instructive to recall what happened during World War II. In the all-out war effort, we needed maximum production and minimum inflation. In this period of critical manpower shortages, costly penalty rates for overtime to shorten the workweek and to spread the work were wholly inappropriate. Even in these extreme circumstances no action was taken to revoke the overtime rates in The Fair Labor Standards Act.

From this wartime experience two facts of life can be learned: (1) that there is a tremendous employe and union interest in high overtime rates, as in any compensation, and (2) that, because of this interest, high penalty rates for overtime, once established, will not be revoked, even in a national emergency.

Before we start down the path of H.R. 9802, from which there would be no return, we should do well to stop, look, listen—and learn what lies ahead.

3. The prior experience with industry committees was cited by the Secretary as assurance that the tripartite industry committees under H.R. 9802 could function satisfactorily. The limited function and scope of operation of the industry committees appointed in the United States following passage of the 1938 Act give no assurance that industry committees could function satisfactorily as envisaged here. The prior industry committees were not given assignments with objectives so vague, criteria so indefinite, and tasks so complex and difficult to perform.

4. The so-called overtime figures of the Bureau of Labor Statistics include more than pure FLSA overtime*: they also include premium weekly overtime in firms with standard workweeks of less than forty hours, daily overtime, and premium time for Saturday and Sunday work and for work outside "normal" working hours, where these are compensated for at time-and-a-half or more, whether or not they also are in excess of forty hours per week. Moreover, overtime on a particular day or in a particular week to a particular employe may not mean that he gets net overtime in a month or a quarter or a year.

5. The Secretary said that the categories of employes working overtime matched the categories of the unemployed. But the categories used were so broad as to be almost meaningless; there is no evidence in the figures that a genuine matching occurs between overtime work performed and the skills and abilities of the unemployed to do this work. Moreover, it was not shown that the overtime and unemployment are matched geographically. Temporary overtime in Detroit is of little potential use to an idle man living in a distant community.

6. In the discussion on the opening day of these hearings, the proponents of this legislation stated that the purpose of this Bill, like the purpose of the 1938 Act, is not to compensate workers, but to discourage employers from offering overtime employment. In fact, they took the position that workers do not deserve such extra penalty pay for overtime. The natural question to ask then is "if so, why should they get it?"

*Hours worked over 40 in a week under the Fair Labor Standards Act.

To conform to these views, H.R. 9802 would have to be modified to provide that all work in excess of forty hours that could not be translated into additional employment without unduly increasing costs should not be required to be compensated at penalty rates.

Given the alleged objectives and premises of the Bill, it was illogical to frame a proposal making overtime less attractive to business, but at the same time making it more attractive to labor. A logical proposal would make overtime less attractive to both business and labor. This could be done by requiring that penalty pay for overtime should not be given to the worker but should be used for the benefit of the unemployed. While we do not advocate such a proposal it would coincide precisely with the stated objectives of the Administration and the Secretary of Labor. However, it would not provide the windfall that H.R. 9802 does for the workers continuing to be employed overtime at the higher penalty rate. I suspect there would be little enthusiasm for any proposal from which the windfall was missing.

ISSUES

There are three important issues raised by this Bill that we should like to discuss:

1. What would be the effects on the economy of raising overtime rates—the effects on employment, productivity, inflation and the balance of payments?

2. What would be the effects of raising overtime rates in the motor vehicle industry?

3. Even if there were net benefits to be had from increasing overtime penalties, are the procedures proposed in the Bill workable and equitable, and are they consonant with our institutions of collective bargaining, private enterprise, and government by law?

I. EFFECTS ON THE ECONOMY OF RAISING OVERTIME RATES

These hearings have been principally concerned with the direct effects of H.R. 9802. Such direct effects are serious enough; but the secondary or indirect effects of H.R. 9802 on employment, unemployment, production, inflation, and the value of the dollar are in my judgment even more important. For the most part these indirect effects have not received much attention.

The immediate or direct effects of raising penalty overtime rates to 100% or more (which effects may be offset or augmented by secondary effects) can be summarized briefly as follows. There would be some reduction in overtime work. Part of this reduction would be effected by a reduction in total employment, i.e. total hours worked, and part of it would be effected by an increase in the number of persons employed. In general, the additional employment would be short-time, irregular employment, with frequent layoffs. There would be more short time and layoffs for those already on the payroll.

In regard to production, there would be a decrease in output, some increase in facilities which would generally be used only part time, and over all, a decrease in the efficiency of use of resources. There would be a rise in costs and, in particular, a very substantial rise in additional costs of additional output, especially when operations are near capacity.

If the penalty overtime rates should be increased on a selective basis, as contemplated in the Bill, there would be serious inequities among individuals in opportunities for overtime work and in compensation for it. There would also be serious inequities and dislocations among competing businesses because of differing overtime rates. In addition, there would be uncertainty, confusion and conflict—all of which tend to impair efficiency of production and hold back economic growth.

And finally, there would be great pressures to extend to all industries penalty double time or more for all premium hours. Pressures would develop in collective bargaining and in complaints of inequity to the Secretary of Labor. Before long, the extreme penalty overtime rates could be expected to prevail generally.

Extremely high wages for overtime would naturally increase the desire of workers for employment at such wages and would lead to demands for additional overtime work. Without doubt, the pressures for a shorter standard work week and more overtime employment would be intensified.

This Bill is based on a lump-of-work theory: that there is a given quantity of employment and that you can slice it and price it, more or less as you please. The trouble with this theory is that it isn't so. If you raise the cost of labor, especially the additional cost of labor for additional production, there will be less work. Moreover, the unemployed are, *on the average*, less qualified than those who are employed. Arbitrarily limiting hours for the employed workers will not necessarily shift the margin of employability for those out of work.

A most important secondary effect of increasing penalty overtime rates would be the intensification of inflationary pressures. There can be no doubt that where penalty rates are raised to 100%, business, insofar as it can, will try to find substitutes for overtime—substitutes up to one third more costly than the present cost of the overtime work. Whether penalty rates are paid or substitutes are found the process will inevitably raise costs—and will cause especially big increases in the costs of producing additional output whenever demand presses on capacity.

These incremental or marginal costs are of utmost importance in their effects on prices. When demand increases and presses on capacity, steeply rising incremental costs will tend to cause price increases rather than an expansion in production and employment.

If these inflationary pressures go unchecked, they will produce the well known evils and inequities that attend inflation. Moreover, they will worsen our international balance of payments and endanger the dollar.

If the inflationary pressures are repressed by restrictive monetary and fiscal measures, or even if the higher prices are not validated by an inflationary expansion in the money supply, the final result will be less production and employment and more unemployment.

We are about to undertake a great experiment in the form of a tax cut to increase demand and to improve the incentives for investment and employment. The success of that experiment depends upon whether it brings forth an expansion of employment and production or causes an inflation in prices. H.R. 9802 is prejudicial to the success of the tax cut because it will tend to cause inflation rather than expansion of production and employment.

One of the most disturbing aspects of the proposal before you is that it diverts attention from the fundamentals of the unemployment problem. True, there is currently a good deal of thought given to education, upgrading, training and mobility of workers. But there is not much critical consideration being given to the character of the labor market. "Labor is not a commodity," expresses a legitimate demand for recognition of a worker as a human being; but its current interpretation, "No competition allowed in the labor market," will stand between us and full employment in a free market system.

The benefits to be derived from the tax bill are already in considerable danger. With a number of unions readying big wage demands and the AFL-CIO spurning the "guideposts," there is good reason to be worried that part of the potential benefits of the tax cut will be dissipated by inflation.

We suggest that it would be unwise to add to the inflationary dangers by enacting a huge penalty overtime rate such as proposed in H.R. 9802.

II. EFFECTS OF RAISING OVERTIME RATES IN THE MOTOR VEHICLE INDUSTRY

While the adverse consequences of H.R. 9802 on the economy seem clear, there remains to be examined in detail how the provisions of the proposed legislation would affect particular industries and employes. There is a danger, well illustrated by the statements of proponents of H.R. 9802 before these Subcommittees, that we may fall under the spell of the magic of large numbers — millions of employed or unemployed, hundreds of millions of manhours used or unused.

We propose to consider in this section of our statement the consequences of the Bill on the employes of the motor vehicle industry. We believe that it is possible to reach meaningful conclusions about H.R. 9802 only if we evaluate its social impact, as well as its economic effects, on particular individuals, on particular skills and trades and under specified economic conditions. Moreover, the Bill must be considered within the context of the employment practices and policies which have evolved through years of employment experience in the industry and have been agreed to by the unions and manufacturers in free collective bargaining.

Viewed in these terms it is clear that H.R. 9802 would:

Obstruct the growth of employment opportunities in the motor vehicle industry.

Undermine the years of effort of management and unions to regularize employment and income on an annual basis.

Reduce manufacturing flexibility and service to customers.

Raise costs of special skills critically needed to assure more stable employment of less skilled groups.

Transfer to central government responsibilities which have been successfully performed by free collective bargaining.

We are convinced that in the matter of premium time, as in other matters affecting employer-employe relations, *free* collective bargaining between the parties concerned is the only firm foundation for *enduring* and *responsible* collective bargaining.

The Expansion of Motor Vehicle Employment

In our intensely competitive industry, the overriding challenge has been to produce the kinds of motor vehicles which customers want to buy when they want to buy them, and to produce them efficiently. The record demonstrates that the industry is meeting this challenge. The result has been expanding demand and expanding employment opportunity. Just within the brief span of the last four decades, the number of employes in the motor vehicle industry has increased from an average annual level of about 413 thousand during the period 1919-1929 to 747 thousand in the 1953-1963 period. This trend is shown in Exhibit 1.

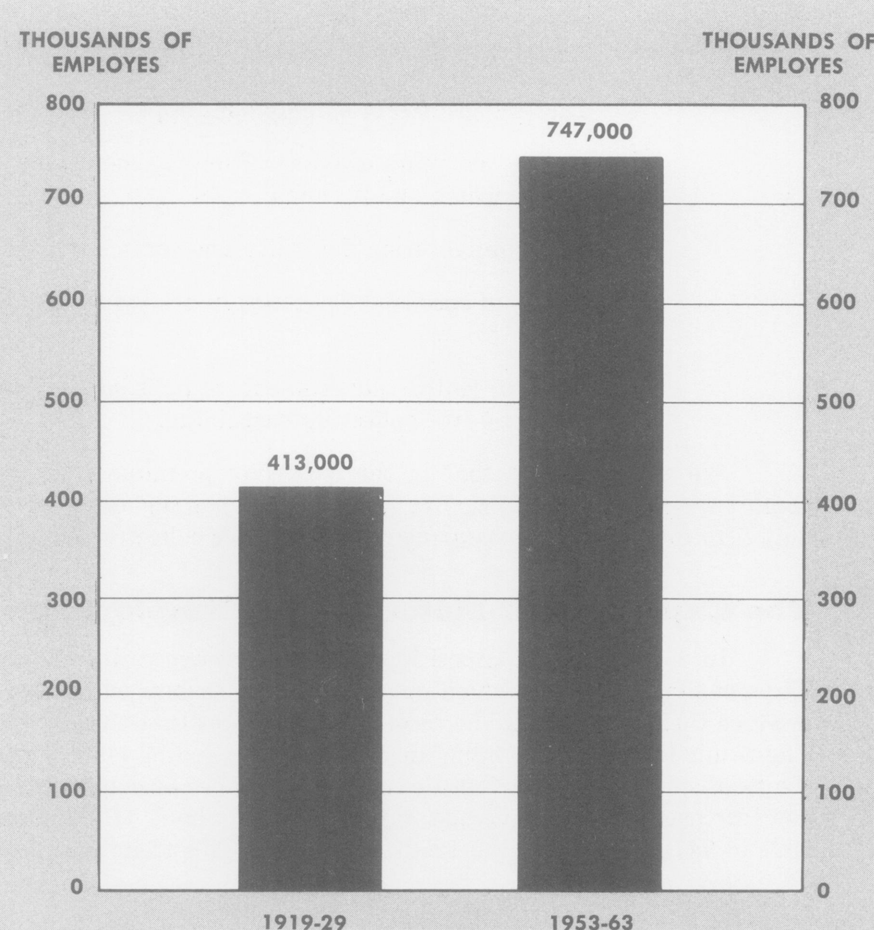
The upward pace of employment has not, of course, continued without interruption. General business recession has been reflected in both the demand for our products and employment. Moreover, the industry has aggressively searched out new ways to produce more with less human effort. This has been a competitive necessity. It is also the foundation on which the nation's rising standard of material well-being has been built. It has meant for the industry's employes better pay and better jobs.

Beyond the direct gains to the industry, the use of the industry's products has opened up a vast variety of employment opportunities in new industries using and serving motor vehicle transportation. As a direct result of the industry's dedication to the advanced design of efficient economical motor vehicles, automotive transportation of people and goods has expanded rapidly, currently providing in excess of 10 million jobs and accounting for more than 15% of our gross national product.

It has, of course, long been recognized that the demand for the products of the industry will fluctuate, and sometimes sharply, both because of seasonal factors and in response to year-to-year changes in general business and the level of business and consumer confidence. Nevertheless, under the spur of competition and within the framework of wise national economic policy, there is every reason to look forward to continued long-term growth and an expanding opportunity for employes. Moreover, as the use of motor vehicles expands so will the employment opportunities of all the many groups who are employed by and contribute to motor vehicle transportation.

EXHIBIT 1

AVERAGE SALARIED AND HOURLY PAID EMPLOYMENT IN MOTOR VEHICLE AND EQUIPMENT INDUSTRY 1919-1929 AND 1953-1963



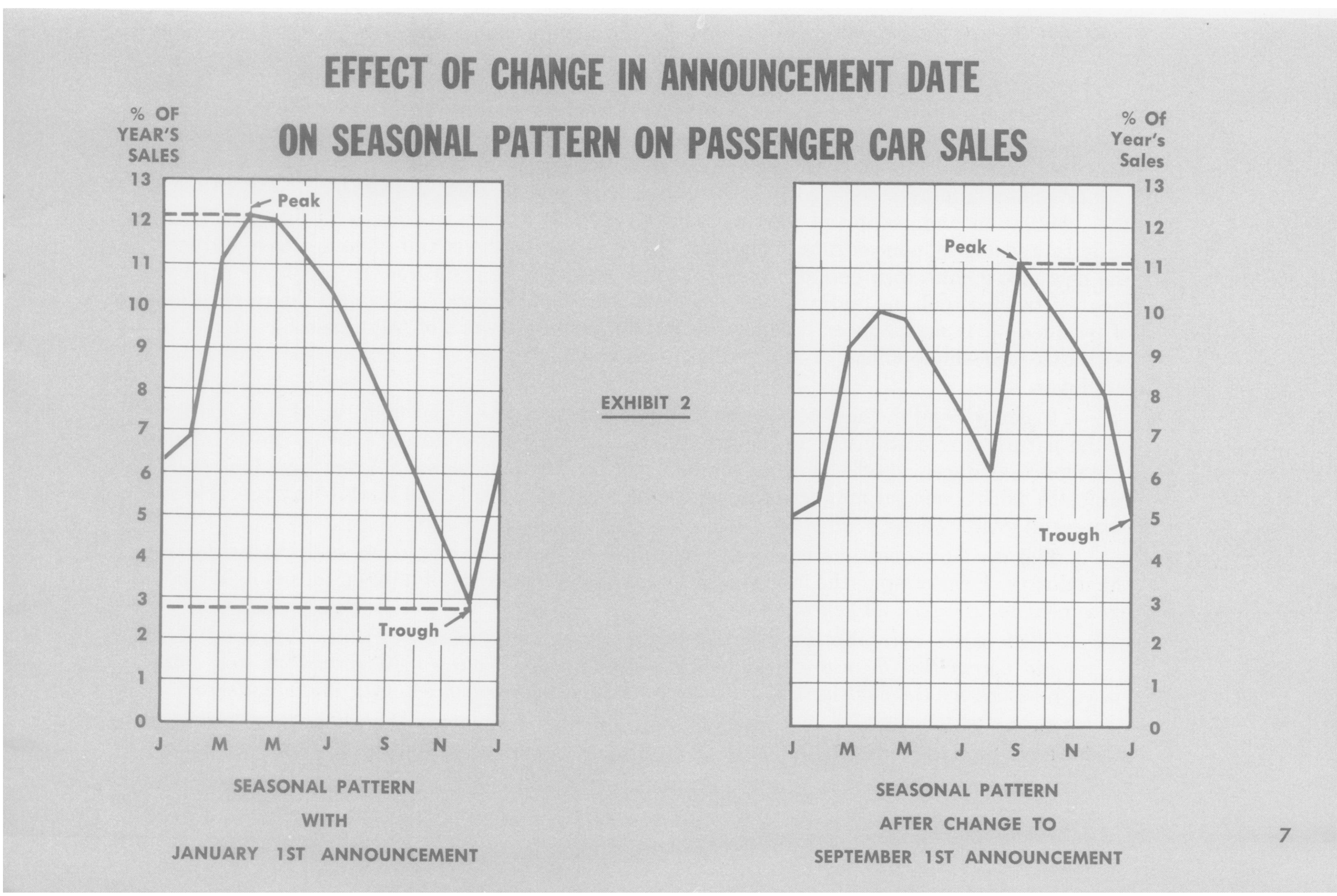
Source: U.S. Department of Commerce & U.S. Department of Labor

The Regularization of Employment

A second long-term goal of the industry has been to minimize employment instability and to provide high annual earnings. A first significant step, taken in the late 1930's, was to shift the new model announcement date from early in the calendar year to the fall months.

The result of this shift is shown in Exhibit 2 which compares the pattern of seasonal demand as it was in the thirties with the pattern after the change was made to fall announcements. Prior to the change, peak sales occurred in April and May which, together, accounted for nearly 25% of annual sales. The low point came in December when less than 3% of annual sales took place. The fall announcement reduced the spring sales peak, introduced a seasonal rise in the final quarter of the year and significantly raised the seasonally low months. As was hoped, the effect of this change was to reduce the seasonal pressure on production, and the industry's ability to regularize production and employment was greatly improved.

A second major advance has resulted from the progressive reduction over the past thirty years in the length of the period required for the annual model changeover. Exhibit 3 summarizes the changeover record of one producer since the mid-thirties. At that time it was not uncommon for the new model changeover to idle plants for a period ranging from five to eight weeks. As a result of improved methods and more careful planning, the downtime now required to prepare for new models is commonly about three to four weeks.



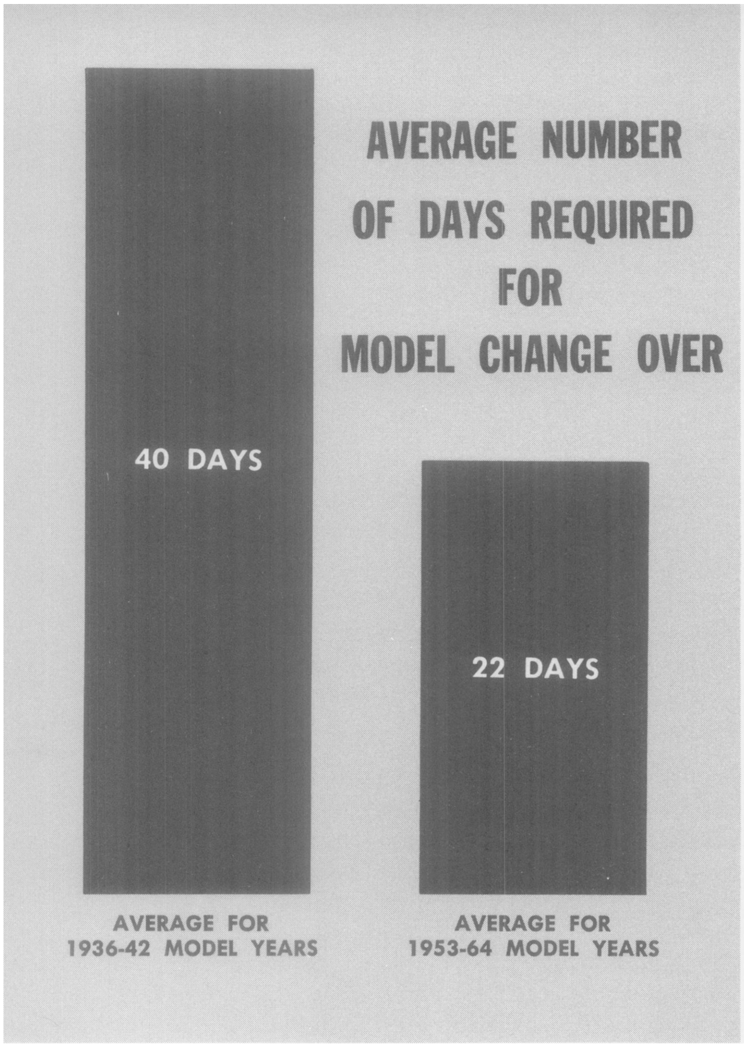


EXHIBIT 3

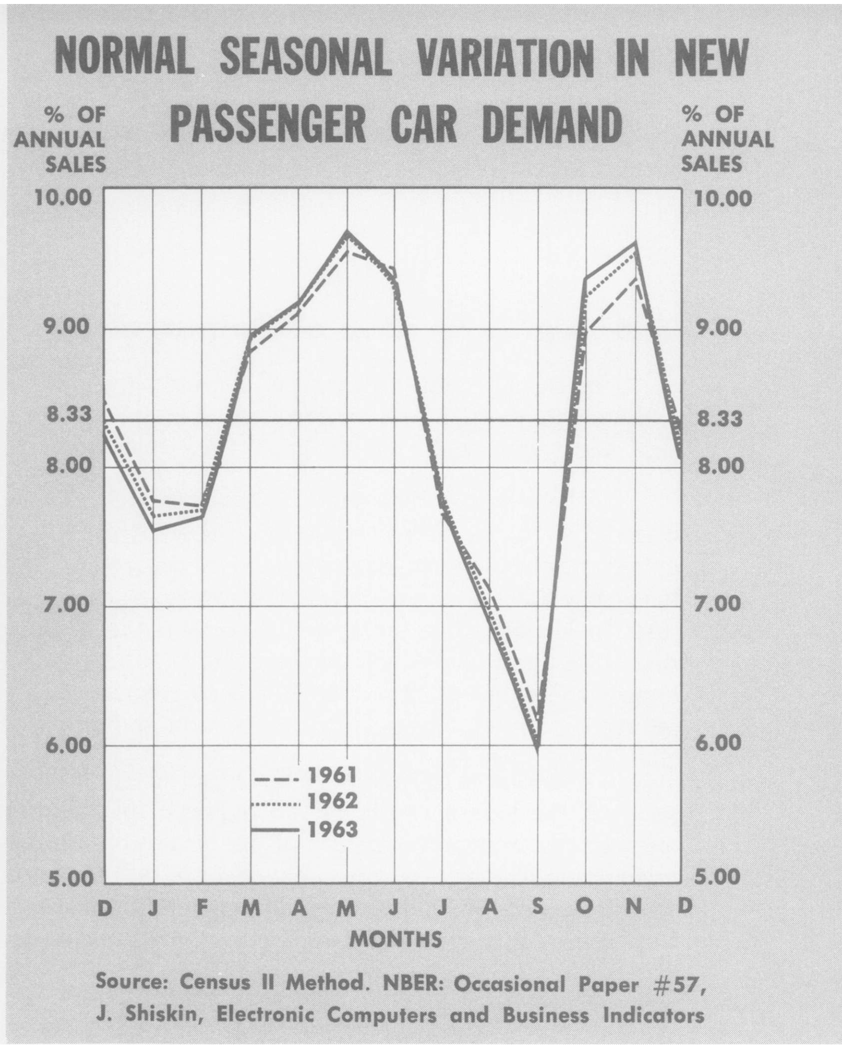


EXHIBIT 4

The model changeover period may be used to illustrate one of the employment patterns in this industry, about which we shall comment more fully later in this statement. On the one hand, for assembly line employes the changeover is a period of layoff. On the other hand, for highly skilled employes engaged in tooling and maintenance work and others concerned with the installation and testing of new equipment, fixtures, tools and dies, it is one of intense activity and highly concentrated overtime. While better methods and planning have reduced the new model shutdown period, this gain would be lost were it not for the overtime employment of trained tool, die and maintenance crews who do the work essential to the resumption of production. It may appear paradoxical, but the overtime work of these men has helped to regularize the employment of the many-times larger number of assembly and production employes.

In considering the need for overtime, it must be recognized that many employes, because of the nature of operations in automobile plants, work overtime during part of the year and short hours—or are laid off—at other times. With the overtime, such employes have the opportunity to work a normal number of hours for the year as a whole and in this way are able to earn a full year's wages.

The need for overtime has been recognized by both the employers and the unions in the industry. For example, the following provision has been a part of a major automobile labor agreement for the past 23 years:

> *"Both parties agree that it is desirable to give employes high annual earnings. It is recognized and agreed that there are times when production and tooling require overtime and other times when not enough work is available to give all employes with seniority a full week's work."*

As we look back over the past 30 years, it seems apparent that important forward strides have been made by the industry in meeting the union-management goal of more stable employment. To accomplish this significant social objective and at the same time make quick adjustments to sharp and unpredictable changes in demand has required a willingness on the part of both management and labor to recognize the need for overtime. To achieve this goal has also required a willingness on the part of management to pay premium rates—frequently for extended periods—to groups of workers whose special skills are in short supply in order that production schedules and employment for the vast majority of workers may be more evenly distributed throughout the year.

In summary, the motor vehicle industry for many years has had the dual goals of expanding production and employment and offering more stable employment. It agrees with the unions on the desirability of high annual earnings for employes. To achieve this, the industry and the unions have recognized that overtime employment at times during the year is necessary.

Motor Vehicle Demand and Labor Requirements

As significant as the motor vehicle industry's efforts to regularize employment have been, the customer remains the ultimate determinant of when new cars will be produced and in what volume, and, therefore, of the employment opportunities in the industry. The demand for the product continues to be characterized by relatively wide seasonal swings. This seasonal pattern is set out in Exhibit 4. There are two major fluctuations in sales during the year. The amplitude of the larger one is 45% of average monthly sales while the amplitude of the smaller is about 25%.

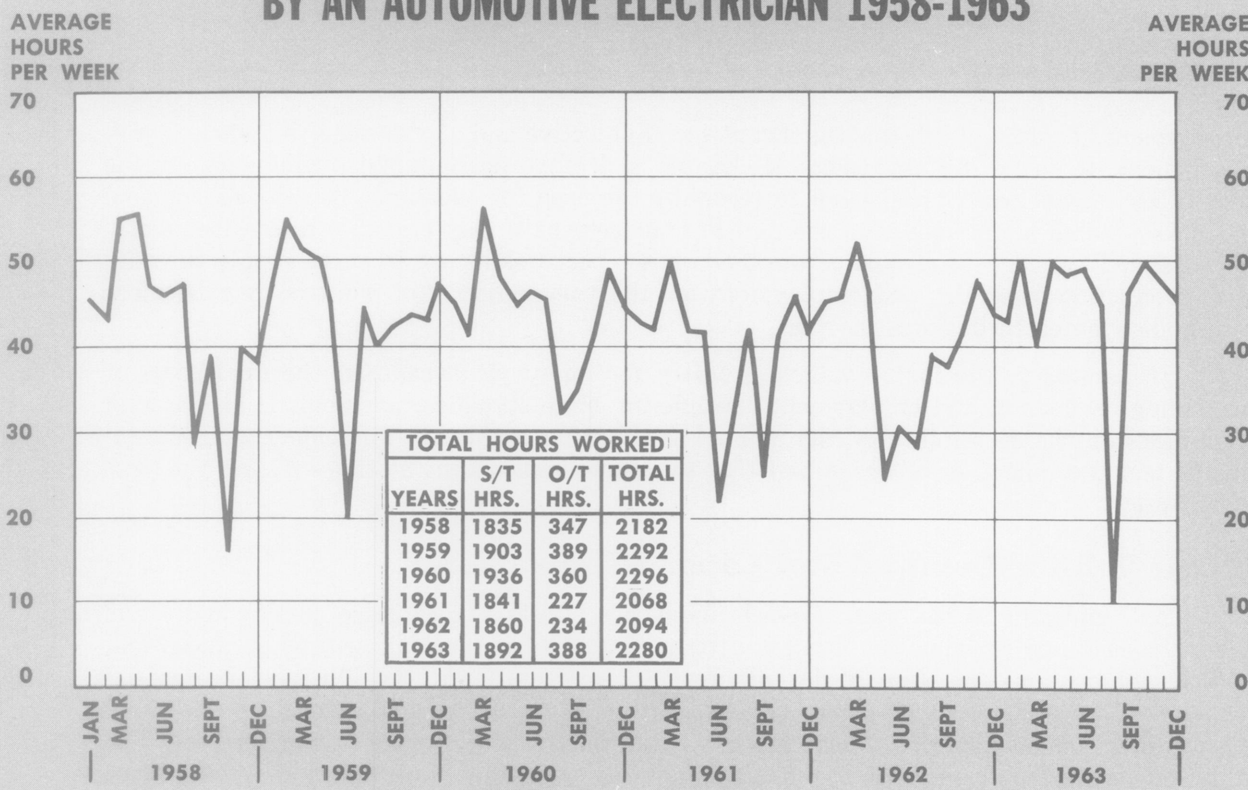
Fluctuations in seasonal demand and model changeover result in a variety of patterns of overtime and undertime for the many groups of workers who contribute to the enterprise. For example, tool and die makers have their busiest period early in the cycle of getting ready for a new model—usually in the first quarter of the year. In the next cycle the die try-out people work overtime. Next, the plants must be changed over and rearranged for new model production in the late summer and early fall. This work requires skilled workers such as maintenance men and millwrights. Finally, in the fourth quarter of the year the new model goes into full production. This quarter is also a peak selling season and for this reason production employes usually work overtime in this period. These patterns of employment over the period 1958-1963 are illustrated in Exhibits 5, 6, 7 and 8 which show the actual employment records for individuals in various job classifications.

A second major source of production and employment instability is cyclical changes in the level of general business and in consumer confidence. Because a new car represents a major expenditure and because the product is durable, permitting the postponement of purchase, cyclical swings in the general level of business cause even wider swings in motor vehicle sales and production. In Exhibit 9 we show annual changes in the level of factory sales of passenger cars from 1916 to date. It will be observed that even during the postwar period when cyclical swings in business generally have been moderated, there have been significant changes in the annual level of demand. For example, between 1958—a recession year—and 1960, sales increased by about 57%. From 1960 to 1961 sales declined by 17% and this was followed in turn by an increase the next year of over 25%.

The industry's experience in 1955 is a dramatic illustration of the problems and hazards in making adjustments to changes in demand, and of projecting future expectations on the basis of current experience. In that year over nine million vehicles—nearly eight million cars and over one million trucks were produced. Who could foresee then the production decline to seven million vehicles in 1956 and to 5.1 million in 1958? It is more than a possibility, based on the long experience of the industry, that efforts to meet employment requirements in years of peak

EXHIBIT 5

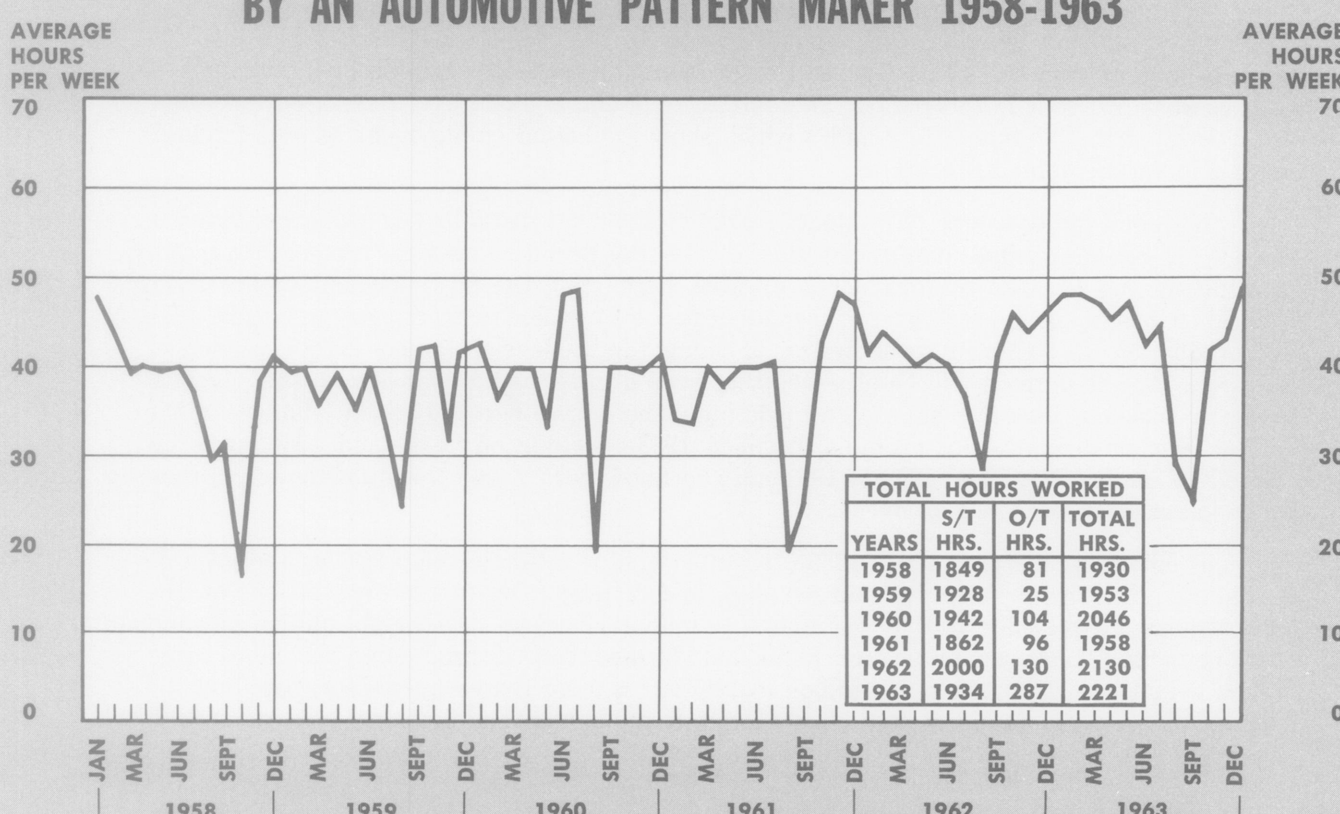
AVERAGE WEEKLY HOURS WORKED BY AN AUTOMOTIVE ELECTRICIAN 1958-1963



TOTAL HOURS WORKED			
YEARS	S/T HRS.	O/T HRS.	TOTAL HRS.
1958	1835	347	2182
1959	1903	389	2292
1960	1936	360	2296
1961	1841	227	2068
1962	1860	234	2094
1963	1892	388	2280

EXHIBIT 6

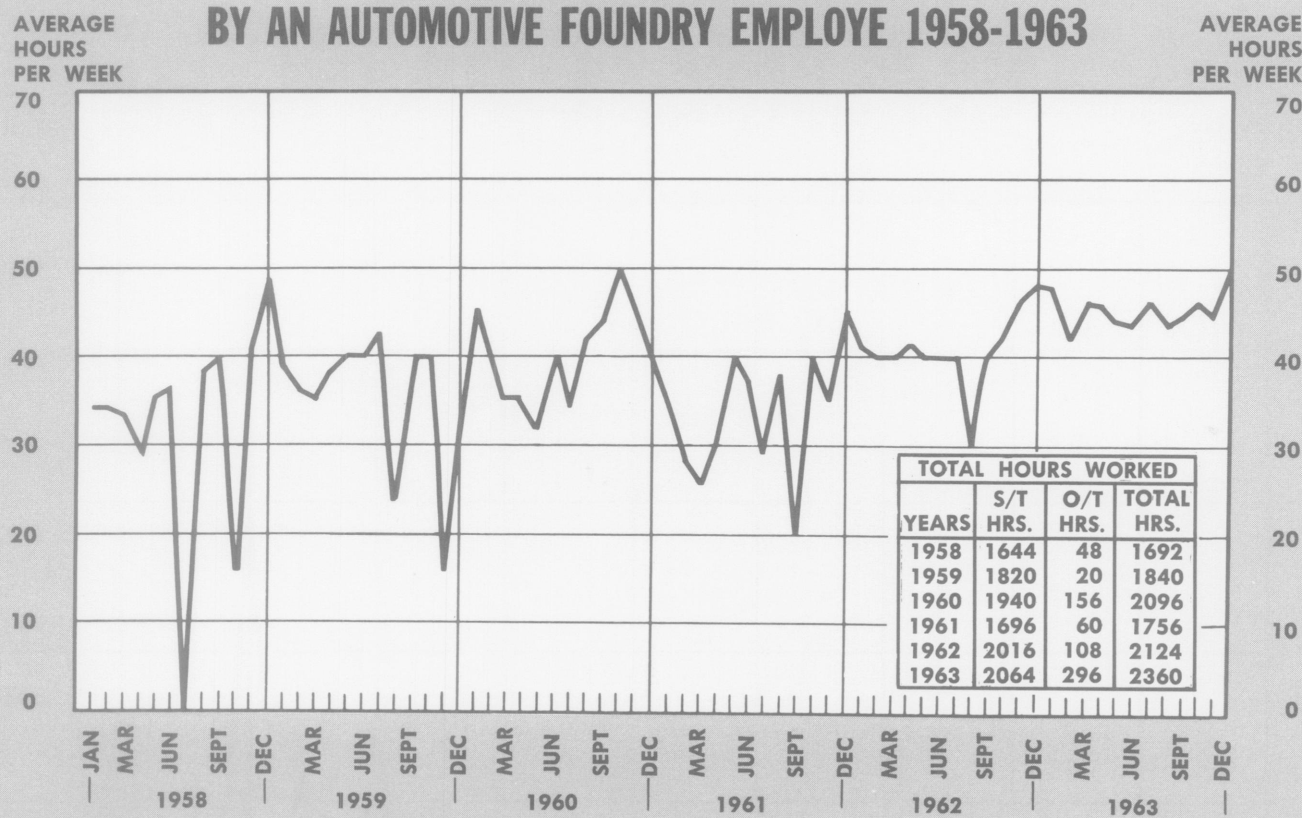
AVERAGE WEEKLY HOURS WORKED BY AN AUTOMOTIVE PATTERN MAKER 1958-1963



TOTAL HOURS WORKED			
YEARS	S/T HRS.	O/T HRS.	TOTAL HRS.
1958	1849	81	1930
1959	1928	25	1953
1960	1942	104	2046
1961	1862	96	1958
1962	2000	130	2130
1963	1934	287	2221

EXHIBIT 7

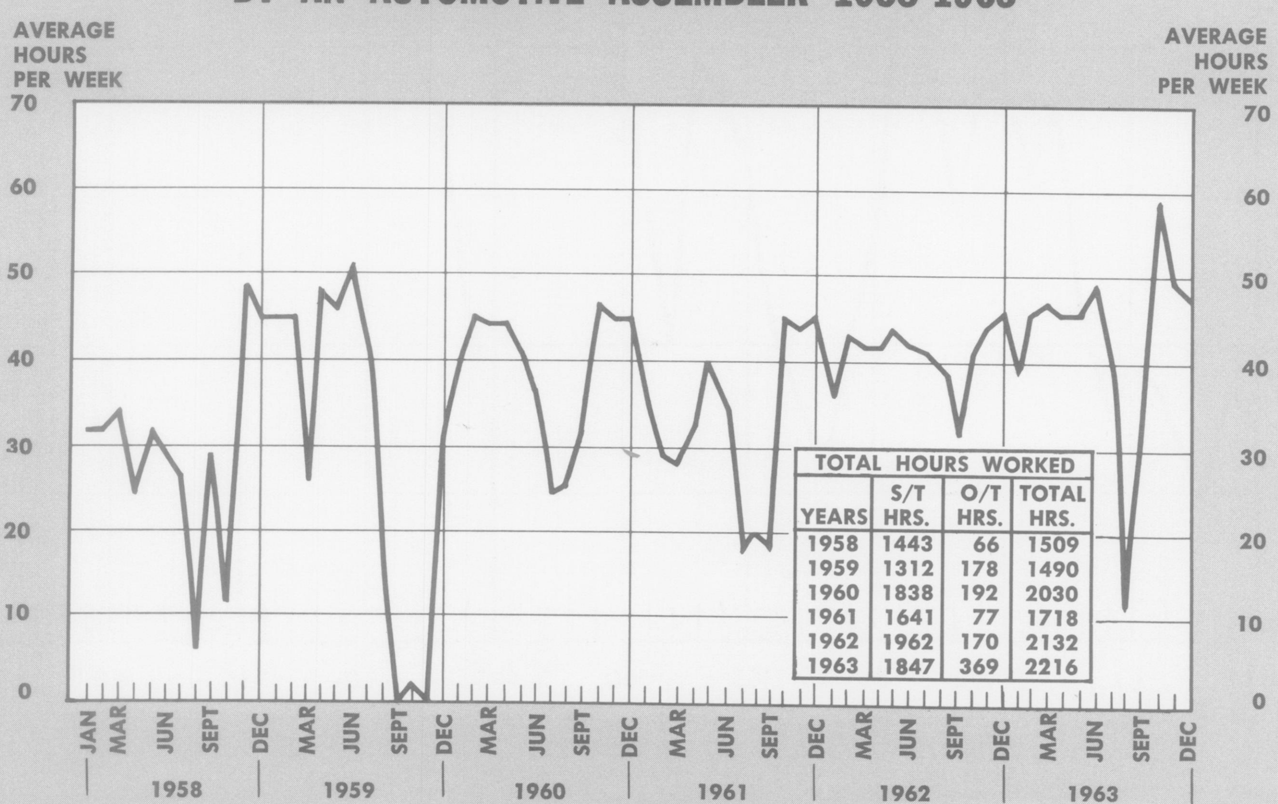
AVERAGE WEEKLY HOURS WORKED BY AN AUTOMOTIVE FOUNDRY EMPLOYE 1958-1963



TOTAL HOURS WORKED			
YEARS	S/T HRS.	O/T HRS.	TOTAL HRS.
1958	1644	48	1692
1959	1820	20	1840
1960	1940	156	2096
1961	1696	60	1756
1962	2016	108	2124
1963	2064	296	2360

EXHIBIT 8

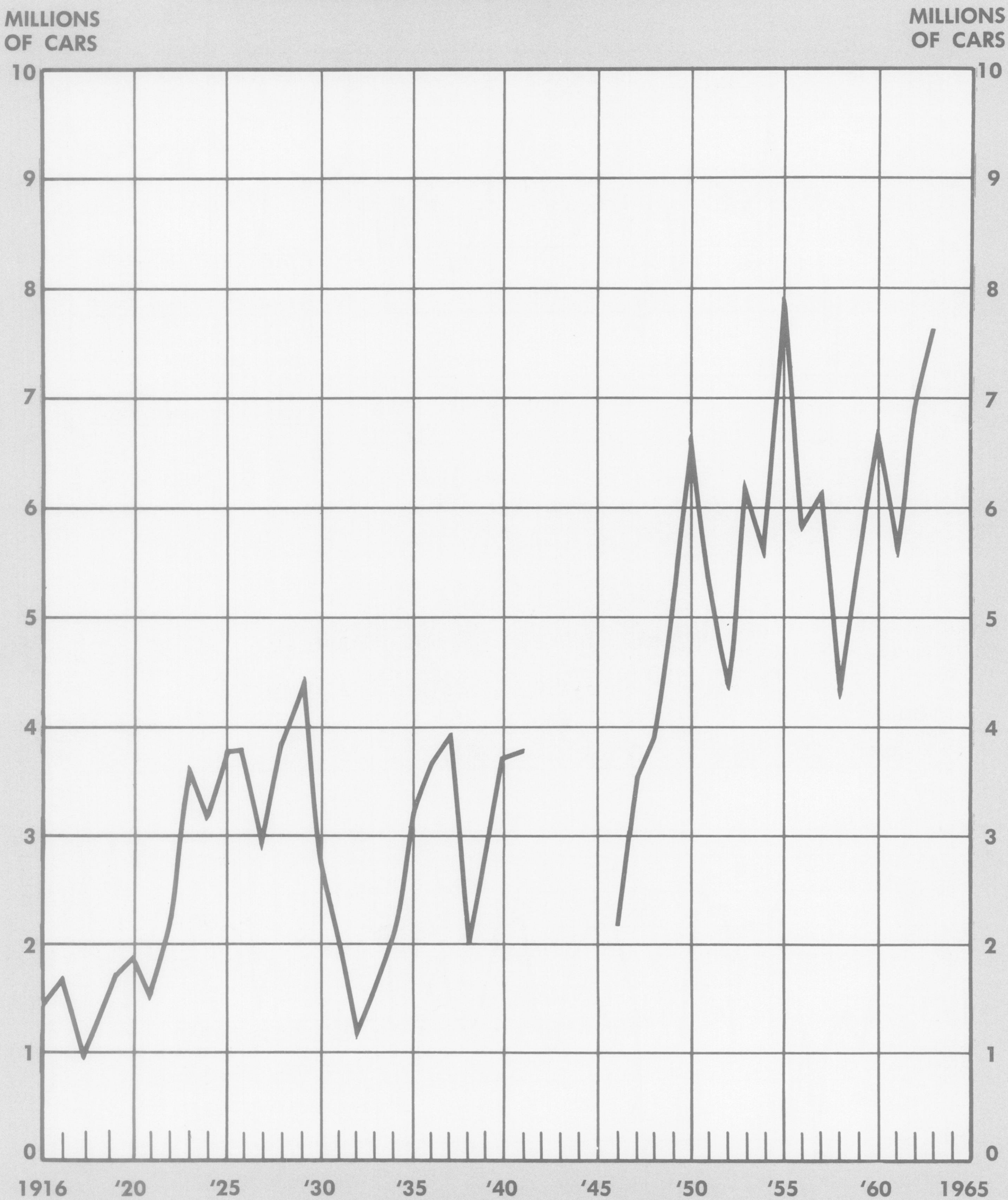
AVERAGE WEEKLY HOURS WORKED BY AN AUTOMOTIVE ASSEMBLER 1958-1963



TOTAL HOURS WORKED			
YEARS	S/T HRS.	O/T HRS.	TOTAL HRS.
1958	1443	66	1509
1959	1312	178	1490
1960	1838	192	2030
1961	1641	77	1718
1962	1962	170	2132
1963	1847	369	2216

EXHIBIT 9

U. S. ANNUAL FACTORY SALES OF NEW PASSENGER CARS 1916-1963



SOURCE: AMA

demand largely by employing additional workers, will be followed in some future year by the need to reduce employment. To force the industry to rely on temporary workers to meet peak demands by imposing penalty overtime rates, will aggravate unemployment swings, encourage distortions in the labor supply, and have profound social effects on individual employes and their communities. The clear need today is not for greater employment instability. Yet this would result if H.R. 9802 were accepted as national policy and its provisions applied to the motor vehicle industry.

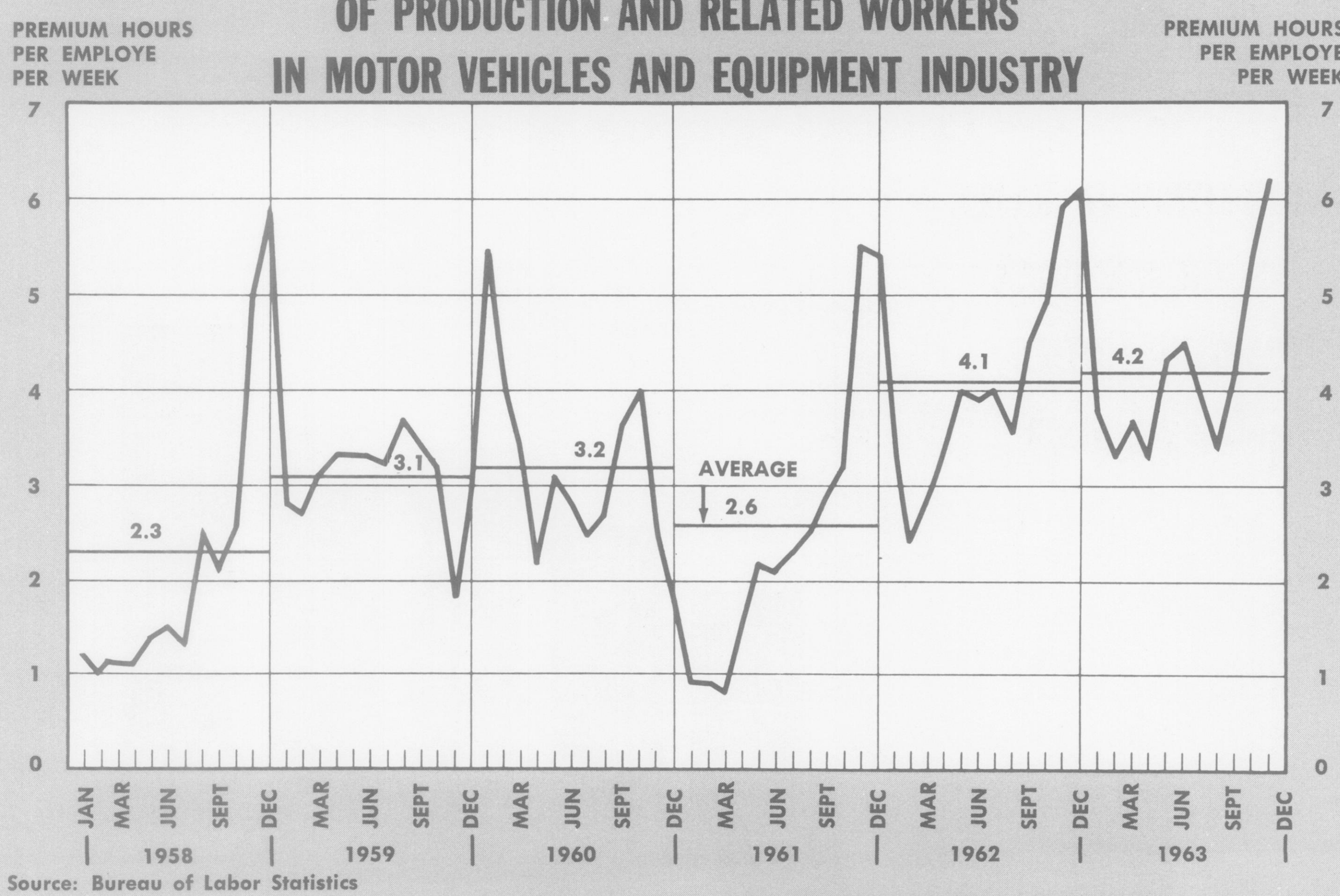
The Adjustment of Overtime to Changing Demand

Given the characteristics of the motor vehicle business, it is not surprising that the amount of premium time increases substantially with rising business and declines in recession. These trends are shown in Exhibit 10 for the period from 1958 to date—the entire period for which the Department of Labor has been reporting straight time and premium time separately for the motor vehicle industry.

As is clear from Exhibit 10, a very substantial amount of premium time is required even in periods of business recession. In 1958, for example, premium time averaged over 2 hours per week per employe. In part, this represented premium time paid to meet the requirements for special skills noted earlier. In part, it represented the short-term seasonal need for vehicles and emergency production demands and shifts in demand. In total, premium time paid was for about 6% of all hours worked—and this in a low volume recession year. This represented

EXHIBIT 10

AVERAGE PREMIUM HOURS OF PRODUCTION AND RELATED WORKERS IN MOTOR VEHICLES AND EQUIPMENT INDUSTRY



Source: Bureau of Labor Statistics

close to the minimum industry need if customer demands were to be met, manufacturing efficiency maintained, and high standards of product quality achieved. Double time penalty rates for overtime work would not have reduced this need.

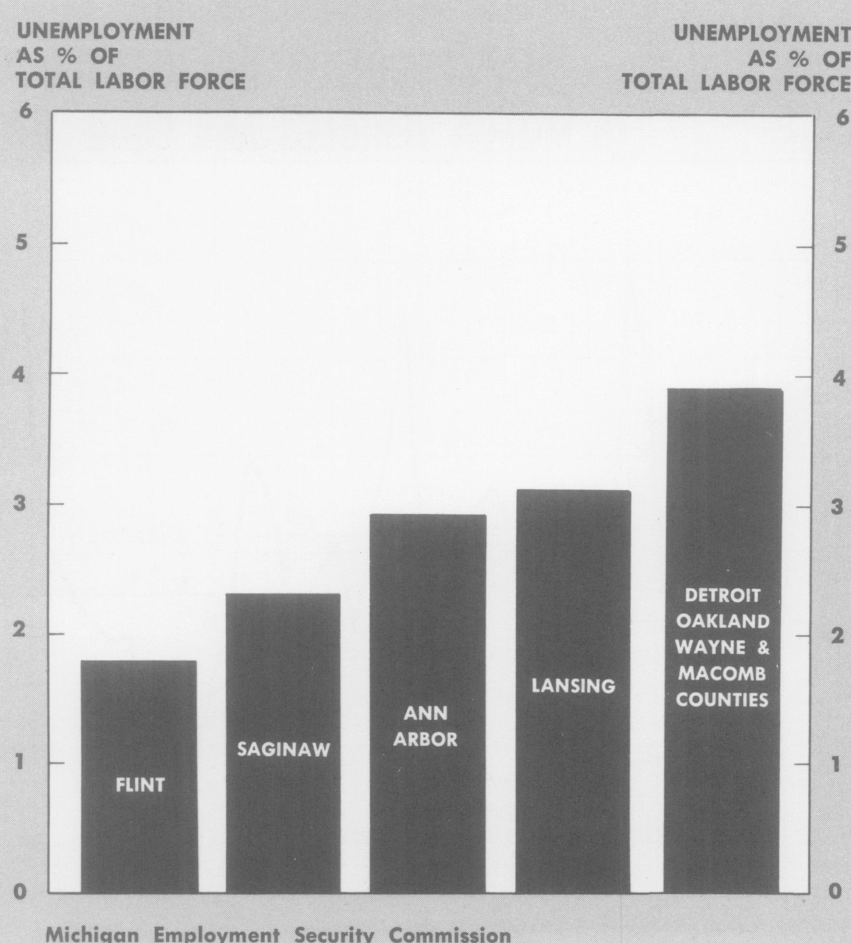
With rising motor vehicle demand, both employment and overtime increase. Referring again to Exhibit 10, on the average in 1963 the industry paid about 4.2 premium hours per employed worker per week. This represented about 10% of all manhours worked. Again there was a marked seasonal demand evident in the fourth quarter of the year.

It is possible that some of this overtime might not have been worked if the provisions of H.R. 9802 had been forced on the industry. In this event the income of many regular employes who had been on short time or out of work in 1958 would have been substantially reduced and their opportunity to balance good years against recession years limited.

In periods of high vehicle sales, labor shortages in areas adjacent to many plants become apparent. In 1963 very tight labor market conditions existed in many of the industry's employment centers. Exhibit 11 summarizes unemployment ratios in some of the major Michigan motor vehicle manufacturing cities. Unemployment in these cities currently is in a range from less than 2% to about 4%. Under these conditions, if double time penalty rates had been in effect in 1963, the result would almost certainly have been an increase in costs with very little further increase in number of employes.

EXHIBIT 11

UNEMPLOYMENT RATES IN MAJOR MICHIGAN AUTOMOTIVE CITIES December 15, 1963



Moreover, given the nature of demand for motor vehicles it is a major question of national policy whether the automotive manufacturing cities and their citizens would benefit from inducements to workers outside the area to come in for short periods of employment.

It is the view of the motor vehicle industry that to force added employment without regard to the long-term employment prospect by imposing double time penalty overtime rates would not be in the interest of regular employes, would not be conducive to stable employe relations, would be disruptive to community life and would add measurably to the cost of providing quality products to our customers.

Despite the efforts of the industry to regularize employment, the UAW has for years bitterly complained about what it termed—

> ". . . *irresponsible and anti-social policies of recruiting additional workers for only a few months of employment, to be followed by widespread layoffs and short work weeks for the industry's regular employes later in the year.*" (1)

Yet these are the policies that the proposed legislation is designed to impose on our industry.

Unavoidable Overtime

In our discussion of seasonal and cyclical factors in the motor vehicle industry we have used the term unavoidable overtime to describe the time paid for at premium rates because there are not available, where and when required, feasible operating alternatives, or an adequate supply of labor or manufacturing facilities, to meet the demand in the time required. Over the long term, imbalances such as these are normally corrected by market forces. In the short term, however, the supply of either labor or facilities is likely be inelastic, i.e., cannot be significantly enlarged even though the price were increased. In the motor vehicle industry, it is possible to identify a number of situations where premium overtime rates are paid because there is no practical alternative.

1. Tooling programs for new models each year have a critical deadline for completion for the new model startup. During the peak tooling period, all of the available facilities and skilled tool makers, pattern makers, die makers, plus additional trainees upgraded from production jobs, as well as the facilities and work force of outside job shops, are utilized. The hours of work during the peak requirements include daily overtime, Saturday overtime and even some Sunday overtime and involve up to 10% of the work force in the auto plants. (The employment opportunities available to these groups can be vividly seen from current employment advertisements. Typical ads have been reproduced in Exhibit 12.)

Even if facilities were unlimited and it were feasible to train a sufficient number of skilled tradesmen to complete the tooling program without overtime, the result would be large scale layoffs after the completion of the program and lower annual earnings for the skilled tradesmen. Increasing capacity and employment would not cure this problem; it would actually aggravate it.

2. A second type of overtime is occasioned by the annual model change and plant rearrangement. During this period the regular maintenance work force is augmented by production workers and outside contractors. Every effort is made to complete the model changeover in the shortest possible time. Here again, the imposition of a double time penalty for overtime would increase costs without creating more employment.

3. A third type of overtime is occasioned by emergency repairs, breakdown of equipment or the rearrangement of facilities. Such work can be performed only when production operations are shut down. While the amount of this type of overtime may not be a large part of the total, it cannot be translated into more employment nor has it been reduced by the present double time requirements for Sunday work.

(1) Letter to auto industry Presidents by Walter P. Reuther, President UAW-CIO—10/14/54

EXHIBIT 12

TYPICAL OVERTIME ADVERTISEMENTS

From — THE DETROIT NEWS — Thurs., Feb. 20, 1964

VISIONEERING Inc

THE FASTEST GROWING AND MOST PROGRESSIVE ORGANIZATION IN THE AUTOMOTIVE MODEL AND PLASTICS FIELD IS ALWAYS LOOKING FOR TOP QUALIFIED PERSONNEL IN THE FOLLOWING CLASSIFICATIONS:

WOOD MODEL MAKING
WOOD & PLASTIC MODEL CHECKERS
TEMPLATE MAKING
FIXTURE BUILDING
PROTOTYPE VACUUM FORMING
PLASTIC LAYUP

Also to continue our Equipment Development Programs, we are searching for qualified men to fill the following permanent positions:

MACHINE DESIGNER
MACHINE BUILDER
MACHINE REPAIR

We offer full benefits, overtime and the best of working conditions.

APPLY IN PERSON AT
VISIONEERING INCORPORATED
31985 Groesbeck Highway, Fraser, Michigan

RETIRED DIE MAKERS

Age 60-65. Journeymen for temporary work on afternoon shift. Can work 40- or 48- or 58-hour week. Good rates. Apply
Republic Die & Tool Co.
45004 VAN BORN WAYNE

Wood Model Makers

EXPERIENCED ONL[Y]

FRINGE BENEFITS
OVERTIME
CALL GEORGE WRIGHT

WETTLAUFER ENG.
Div. of Pioneer Eng. & Mfg. Co.
3400 E. 9 MILE RD., WARREN
PHONE 755-4400
An Equal Opportunity Employer

DIE MAKER RETIREES

Age 60-65. Journeymen for temporary work on afternoon shift. Can work 40- or 48- or 58-hour week. Good ra[tes].
Apply
Republic Die & Tool Co.

SHAPER

Operators for long program. 58-hr week, clean shop, good rate, with excel. fringes. Must be journeymen or have letters proving 10 years experience.
Republic Die & Tool Co.
45004 VAN BORN WAYNE

DESIGNERS
CHECKERS
LAYOUT MEN

58-HR. WEEK

SPECIAL MACHINERY AND AUTOMOTIVE ASSEMBLY

HYDRO MFG. CO.
18701 MOENART PO 6-4000

DESIGNERS
DETAILERS

Machines and special machines. Fully paid insurance. Modern air cond. office. 58-hour week. Top rates.
MICHIGAN SPECIAL MACHINE
11450 Timken, Warren
3 Blocks North of 9 Mile
1 Block West of Hoover

DIE MAKERS

Permanent positions with steady work and fringe benefits. Must be journeymen.
LONG MFG. DIV.
12501 DEQUINDRE
An Equal Opportunity Employer

DESIGNERS
MACHINES, TOOLS, FIXTURES
58 HOURS
DDE INC

DESIGNERS
CHECKERS

PRODUCT
SPECIAL MACHINES
CONVEYOR SYSTEMS

Continuous long programs, heavy overtime, paid holidays, opportunities for advancement with De... field and Livernois at 20 Mile rd. area. Open evenings 'til 9 o'clock

1696 Twelve Mile Rd.
Near Woodward
LI 8-1700 JO 4-8627

Modern Eng. Service Co.

DIE BARBERS
AND
PUNCH FINISHERS

Long Program
Overtime
Benefits

BOX N-8192,
DETROIT NEWS 31

DIE MAKERS

58 hours minimum per week. Working partly 7-day operation, long program, good men will acquire seniority status. Good rate with excellent fringes. Must be journeymen.
Republic Die & Tool Co.
45004 VAN BORN RD., WAYNE

DIE LEADER
DIE MAKERS
MACHINE HANDS

JOURNEYMAN

DAY SHIFT, 58-HOUR WEEK
4321 EDGELAND ROYAL OAK
OAK DRIVE-IN THEATRE

DETAILERS
DESIGNERS

Automation Equipment
58 HOURS
LONG PROGRAM

SAHLIN ENGR.
750 W. MAPLE, TROY

JIG MILL
OPR. DEVLIEG

Experienced. Overtime

MODERN
INDUSTRIAL ENG. CO.
14330 BIRWOOD AVE.

DIE MAKERS

Journeymen status. Day shift. 58-hour work week. Sundays off.
Welles Die & Engineering
3056 18TH ST.

DIE MAKERS
MILL HANDS

7-DAY OPERATION
DAYS ONLY

Sterling Tool & Die
7800 Iowa, Detroit 12, Mich.

TOOLMAKERS
Machine Bldrs.

OVERTIME
STEADY WORK

Employment Office Open Saturdays Until Noon or Call Mr. Hebert or Mr. May, LO 7-0123
SNYDER CORP.
3400 E. LAFAYETTE

CHECKERS
DESIGNERS
DETAILERS

Tools, Dies, Fixtures
Special Machines

TOP RATES
OVERTIME
Sunday Interviews

PIONEER ENG.
Div. of Pioneer Eng. & Mfg. Co.
19669 JOHN R. TW 3-4500
An Equal Opportunity Employer

DESIGNERS
DETAILERS

DRILL HEADS

SPEC. MACHINES
58 Hour Minimum. Top Rates
PREMIER ENG.

PLASTIC FIXTURE BUILDERS

Fringe Benefits
Overtime

WETTLAUFER ENG.
Div. of Pioneer Eng. & Mfg. Co.
3400 W. 9 MILE RD., WARREN
PHONE 755-4400
An Equal Opportunity Employer

MACHINE
DESIGNER
DETAILER

Experienced-Overtime

MODERN
INDUSTRIAL ENG. CO.
14330 BIRWOOD AVE.

RADIAL DRILL

Operator for afternoon shift. Long program, 58 hour week. Clean shop, good rate, with excel. fringes. Must be journeymen or have letters proving 10 years exper.
Republic Die & Tool Co.
45004 VAN BORN WAYNE

CHECKERS
DESIGNERS
DETAILERS

FOR BODY FIXTURES. FIXTURES. LONG PROGRAM. BEN FITS. MINIMUM 58-HOUR WEEK.

STELLAR ENG., INC.
21325 Hoover Rd. Warren

FIXTURE
DESIGNERS

Experienced on Machine Tools
LONG PROGRAM—OVERTIME
TOP RATES—Fringe Benefits
APPLY IN PERSON

APEX MICHIGAN INDUSTRIES CO.
24819 Van Dyke
CENTER LINE, MICHIGAN

Designers
Detailers

FOR
PRESSWELD
WELDING FIXTURES
TOOLS
SPECIAL MACHINES

LONG PROGRAMS
HEAVY OVERTIME

EFFICIENT
ENGINEERING CO.
21680 COOLIDGE HWY. JO 6-4800

DIE MAKERS

DAYS
58-HR. WEEK
TOP RATES
Long Program

Distel Tool & Mach. Co.
12800 E. 10 Mi. Rd., Warren

4. A fourth type of overtime is necessary on production "bottleneck" jobs. Many of these situations are occasioned by the failure of new equipment to produce up to expectations until the problem is corrected. The imposition of a higher overtime rate would add costs and would not result in employing more people.

5. A fifth type of overtime arises from the unpredictable shifts in consumer demand among the products of the various companies or among the products of a single producer. These shifts occur frequently. An example of this is the shift in customer demand for options and accessories and the current shift of customer preference to V-8 engines and away from six cylinder engines. These shifts in preference, of course, result in imbalances between capacity and demand—imbalances that in the short run can only be corrected through the use of overtime. Yet the proposed Bill would apply uniformly across the industry and the plants within the industry.

6. Finally, as has been discussed, overtime occurs in a substantial number of production operations during peaks in output requirements.

In periods of rising and high economic activity, the payment of premium rates for unavoidable overtime expands. Both labor and facility "bottlenecks" become increasingly apparent as business improves. The imposition of double-rate premiums on overtime under these conditions will not increase the supply of the service required in the short term and will only serve to array on the side of inherently inflationary wage pressures the power and authority of the Federal Government. Clearly it was not the intent of H.R. 9802 to accelerate an inflationary rise in wage costs. Equally clearly, however, this is what it would do.

Overtime and Undertime—The Question of Balance

The annual employment experience of the individual motor vehicle employe, as has been brought out in prior exhibits, is different in a number of important respects from the pattern of average employment reported by the Bureau of Labor Statistics for the industry. This annual employment experience reflects the demand for the industry's products and special skills. There are, unavoidably, periods during the year when skilled services are in short supply and when it is both necessary and desirable that the opportunity for overtime be available, balancing other periods in the year when short time or layoff is unavoidable.

The objective of the industry and the union has been to moderate these swings and, where that was not possible, to establish means for income continuity during layoff periods. Present agreements with the unions provide for premium rates for overtime and other specified work periods and for supplementary unemployment benefits for periods of undertime and layoff.

As established in our labor agreements, straight time is paid for work during regular hours Monday through Friday, and penalty payments are required for work outside these hours, as follows:

1. Time and one-half for time worked in excess of eight hours in any continuous 24-hour period.

2. Time and one-half for any work on Saturdays irrespective of the number of hours or days previously worked in the week.

3. Double time for any time worked on Sunday.

4. The equivalent of triple time for hours worked on designated holidays.

The hours for which the industry pays premium rates are reported to the Bureau of Labor Statistics. It is evident, however, that premium pay hours in the industry exceed overtime defined as work over 40 hours per week. Exhibit 13 compares premium hours with overtime hours in the first four pay periods of 1964 for a group of 12 automotive plants. On the average for these plants, total premium hours below 40 hours a week were equivalent to 11.5% of total overtime hours as defined by the BLS.* Statistics on weekly hours of employment published by the Bureau of Labor Statistics (Exhibit 14) indicate that for 1963, motor vehicle employes received an average of 4.2 premium hours per week but worked an average week of 42.5 hours. Thus, hours compensated at straight time rates were about 38.3 per week.

It should be observed also that the reported average hours of weekly employment refer only to those employes on the payroll during the week. Thus in periods of preparation for new models when many of the production employes are laid off, the average reflects the high concentration of overtime hours of the augmented maintenance crews. The published data thus do not disclose the essential fact brought out in Exhibits 5, 6, 7 and 8 that for each major type of motor vehicle employe periods of overtime worked per week are likely to be balanced at some time during the year by periods of undertime or layoff.

While premium rates are paid for overtime work, as described previously supplementary unemployment benefits are paid for undertime and layoff as follows:

*This may be regarded as an approximation of the industry's normal experience at this time of the year. Adjustments were made in the data for extraordinary weather conditions in certain localities which resulted in make up work on Saturday. If these adjustments had not been made, the average for the 12 plants would have been 12.0%.

EXHIBIT 13

NON-OVERTIME HOURS ON WHICH PREMIUM WAS PAID IN TWELVE AUTOMOTIVE PLANTS RELATED TO TOTAL PREMIUM HOURS

January 6 through February 2, 1964

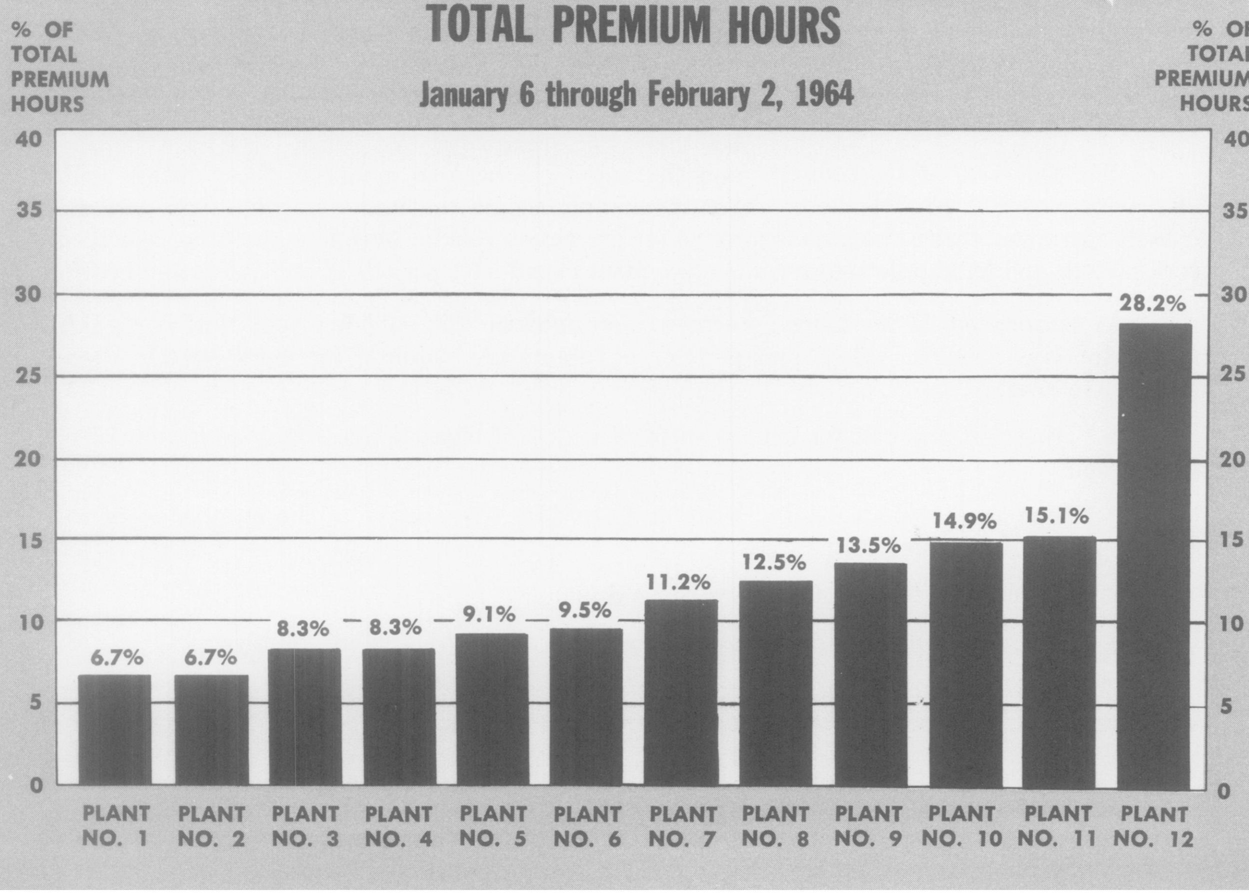


EXHIBIT 14

AVERAGE WEEKLY HOURS OF PRODUCTION AND RELATED WORKERS IN MOTOR VEHICLES & EQUIPMENT INDUSTRY 1958-1963

YEAR	AVERAGE TOTAL WEEKLY HOURS PER EMPLOYE	AVERAGE PREMIUM HOURS PER EMPLOYE	AVERAGE STRAIGHT TIME HOURS PER EMPLOYE
1958	39.7	2.3	37.4
1959	41.1	3.1	38.0
1960	41.0	3.2	37.8
1961	40.1	2.6	37.5
1962	42.7	4.1	38.6
1963*	42.5	4.2	38.3

*FIRST 11 MONTHS

Source: U.S. Department of Labor

For full weeks of layoff, eligible employes are paid 62% of wages plus $1.50 a week per dependent up to 4. This amounts to about 77% of regular take-home pay for a typical auto worker in Michigan with a wife and 2 children. (For a typical auto worker this is about $79 a week.) For weeks of only partial work—that is where hours worked are below 40 in any week of the year—eligible employes are paid 65% of wages for hours not employed when the short hours are "scheduled" due to a decrease in customer demand. For "unscheduled" short hours such as breakdowns employes are paid 50% of wages for hours not worked up to 40 in a week.

These special layoff benefits are made up of state unemployment compensation financed by employers, and supplemental unemployment benefits (S.U.B.), paid out of a trust fund and also financed entirely by employers.

Even in the record year of 1963, employes of the four principal car producers—American Motors, Chrysler, Ford and General Motors—received an estimated $54 million in supplemental unemployment benefits and state unemployment compensation, for layoffs and short work weeks. In 1961, the amount was $172 million.

The evolution of a balanced program of overtime premiums on the one hand, and supplementary unemployment benefits on the other, has been a product of free collective bargaining. The development and successful application of these programs has required a detailed understanding by management and the unions of the many unique employment problems in the motor vehicle industry. Both management and the unions have accepted the payment of premium rates for overtime. Supplementary unemployment benefits meet the union-management objective of providing stability in annual earnings where variation in weekly employment can not be avoided. Thus, insofar as H.R. 9802 would achieve its objective, an essential element in the balancing out of annual employment and income would be removed.

Our perspective on balance should, however, be extended beyond the limits of a single year. We have called attention to the fact that motor vehicle demand and employment are subject to sharp and unpredictable cyclical swings. In recession years the annual income of our employes declines with the decline in sales and production. The problem during such years is undertime. In periods of rising business, the availability of premium rates for overtime work redresses the balance. Again, insofar as H.R. 9802 did succeed in reducing overtime in periods of high demand, the income earning opportunities of our regular employes would be reduced, they would experience more frequent layoffs, and an important element of balance, viewed over the period of the business cycle, would have been removed.

Annual Employment Patterns in 1963

In our introductory statement we observed that the analysis of employment requires a detailed understanding of the particular industry, the factors influencing its employment patterns, the contributions made by many groups of employes with a variety of skills and the nature of demand for the product.

In particular we have been concerned about the mirage of large numbers and the dangers in relying on averages. We propose now to look behind the averages and show in Exhibits 15 and 16 the results of a detailed analysis of employment patterns in one plant in each of four motor vehicle companies. These are illustrative of the employment experience in the industry in 1963.

Exhibit 15 shows the cumulative distribution of employes by the number of hours worked in 1963 for three individual plants. Exhibit 16 shows the distribution of employes by the number of weeks worked in 1963. In both charts, new hires and separations during the year are excluded.

In Plants A and C the average number of hours worked was about 1,950 and 1,900, respectively; in Plant B it was about 2,050. In Plant A 62% of the employes worked less than 2,000 hours; in Plant B 27%, and Plant C 60%.

From Exhibit 16 it can be seen that 65% of the employes in Plant A (not the same plant as in Exhibit 15) worked 47 weeks or less in 1963; in Plant B 44%, and in Plant C 22%. It is apparent that many of these employes could obtain the equivalent of a full year of employment in 1963 only because the opportunity to work overtime at certain times during the year was available to them.

It is also apparent that, were the penalty provisions of H.R. 9802 in effect in these plants in 1963 and had they achieved the objectives of the Bill, a substantially larger percentage of the employes in all three plants would have worked for less than a full year. Certainly the employes in these three plants who worked less than 48 weeks in 1963 would have had even less employment.

Similarly, if new employes had been hired to perform jobs formerly done on overtime, they also would have had less than a full year's work.

A global requirement to pay double penalty rates for overtime work in the motor vehicle industry would, to the extent it accomplished its purpose, force many employes now obtaining a full year of employment to accept less than this in order to provide part time work for others. Otherwise, it would force an increase in manufacturing costs instead of achieving an increase in employment.

These illustrations, drawn from within a single industry classification, point up the hazards in the prescription of basic employment policy by the Federal Government. Alternately, they demonstrate why matters such as these should be retained within the purview of free collective bargaining.

EXHIBIT 15

CUMULATIVE DISTRIBUTION OF ANNUAL HOURS WORKED BY EMPLOYES IN THREE AUTOMOTIVE PLANTS — 1963

(Excludes New Hires and Separations)

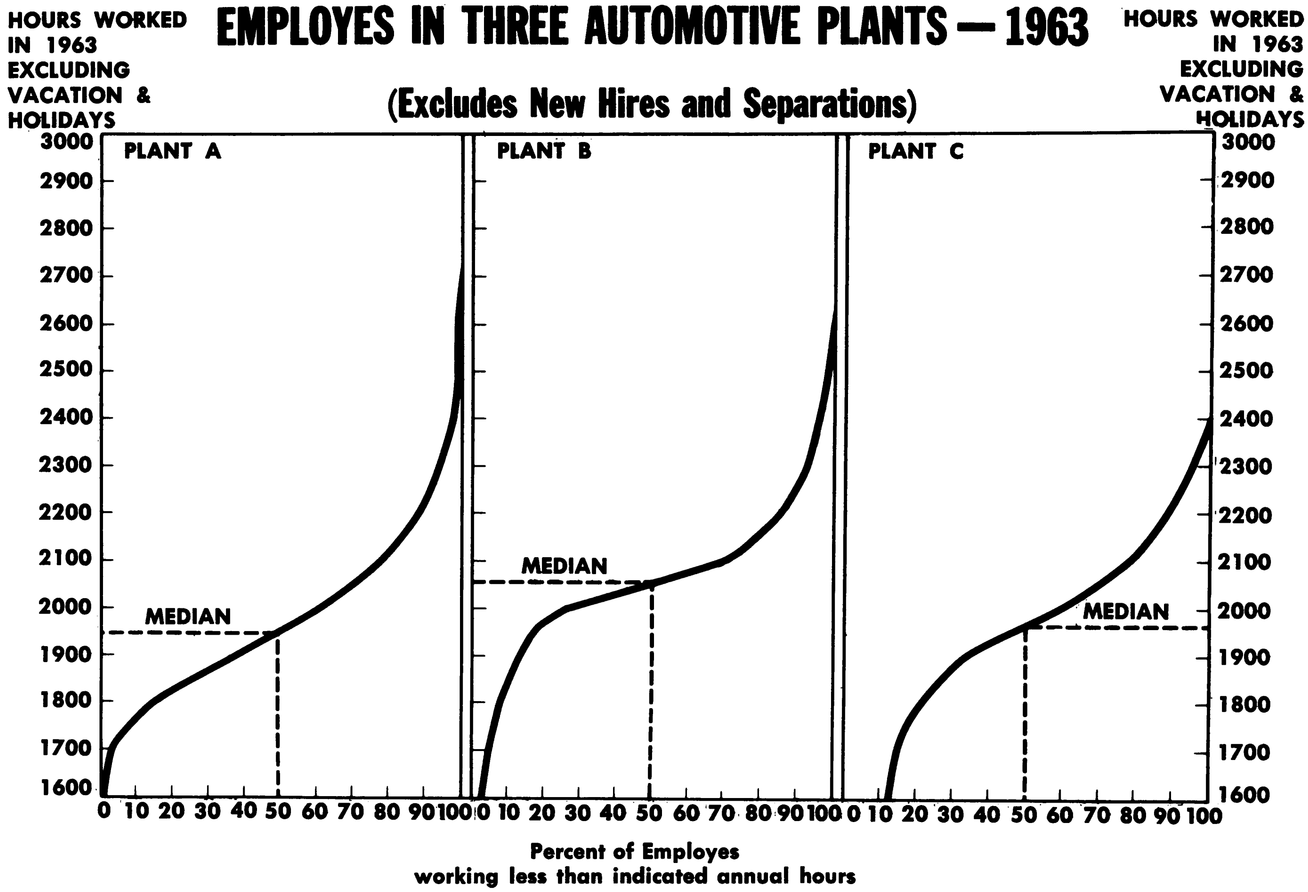
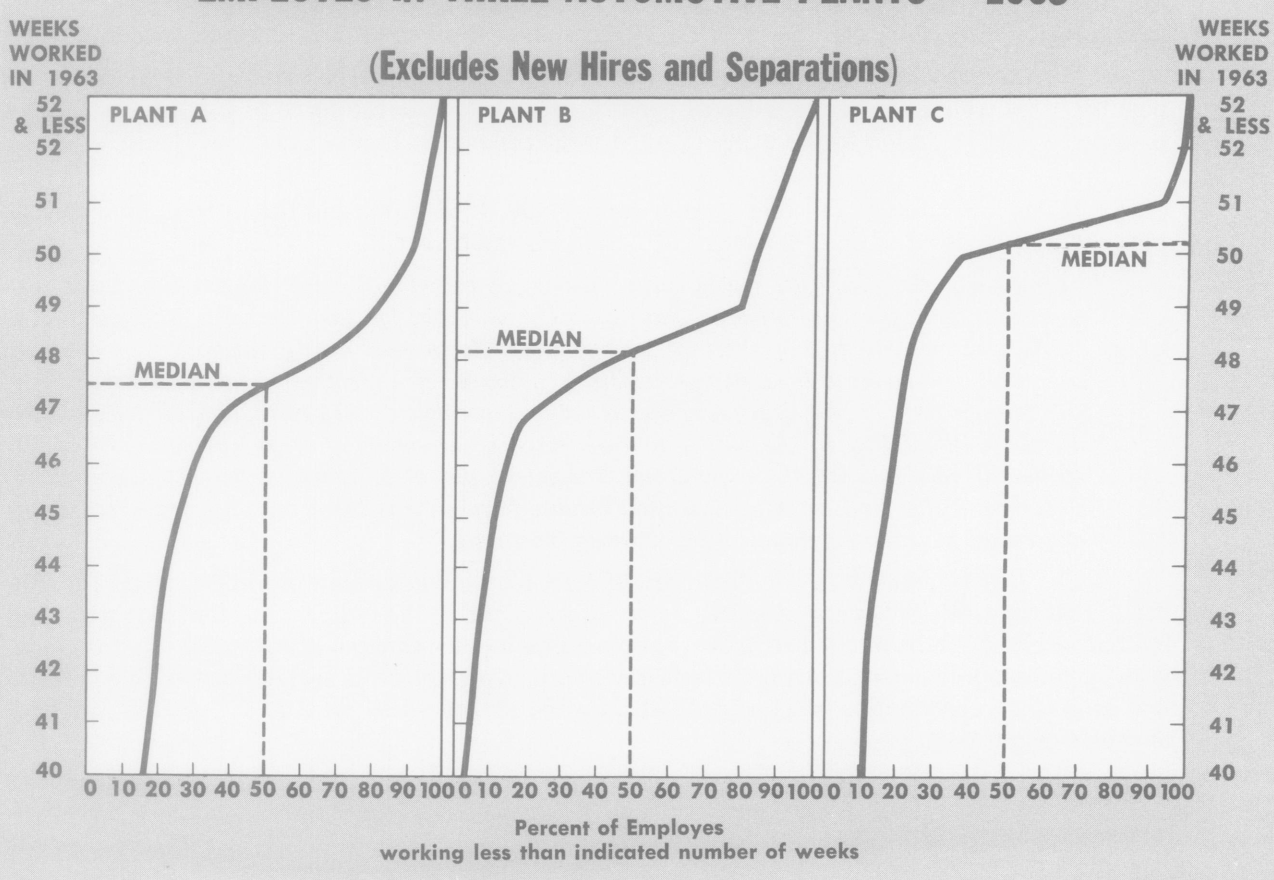


EXHIBIT 16

CUMULATIVE DISTRIBUTION OF WEEKS WORKED BY EMPLOYES IN THREE AUTOMOTIVE PLANTS — 1963

(Excludes New Hires and Separations)



We are convinced that only out of direct bargaining by the groups affected will sound long-term labor relations policy be formed. We are also convinced that a sound national labor policy is the sum of well-conceived local agreements which reflect the near infinite diversity of American industry and employment.

The Definition of Industry

Repeated reference has been made before these Subcommittees to the difficulties which would arise from the need for industry definition by tripartite boards. That industry lines are blurred is well recognized. The full extent of the confusion, however, is not often appreciated.

There has never been a satisfactory definition of the automobile industry. Many plants of the major producers are sometimes included in automobile manufacturing and sometimes defined as parts of other industries. The Bureau of the Census breakdown of automobile plants differs from that of the Bureau of Labor Statistics. A third may be used in the administration of the Walsh-Healey Act. The three official categories all differ from each other. None is precise. Moreover, the definitions are in a constant state of flux.

The great complexity of this problem is illustrated by the fact that the major producers among the members of the AMA are now classified in at least 38 different industries, based on official classifications of the Bureau of Labor Statistics. As shown in Exhibit 17, the extent of these companies' participation in the 38 industries varies but in almost all instances appears to be more than enough to raise insoluble problems of administration. The total number of production employes in all companies classified in these industries in 1963 is about 3 million, equal to 25% of all production employes in U.S. manufacturing.

It is almost impossible to conceive in these circumstances that a penalty rate applied to a part of the motor vehicle industry would not quickly spread to other parts. It is equally unrealistic to assume that penalty rates imposed on the motor vehicle industry would not spread to other industry classifications in which producers have plants. As noted above, these industries in total account for 25% of all manufacturing employment. Is it reasonable to expect that penalty rates covering one fourth of all manufacturing employment could be contained?

We are convinced that this question must be answered in the negative—that selective penalty rates would shortly be general penalty rates and that the force of this upward wage pressure would be added to the other upward wage pressures already clearly evident.

* * *

In his letter to the President dated January 30, 1964 proposing the introduction of the bill now under consideration, Secretary of Labor Wirtz observed:

> *"I recognize that there are many valid reasons, in individual cases, for overtime work. In some industries there are seasonal fluctuations in demand. In some there are peak loads in a production process during short periods of time. Sometimes highly integrated production processes, mechanical breakdowns, shifting patterns of consumer demand, rescheduling problems, errors, or temporary absences make it impossible or very costly to avoid substantial overtime. Flexibility in the use of a work force is necessary if these problems are to be efficiently resolved. On the other hand, consistent use of overtime in the absence of these conditions, often indicates an intention to absorb additional labor costs by excessive use of additional hours of employment for existing personnel."*

The AMA agrees with the Secretary of Labor on his definition of valid reasons for the use of overtime. We believe that most, if not all, overtime in the industry is identified with the factors he cites. We have tried to show that overtime in our industry is necessary, is consistent with the employment patterns in our industry and provides positive social benefits. We believe it is essential to production efficiency. We believe it is required to provide the product quality and service our customers expect.

EXHIBIT 17

DISTRIBUTION OF THE PRODUCTION EMPLOYES OF FIVE MOTOR VEHICLE MANUFACTURERS BY BLS INDUSTRY CLASSIFICATIONS

BLS Industry		Production Worker Employment		
		Total Industry	5 Motor Vehicle Mfrs.	
Code	Name	No. of Employes (thousands)	No. of Employes (thousands)	% of Total Industry
1929	Ammunition	69.6	.8	1.1
1931	Tanks	40.3	2.8	6.9
2396	Apparel Findings	137.8	5.7	4.1
2752	Commercial Printing	67.5	.3	.4
2821	Plastics	48.3	.2	.4
2891	Glue & gelatin	51.4	.2	.4
3069	Fabricated rubber products	128.1	4.8	3.7
3079	Misc. plastic products	123.4	.5	.4
3211	Flat glass	26.5	2.2	8.3
3312	Blast furnaces, steel works & rolling mills	409.5	8.5	2.1
3321	Gray iron foundries	104.4	13.3	12.7
3322	Malleable iron foundries	20.2	4.2	20.8
3323	Steel foundries	46.8	.1	.2
3357	Drawing & insulating of non-ferrous wire	46.9	5.5	11.7
3361	Aluminum castings	30.1	2.5	8.3
3391	Iron & steel forgings	32.1	2.4	7.5
3429	Hardware	69.1	16.0	23.2
3461	Metal stampings	168.1	45.2	26.9
3519	Internal combustion engines	37.5	6.0	16.0
3522	Farm machinery & equipment	84.3	21.3	25.3
3531	Construction machinery & equipment	83.1	7.4	8.9
3544	Special dies & tools	78.2	2.3	2.9
3562	Ball & roller bearings	37.9	8.5	22.4
3585	Refrigerators; refrigerator machinery	43.0	2.2	5.1
3599	Machinery & parts, except electrical	42.7	5.7	13.3
3621	Motors & generators	70.9	4.6	6.5
3632	Household refrigerators & freezers	40.0	13.8	34.5
3642	Lighting fixtures	42.4	5.8	13.7
3651	Radio & TV receiving sets, except comm. types	93.7	4.6	4.9
3662	Radio & TV transmitting	134.2	2.8	2.1
3691	Storage batteries	33.7	3.1	9.2
3694	Electrical equipment for internal combustion engines	49.3	16.9	34.3
3711	Motor vehicles	233.0	199.4	85.6
3712	Passenger car bodies	57.3	39.7	69.3
3713	Truck & bus bodies	28.3	3.2	11.3
3714	Motor vehicle parts & accessories	272.6	163.0	59.8
3722	Aircraft engines & engine parts	112.1	9.9	8.8
3741	Locomotives & parts	36.0	5.8	16.1
	TOTAL	**3,230.3**	**641.2**	**19.8**

Source: Industry data from U.S. Dept. of Labor refer to one week in Nov. 1963. Motor vehicle data refer to one week in Dec. 1963.

III. IS H.R. 9802 WORKABLE, EQUITABLE AND CONSONANT WITH OUR INSTITUTIONS OF COLLECTIVE BARGAINING, PRIVATE ENTERPRISE AND GOVERNMENT BY LAW?

Although the preceding discussion of the motor vehicle industry has already indicated some of the answers to this question it should be considered more fully in relation to all industry and the whole economy.

Vagueness of H.R. 9802

In the criteria for its selective application, H.R. 9802 is so vague as to be, in fact, unintelligible. For example, what does "excessive costs," or "unduly increasing costs," really mean? Which elements of cost are to be included?* Which concepts of cost are relevant? What allocations are to be made? Is the overtime penalty for the jobs that are not converted to straight time to be allocated against those that are converted? And what is "excessive"? "Excessive" in relation to what? If excessive means in comparison with net benefits, how shall benefits be valued and measured so as to be balanced against costs? Should all the secondary effects be taken into account or not? These questions indicate just a few of the deficiencies in the Bill.

Because the proposed statute is so vague, objective determination under it would be impossible.

Government by Law Versus Government by Men

When powers are granted to persons without specific criteria for their exercise, we get government by men instead of government by law.

We respectfully submit that we are entitled to government by law instead of by the opinions and possible biases of a Secretary of Labor and the tripartite committees. The legislation proposed here is punitive, designed to prevent overtime employment in circumstances that cannot be ascertained with reasonable certainty from the proposed legislation. Surely we are entitled to know as clearly as is reasonably possible the situations to which the Bill does and does not apply. More specific criteria could have been written into the Bill. Why were they omitted? Could it be because the objections to the Bill would then have become more obvious?

Practical Difficulties in Determinations Required by H.R. 9802

Even if the criteria for decisions under the Bill were clear, the determination of facts, the forecasts of costs of overtime versus straight-time employment and the prediction of translation or non-translation of overtime into straight-time—all these would be most difficult even for experienced experts and, at best, subject to large margins of error. In such matters, since precise foreknowledge is unobtainable, business decisions are ultimately based on seasoned judgment by persons accountable for the consequences. For outsiders the task is impossible, or at least very nearly so.

A problem that would plague all committees would be the definition of an industry and of the subdivision of an industry to which a specific order was to apply. As was shown by the preceding discussion of our industry, this seemingly simple task is anything but simple.

*One cannot be certain whether the "undue cost" concept embraces only the differential in wage and fringe costs between working present employes overtime and hiring new employes with some addition for training costs spread over some indefinite period, or whether it also includes such additional costs, for example, as those associated with adding entire shifts to plant operations, or whether considerably more than any of these may be considered legitimate.

The information on costs, prices and potential dislocations required to carry out the mandates of the Bill would be extremely voluminous and would range into all aspects of the business. The hearings would have to be lengthy and very costly. By the time a finding and recommendation were made and an order issued, the order would be likely to be out-of-date and irrelevant to the conditions then existing.

The Bill includes provision for exception during periods of "extraordinary emergency or unusually compelling need" as defined by the Secretary. How real is such promise of relief and how well could these exceptions be administered? Would a Secretary in practice be able and willing to deny the rich prize of doubletime for overtime to workers who would be deprived of it by his order? Again, difficulties in obtaining relevant facts and problems of definition would beset the process, and findings could rarely be made in time to afford relief.

The work of the tripartite committees could hardly be expected to reach objective conclusions. Management would fight for low costs and labor for high overtime pay—and the solution would be almost certainly one of compromise rather than justice.

Inequities Resulting from H.R. 9802

The selective application of H.R. 9802 would be inequitable for many reasons. Among them are the following: (1) Because of vagueness and lack of standards in the Bill, uniform interpretation of it would be impossible, and different committees would reach quite different decisions in regard to the same circumstances. (2) Many businesses, small, medium, as well as large, operate in more than one industry. If employes working for the same company, but in different industries got arbitrarily different rates for overtime, there would certainly be employe grievances. Even in the same industry, we would find countless situations where some employes were working overtime at the higher rate while others were doing so at the lower rate—even in the same plant at the same time. This could occur among employes working side-by-side on the same job. Employes so situated are not apt to be impressed with fine dividing lines to be drawn by the Secretary under the Bill, or with the vagaries of applying a number based on averages to the variations that averages conceal. (3) Many industries are in competition with each other. Is it fair to penalize overtime twice as much in one as in another? (4) Conditions change. With the disappearnace of conditions that led to the application of double time penalties, business would have no assurance whatever of relief. In fact, we can be certain that relief would not be granted at once, and reasonably confident that it would not be granted at all. Relief could be had only at the pleasure of the Secretary, and even if he wanted to grant relief, it is unlikely he would do so in the face of opposition from the unions.

Selective Application Will Give Way to Industry-Wide Application

Selective application of H.R. 9802 could not continue long. Individual orders would prove irreversible and inequities would multiply as existing orders became inappropriate and more orders were issued. The only way out of the morass would be by uniform application of the double time penalty. This is such a juicy plum that unions would have to fight for it, both in collective bargaining and in their lobbying activities. This is already happening. The AFL-CIO Executive Council, at its meeting in Miami Beach last Saturday, called the selective proposal inadequate. "Straight across-the-board action is the answer to this proposal," the Council said.

We should not delude ourselves. If H.R. 9802 is enacted, we are committing ourselves irrevocably to an industry-wide system of overtime penalty rates so high as to be injurious and indefensible. Even the advocates of this Bill confess that it should not be applied across the board; but this would be the inevitable result of the Bill if it is enacted.

Penalty Rates Make Overtime Excessively Attractive to Labor

This Bill is advocated, it is said, solely on the ground that it would make overtime less attractive to employers. Attention is not called to the fact that double-time rates would make premium time more attractive to workers and to unions representing them. This would be a source of serious conflict in labor management relations.

Encroachment on Collective Bargaining

The processes proposed in this Bill are clearly an invasion of the domain of collective bargaining. Tripartite committees would assume jurisdiction over some or all of the premium rates for overtime. This amounts to a form of compulsory arbitration incompatible with free collective bargaining.

In a report to the President from his Advisory Committee on Labor-Management Policy, dated May 1, 1962, it is stated that:

> *"We are opposed to any governmental imposition in peace time of substantive terms and conditions on the parties.*
>
> *"We reject the idea that there should be any legal requirement that disputes be resolved through compulsory abritration. If the parties choose to submit their differences to arbitration, in which the award is final and binding, that is of course proper and compatible with the concept of free collective bargaining."*

Invasion of Privacy

The issue of invasion of privacy has been raised in these hearings. We believe this is an important issue. The Bill assigns to the tripartite committees and to the Secretary the responsibility to investigate matters ranging into every part of the business. We do not believe that the operations and records of competing businesses should be opened to such unlimited investigation by tripartite committees, or the Executive Branch of the Government. There have been occasions in which such powers of investigation have been used for punitive or other purposes unrelated to the purposes for which they were granted.

Excessive Powers Conferred on the Secretary of Labor

Another issue that has been noted by your committee is the extraordinary powers of investigation, summoning of witnesses, and decision that would be conferred on the Secretary of Labor. These powers would, of course, be multiplied by the vagueness of the Bill and the latitude permitted in the decisions of the committees selected by him. The Secretary would have the power of final approval of recommendations that would convert them into law. And he would have complete freedom to institute or refuse to institute proceedings leading to the granting of relief. It is noteworthy that the Bill does not require that the Secretary grant relief when conditions no longer warrant application of an order under the Bill.

Several passages in the Secretary's testimony, as well as the specification of the effect on prices as one of the criteria, suggest that the "undue cost" test may in reality involve the so-called "ability to pay" test. At one point, the Secretary stated that the Bill was proposed "on the basis of a complete conviction that it is a good thing for the economy to maximize (additional capital investment) to *whatever extent is consistent with people staying in business.*" (Emphasis supplied). This would be an extraordinary grant of discretionary authority over the free enterprise system.

Such powers are far too great to be delegated to anyone in the Executive Branch of the Government.

SUMMARY

H.R. 9802, if enacted, would establish new rules concerning the way wages are paid in American industry and the amount of wages paid. It is, therefore, a matter of deep concern to all of us in industry seeking ways, consistent with the principles of free competitive enterprise, to expand production and employment. It is for this reason that we, representing the Automobile Manufacturers Association, are grateful for the opportunity to be heard.

The Bill provides for increasing the penalties on overtime employment to 100% or more, on the recommendation of tripartite industry committees, at the discretion of the Secretary of Labor. If the intent of the Bill were accomplished, the increases would be selective, applying to some industries and employes and not to others. The stated objective is not to expand employment but to spread employment.

We have considered the consequences of the Bill first, in terms of its effects on the economy; second, in terms of its effects on the motor vehicle industry; and third, with respect to the established principles of competitive enterprise, collective bargaining and government by law.

The fundamental economic premise of the Bill, now long discredited, is that there is just so much work to be done. We have only to look about us to appreciate that this premise is false. The great challenge is not to devise schemes for slicing up a lump of work, for spreading unemployment, but to create expanding employment opportunities.

Preoccupation with spreading employment diverts attention from the main task of expanding employment. More important, it would hinder the achievement of this goal. We conclude that the general effects of the Bill would be partly to decrease production and employment and partly to increase costs. Some reduction in overtime work could be expected with an increase in short-term sporadic employment both for those newly hired and for regular employes.

There is little or no prospect that the increase in costs could be limited to selected industries. With the attractiveness of overtime greatly enhanced by law, the initially discriminatory penalties imposed under the Bill would quickly spread throughout industry, propelled by collective bargaining pressures as well as petitions to the Secretary of Labor.

In substance, the authority of the Federal Government would thus be arrayed on the side of the inflationary pressures already evident with respect to labor costs, exerting new upward pressure on product prices and adding new tensions in our international balance of payments position.

We have examined in detail the consequences of double rate penalty overtime on the employes and customers of the motor vehicle industry. We are convinced that, if the provisions of H.R. 9802 were imposed on our industry and if the intent of the Bill were in any measure realized, it would have adverse social consequences on our employes and their communities.

We and our employes have worked hard to regularize employment in an industry which is subject to marked swings, both seasonal and cyclical, in demand. We are keenly aware of the social importance of employment regularity. Through some overtime employment, on the one hand, and supplementary unemployment benefits, on the other, we have provided a measure of income stability and high annual earnings. We are proud of our record.

H.R. 9802, to the extent that its aims were realized, would undermine the industry's efforts, extending over many years, to regularize employment.

As a substitute for employment regularity, the Bill would encourage short-term employment and frequent hiring and layoff.

Such a policy would offer little long-term benefit to the residual employes and reduce the earnings of regular employes.

Such a policy would not be consistent with the industry's manufacturing process in which changes in the levels and pattern of employment are sometimes impossible in the short run, more often impractical and always costly.

It would result in production inefficiencies and more costly procedures to maintain product quality.

In brief, flexibility would be reduced, costs increased and customer service impaired.

To the extent that overtime work is unavoidable, costs would be increased. Agreements with the unions already provide premium pay for overtime in excess of the requirements of the Fair Labor Standards Act. There is, therefore, ample economic incentive to minimize overtime work. In these circumstances, the imposition of double rate overtime premium on this industry is bound to result in increased cost.

The companies represented by the Automobile Manufacturers Association are presently classified by the Bureau of Labor Statistics in 38 industry classifications representing, in terms of total employment, 25% of all manufacturing employes. It would present an almost insoluble administrative problem, and result in glaring inequities, to require the double rate penalty in some plants while in others it was not applicable. It seems evident that the double rate penalty could not be limited to one or a few of these industry classifications. From the motor vehicle industry to the 38 industries in which it is classified, to all manufacturing and beyond, is the path which double rate penalties would inevitably take.

The Bill is vague and its language cannot, except in the most general terms, comprehend the near infinite diversity of American industry. Because it is vague, objective determination under it will be impossible. In the absence of specific criteria, the Bill invites government by men—not government by law.

This deficiency in the Bill is all the more disturbing because it grants punitive powers to men—in this case to the Secretary of Labor—and it proposes to replace the seasoned judgment of management and labor groups by the judgment of individuals remote from the details of the production process.

More serious, it would remove, in selected industries, an area of responsibility which has been, and should continue to be bargained in the traditional forums of free collective bargaining. Extending the area of compulsory arbitration is not in the interest of the parties concerned or in the national interest.

If the Bill were made a part of our law, it would invite the invasion of privacy. The operations and records of business should not be opened to the unlimited investigation of tripartite committees or the Executive Branch of Government.

H.R. 9802 is not consonant with our free institutions of private enterprise, collective bargaining and government by law.

Overtime

Fact File

on Penalty Rates for Overtime

one of the important issues affecting the American Economy

ACTION FOR A GROWING AMERICA

INDUSTRIAL RELATIONS DIVISION □ NATIONAL ASSOCIATION OF MANUFACTURERS

[New York, 1965]

PENALTY RATES FOR OVERTIME

.... a shopworn reply to the unemployment problem

Background - The history of federal wage-hour controls harks back to 1892 although the most influential legislation in this area was enacted in the 1930's as part of the New Deal program for economic recovery. Early examples were limited to undertakings involving public safety or public financing and were conceived, for example, to protect the health of laborers working on the vast dams, canals and similar public works of those days, and also the safety of passengers being carried by a thriving railroad and maritime industry. Indeed, economic and fiscal motivations were not to be found in the Eight-Hour Law (1892), the Hours of Service of Railroad Employees Law (1907), or the Merchant Marine Eight Hour Day Law (1915).

With the coming of the New Deal, however, federal attitudes underwent a profound change. The millions of jobless who had helped to elect President Roosevelt demanded action whatever the consequences; thus proposals that might have been termed radical a few years before found popular favor. For the first time wage-hour legislation was used to implement national economic objectives or, specifically, to encourage a wider distribution of available work by requiring additional pay for time put in beyond a stated limit. For example, in 1936 the Walsh-Healey Public Contracts Act was passed. In order to do business with the government an employer was forced to pay for work in excess of 8 hours a day at time and one-half. Shortly thereafter, in 1938, the Fair Labor Standards Act became law. Much broader in application it covered all business engaged in "commerce" and required that all hours worked in excess of forty a week be paid at time and one-half. It also established minimum wage levels to provide the marginally skilled with a basic "floor of protection." Since enactment of the original legislation successive amendments and administrative proceedings have raised the so-called minimum wage far beyond levels originally contemplated. But never in all those years of economic turbulence was the principle of time and one-half for overtime tampered with.

Then, early in 1964, the Johnson Administration proclaimed a need for the creation of additional job opportunities to be achieved by an increase in the premium pay requirements for overtime. Accordingly, H.R. 9802, calling for double pay for overtime under the minimum wage law was introduced before the 88th Congress.

The Overtime Penalty Act of 1964 - So reads the title of H.R. 9802. Recalled amidst innumerable accompanying statements about "achieving a more efficient distribution of employment" and "reducing excessive overtime," the term "penalty" seems quite out of place. But when the consequences of this proposal are considered in detail, the appropriateness of the title becomes disturbingly clear.

This is a penal statute, whatever its intended effects, with employers and consumers paying the fine. For the costs involved, whether they stem from the expense of hiring, training and paying fringe benefits for additional workers or from the higher cost of unavoidable overtime, must find expression in price increases. Either way, the consumer loses.

Grateful acknowledgment is made to Mr. M.I. Cotabish of the Clevite Corp. for supplying the basic information used in this document.

Why Overtime? - Those who would further penalize overtime seem motivated by the false notion that it is avoidable, or within the employer's power to control, and that if it is made sufficiently costly the employer will elect to hire new workers to perform required tasks at straight-time rates. To illustrate, Secretary of Labor W. Wirtz has proclaimed that some 900,000 new full-time jobs would be created were all overtime eliminated. Not to be outdone, the AFL-CIO puts the new jobs at 1 million and claims 80 percent of overtime is avoidable.

Like most distortions these too contain a germ of truth. Some overtime is avoidable; but it does not follow that new jobs would be created as a result of avoidance. For example, take a typical situation:

> In company "X" where a total of 20 employees work a normal 40 hour week, each employee works 4 hours overtime for a total overtime of 80 hours.

Does this mean that company "X" could profitably hire 2 additional workers? Not if overtime fluctuates from week to week as is invariably the case. Not if a production process is involved where the whole team works as a unit. Not if the physical plant is already being run at full capacity. Not if the 20 employees are jealous of their premium pay. And were overtime penalty rates an effective deterrent despite these realities, would not the owner of company "X" have long ago hired extra workers to avoid the present time and one-half premium?

These considerations help to illustrate the real nature of overtime which almost always arises because of the following reasons:

1. emergency orders or work

2. need to compensate for scarce skills

3. desire to reduce labor turnover and unemployment costs

Few companies today can afford to tie up large amounts of working capital in inventories; production scheduling therefore becomes an art where last minute changes are accepted as a matter of course. This is characteristic of the vast automotive supply industry for example where thousands of different parts are manufactured on precise schedules, often requiring completely new machine set-ups in the middle of a production run. These sudden shifts, combined with emergency orders when a car builder needs overnight delivery of parts, do not provide added job opportunities; they do however call for unavoidable overtime.

The appliance industry, marked as it is by fierce competition, presents another example of survival by cost control, achieved through inventory reduction and computerized production scheduling. Here again overtime is a common but inseparable element of overall efficiency; to penalize it further would require a reconsideration by employers of the worth of some of their current activities which provide jobs. Indeed, increased unemployment would be a probable consequence of doubletime in any marginally profitable industry.

Doubletime-for-overtime, a doubtful way to increase employment, is a sure way to increase costs.

The "How" of Unavoidable Overtime - When a plant is running at full capacity on a three-shift basis it is not unusual for an employee to continue at his job for an additional four hours because a man on the following shift has failed to show up for work. Work must continue, especially in a crew or process operation, lest the entire line have to be closed with a consequent wage loss for several employees. Usually the absence is reported only a few hours before the shift-change and arrangements have to be made in great haste to cover for the absentee. And as a further complication a man from the final shift must be called in four hours early to complete coverage for the job. Thus time and one-half is paid for eight hours of ordinary production. Result: a 50 percent labor cost increase for those hours -- and under H.R. 9802 for example, the increase would be 100 percent.

Quite often overtime is required as a part of maintenance. Men whose job it is to keep the plant running expect to be called upon for work when equipment breaks down. Most union agreements recognize this situation and union officers and stewards respond to emergency calls, if they happen to be maintenance men, just like other workers in the plant. This type of overtime is ever-present since electrical failures, conveyor breaks, and motor burnouts occur despite the best of precautions.

Some maintenance can only be done when production machinery is not in use. Weekend work thus becomes necessary at premium rates; union contracts would never countenance leaving employees at home during the regular workweek in order that the work be done on Saturday and Sunday at straight-time rates. A good example of this situation is painting, often done over weekends so that the paint can dry and the equipment be ready for operation when the plant opens on Monday morning.

Conceivably, some of the overtime described above could be eliminated by subcontracting -- the letting of jobs to outside contractors who would undertake maintenance, painting, cleaning, plumbing and similar tasks and perhaps even the supplying of parts and semi-processed materials. But the unions, supported by recent Supreme Court decisions, have successfully opposed the employer's right to subcontract. The union is interested in preserving the jobs of its members and where it is not feasible to hire additional workers for jobs that could be contracted-out, the union insists the work be done at overtime rates. No longer do employers have the unilateral right to make business decisions based on economic facts; in every instance decisions affecting the work force must be discussed with the union. Thus the job-increasing potential of subcontracting has been nullified.

In Fairness to Employers - Management is continually seeking new methods of stabilizing employment and levelling the workweek. The reasons for this search are obvious. Overtime is expensive —— some 50 percent more expensive than straight time. Layoffs too are expensive since the employer must pay for unemployment compensation benefits, severance pay, and even supplemental unemployment benefits in some instances. Production planning, sales forecasting, marketing, all these techniques have been called into play. Every possible method of staffing the plant for normal operation, to avoid overtime hours and excessive cost, has been utilized.

Those who believe that further overtime penalties will be an effective prod are living in a dream world. An employer who toys with the idea of manning his plant for the production peaks that rise despite the best of planning, is not long for the world of business. There is no economic absolution for inefficient operations and if costs are greater than income the company's days are numbered. The iron law of management demands that managers employ only the number of people they need to get the job done, just as it is required that they buy only the amount of raw materials needed, or invest in the proper amount of machinery to do the job.

Occasionally overtime is a steppingstone to success and expansion for a company. By meeting a customer's demand for quantity and fast delivery a company sometimes is given a larger portion of his business. This kind of service usually demands overtime and hard work by all the employees but the result can be more orders, new plants, and a substantial increase in the work force. So temporary effort is transformed into a stable level of higher production because a company was willing to make the sacrifices involved. But if overtime penalties become too severe this road to success will be barricaded.

Price Aspects - In the absence of a "seller's market" -- a condition prevailing only under inflation -- increased costs cannot blithely be passed on in the price of a product. Customers take price into account in placing their orders. Faced with a price increase they may seek a substitute (perhaps an imported article) or may decide it is no longer worth their while to continue the operation which used the product in question. Thus any rise in cost of production is likely to lead to a loss of earnings on the sale of the product involved. If the labor content of the product is small, the overtime penalty is less severe; but if it is high, then a 50 or 100 percent increase in labor cost can turn a profitable product into a losing proposition.

With the limitations of today's markets and the influence of organized labor and government, any increase in the cost of overtime would require a manufacturer to seek help from his customers in the form of higher prices or, in the alternative, to submit to a reduction in earnings -- either alternative would restrict the manufacturer's ability to expand employment. Expansion is governed by several factors, including the ability to absorb increases in sales volume, the ability to invest in new equipment, and the ability to earn a profit on new business.

Given these realities, the oversimplified and fallacious nature of penalty pay for overtime proposals becomes apparent. If it were possible to solve the problem of unemployment via the penalty route employers would have taken the indicated action years ago in order to avoid the present 50 percent penalty. Doubling the penalty will not solve the problem; it will only force employers to reevaluate their marginal accounts and product lines and perhaps discontinue them altogether.

Who Are the "Overtimers"? - There are certain statistics which at first seem to support penalty pay for overtime as a possible device for spreading the work presently available. For example, the July 1963 Monthly Report on the Labor Force, published by the U.S. Department of Labor, indicated that approximately one-third of the labor force or 22.7 million people worked more than 41 hours per week. This seems a sizeable group which might yield sufficient hours to provide quite a few jobs for the unemployed.

But on looking closer we discover that one-third of these people were holding down two jobs (moonlighting) which accounted for their long hours. Penalty overtime rates would obviously have no impact on this group; only a law banning "moonlighting" would have the desired effect.

Again, only 4.5 million of the 22.7 million workers were in a position that called for premium pay for overtime, thus an increase in the penalty rate would be meaningless to the great majority of those working over 40 hours per week.

Most of those working overtime fell within the category of executive, managerial, professional or technical employees -- people who expect to work extra hours now and then with no commensurate adjustment in salary.

For that modest group of workers who habitually put in a few extra hours a week at time and one-half, overtime is a boon — something that is sought eagerly, even jealously. To avoid disputes, most union contracts contain specific provisions for the equal distribution of overtime work. Employees like overtime pay; if the premium is raised to doubletime they will seek it even more avidly and will resist employer efforts to scale it down. Increasing the penalty will do nothing more than swell the pay envelopes of those already earning time and one-half; what is a double penalty for employers will become a double incentive for employees.

Economic Effects of Higher Penalty - Certain consequences of higher overtime premiums do not appear on a superficial evaluation but are weighty enough to justify extreme caution — for example, the position of the United States as a competitor amongst other nations and the related balance-of-payments issue. To illustrate, in order to compete for world markets the United States has had to compensate for its higher labor costs by greater reliance on mechanization. But these methods are also available to European and Asian manufacturers and they too are making heavy investments to reduce employment costs by cutting down on their relatively large work forces. Indeed, because of their great numbers of employees foreign firms have an unmatched cost-cutting potential. It becomes clear then that the United States must avoid any national upheavals in employment costs, such as that implicit in the doubletime proposal which would, in one fell swoop, add billions of dollars to domestic payrolls.

Already, in comparison with foreign economies, the United States is falling behind the pace. We are getting a smaller share of the world's export trade in spite of help from restrictions on foreign aid funds requiring certain expenditures for U.S. made goods. The much-publicized balance of payments crisis, though alleviated, still retains a harmful potential, with several European nations holding large claims against U.S. gold reserves. Any step which increases the cost of our products would be a step in the wrong direction. Further inflation, as through higher labor costs and higher prices, may witness another run on our gold supply.

The Real Solution - Proposals to spread available work reveal a defeatist attitude that cannot begin to solve the unemployment problem. Instead of rationing jobs there should be more emphasis on the creation of new jobs. Instead of proposals to increase employment costs, there ought to be more discussion of methods to stimulate business expansion — tax relief and research incentives for example. Such positive steps would present a marked contrast to the kind of coercive legislation now enjoying a spate of popularity, legislation which frustrates and handicaps the employer in producing goods and services.

The punitive approach is well-illustrated in the following remarks of Walter Reuther in the February 1st edition of the AFL-CIO News:

> "The fact that millions of Americans are forced to work overtime while other millions are unemployed amounts to nothing less than a national scandal... If managements find it cheaper to pay time and one-half for overtime than to hire new employees, then we had better raise that penalty high enough to meet that problem."

The single most important social contribution an employer can make is the creation of jobs, the employment of people. He can do this only by developing new and better products which will find new markets and attract customers ready and willing to buy. The problem is a never-ending one; consumers are soon satiated and constant innovation and imagination are necessary to stimulate buying. No one else is qualified or able to carry this burden; neither government officials nor labor officials so prone to offering oversimplified "solutions" which, more often than not, cause discord and harm.

Legislation for higher overtime penalties will not make it easier for employers to sell their goods, nor will they add a jot to the productivity and skills of employees. It will raise costs and make it harder for employers to meet customer requirements and create new job opportunities.

Unfortunately, the general public seems incapable of grasping the realities of survival in the business world and thus is prone to wander down the primrose path where federal legislation can right all wrongs. In these circumstances our elected officials have a solemn duty to restrain the tide of intemperate proposals that invariably find favor among the unsophisticated. The price of irresponsibility on the part of those who "know better" will be economic tribulation unparalleled in our history.

FACT FILE ON PENALTY RATES FOR OVERTIME

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The Overtime Hoax

Almost everything is wrong, we fear, with the Administration's proposals on overtime pay—in principle and practice.

The theory is that if employers were forced to pay double-time instead of time-and-a-half for overtime, they would choose to hire more workers. Accordingly the President has just asked Congress to empower the Secretary of Labor to set up committees to determine the "appropriate" work periods in different industries; double-time would have to be paid for all hours beyond the recommended work period.

As Secretary Wirtz sees it, if all overtime could be eliminated, more than 900,000 more workers would be needed, which would make a sizable dent in unemployment. If overtime could be reduced instead of eliminated, there would still be substantially more jobs. But that agreeable assumption is, to put it mildly, an oversimplification.

First, any such theory must assume that the right kind of extra workers would be available when needed, whereas in fact a great many of today's jobless are lacking in some of the very skills most in demand. A company cited in a recent report in this newspaper illustrates the difficulty:

The company has been trying hard to find skilled workers so it could cut out overtime. Yet it can't find the people to fill the jobs it has open, even though communities within easy commuting are classed as areas of substantial unemployment.

That's only one aspect of the problem. In other cases, machinery is fully manned and there is no place to put extra workers; the only way to get more production is to work longer hours. The proposed overtime penalty would simply be a heavy addition to costs without any employment gain.

In still other cases, overtime is sporadic; to hire more workers to replace overtime means they would have to be laid off frequently. The auto industry, for one, doesn't like its employment to fluctuate any more than necessary in the nature of its somewhat uneven schedules. All the same, the United Auto Workers union is expected to push hard this year for contract provisions requiring more hiring in place of some overtime, thus aggravating the fluctuations.

By no means all employers, contrary to the Government's apparent belief, resort to overtime because it may be relatively less costly than hiring new workers, with all the expensive fringe benefits, but some do. In such instances, they might go on paying overtime even at the higher rate. Or they might cut out overtime by cutting production or slowing deliveries; in other words, choosing inefficiency.

It could be worse than that. As one executive puts it, the Administration proposal "could cause layoffs in some cases because paying excessively high overtime rates might make a manufacturing operation uneconomic." That is indeed an odd way to go about increasing employment.

As for the principle of the thing—well, it certainly introduces a new element of compulsion to have Government-appointed committees snooping around and decreeing what are "appropriate" work periods. What with contractual featherbedding and numerous restrictive statutes, one would think managerial prerogatives are already sufficiently infringed.

And be it noted that this is an intrusion on the working man as well. Many employes understandably like the fatter paychecks overtime brings and will not take kindly to forgoing them. By what theory of freedom does the Government presume to tell a man he can't work as much as he wants and make as much as an employer is willing to pay?

All this, perhaps, might carry less weight if the upshot actually would be the creation of a large number of new jobs. But the evidence is that it would not, that it would chiefly bring about heavier costs, higher prices and further impediments to the sound economic growth on which the creation of real jobs must depend.

That being so, we find it difficult to have a high regard for a proposal that would penalize employer, employe, consumer and at the same time amount to a hoax on the unemployed.

Wall Street Journal, February 6, 1964

THE NEW YORK TIMES - July 27, 1964

The Overtime Solution

The Administration is beguiled by the idea that raising overtime pay will help to cure unemployment. Secretary of Labor W. Willard Wirtz contends that increasing overtime rates will provide millions of hours of work, presumably absorbing a major portion of the jobless.

This proposal is no more realistic than organized labor's demand for reducing the work week, which the Administration has rightly rejected. Increasing overtime pay from one and a half to double time would greatly increase costs, leading to a shrinkage of profit margins and cutbacks in production. It would accelerate the introduction of automation, because there is a shortage of workers in many industries in which overtime now prevails; rather than take on inefficient or untrained personnel, they would seek to cut down on their use of labor. It would also reduce productivity and bring about price rises.

The Administration itself recognized that pressure on prices would result from the proposal to shorten the work week, which makes it difficult to understand its persistent support of a different device that would have similar impact. The explanation seems to be that Mr. Wirtz is simply going through the motions. For if Congress approved his solution, the achievement of noninflationary growth—which the Administration has helped to promote and takes so much pride in—would be a thing of the past.

Mr. Wirtz and other Administration officials must know by now that there is no magic solution for the problem of unemployment. They once thought it would vanish with the advent of tax reductions; they now are raising false hopes with specific but similarly unrealistic nostrums. The cure lies in sustaining a high rate of economic activity along with expanded education and retraining programs to give the unskilled new opportunities to find employment. The overtime solution is no solution at all, but as long as it receives support in such high quarters it will detract from other more meaningful and concrete efforts.

Premium Pay and Unemployment

Remarks of

W. P. GULLANDER

President, National Association of Manufacturers

Before the

General and Select Subcommittees on Labor

Committee on Labor and Education

U. S. House of Representatives

February 18, 1964

NATIONAL ASSOCIATION OF MANUFACTURERS

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PREMIUM PAY AND UNEMPLOYMENT

Remarks of W. P. Gullander

President, National Association of Manufacturers

Before the General and Select Subcommittees on Labor

Committee on Labor and Education

U. S. House of Representatives

February 18, 1964

My name is W. P. Gullander. I am President of the National Association of Manufacturers which represents companies, large and small, that account for about 75 percent of the industrial employment in the United States.

The National Association of Manufacturers is dedicated to the objective of furthering economic growth as a basis of creating more jobs.

We are deeply concerned with the problems of unemployment. However, we do not subscribe to the theory that the solution to the unemployment problem lies in imposing a penalty rate on America's production process.

The theory that the imposition of new wage penalties on American industrial operations will increase industry's demand for American labor is fallacious. Because we believe that the basic approach called for under this proposal would create new roadblocks to economic growth, we oppose the bill in its entirety.

The measure fails to recognize the essential role of the consumer in the American economy. Those producers who manage to give the customer what he wants, when he wants it, and at a fair and competitive price are the producers who stay alive. Jobs are created by those companies that become competitive not only with other domestic producers but also are able to hold their own with worldwide competition. The companies which cannot compete under such conditions are not the generators of jobs. Such companies are candidates for oblivion.

In our consumer-oriented economy, some producers must schedule overtime operations to accommodate spurts in demand caused by seasonal factors, the greater-than-anticipated popularity of an item, or other developments in the marketplace that generate consumer interest. The American customer often will not be kept waiting, particularly if an alternate source of supply is available. Those producers who fail to heed the customer's impatience risk losing that customer.

In our consumer-oriented economy, the purchaser becomes quite choosy, too, when price is involved. If the price is questionable, he has no hesitancy to shop down the street for its counterpart even if it lacks the "made in U.S.A." label.

The approach contemplated in the bill would create a new roadblock in the way of the economic growth which is the only real source of new jobs.

It would raise costs of production at a time when the competitive position of American industry has already been impaired by cost rises. It would disrupt industry and commerce by injecting an arbitrary element of government intervention into a process which is regulated more efficiently by competitive markets. And it would intensify and complicate the problems of labor-management relations.

This proposal would involve the government heavily in problems which can be a source of industrial conflict. It is generally agreed by all parties that government intervention in labor-management disputes is a step to be avoided rather than sought. In the past Congress has intervened in such situations only reluctantly and only when no other alternative seemed to be available. The proposal would gratuitously create an issue and inject the government into it before any real conflict had arisen.

In many industries premium overtime, beyond what is required in the Fair Labor Standards Act, has been a subject of extensive collective bargaining. Many freely-bargained contracts already provide for such premiums. Where this issue is in the area of collective bargaining, there is no reason for taking it out of that area and, in effect, subjecting it to compulsory arbitration.

The bill provides a complicated screening process for deciding where and how the increased penalty rate would be applied. But neither this nor any other procedure for selection would avoid the undesirable consequences just described. The screening process would create a whole host of additional problems by making it necessary for government to draw distinctions among industries.

As a practical matter any pattern set by government for a segment of business will tend to spread far beyond the bounds of that segment. What is intended as a selective approach will tend to become a uniform approach, whether such is the intention of Congress or not.

The Secretary of Labor, in the explanatory material accompanying his recommendation for enactment of this bill, estimates that the amount of overtime worked in manufacturing establishments in 1963 was the equivalent of 919,000 full-time jobs. But he surely cannot mean that this be taken as his forecast of the number of jobs which would be created by such legislation. The approach could not be applied to more than a small part of industry and where applied it could at best eliminate only a part of the overtime. Under the most optimistic assumptions, it would make only a tiny dent in the total number of unemployed.

But even this conclusion is misleading since it ignores the secondary effects of this kind of a cost-increasing measure. It is our conclusion that, when all the ramifying economic effects of this proposal are taken into account, it will not on balance create any new jobs. It will merely be one more burden restraining the economy from realizing its full job-creating potential.

The Reasons for Unemployment

During the prosperous years of the mid-1950's the unemployment rate in the United States remained at a level of about 4 percent, based on the government definition. During the past six years, however, it has never been reduced below 5 percent. Even now, after three years of economic expansion, we are still faced with an unemployment rate of 5.6 percent.

As labor costs have increased, after-tax profit margins have declined. It is the opportunity to employ labor on profitable work that induces employers to hire more people.

Uneconomic increases in labor costs during the post-war period are one of the major causes of our present unemployment situation. After all, labor is not exempt from the general economic law that the more you charge for anything the fewer takers you will find.

This being the background of our unemployment problem, it is certain that we should not seek a solution in any device which will raise labor costs further. It is no answer to say that, in any industry where the extra penalty is imposed, the added cost can be avoided by cutting down on overtime and hiring new people. Such a step would leave cost levels higher than they are now. If that were not so, employers would have taken that step already.

The Administration's case for a selective imposition of an increased penalty overtime rate rests on the hope that the response of businessmen will be to reduce overtime work and hire more people. This brushes aside the desires of those employees who are currently performing the overtime work and who seem to welcome the extra income.

Even if you accept the premise that these people should be forced to share their employment with those now unemployed, it is more than doubtful that an increased penalty for overtime would achieve this result. Employer's reasons for employing workers overtime are many and varied, and their response to a higher overtime penalty would also be many and varied. In some cases they would simply continue the overtime and have to bear the higher cost -- since they have no practical alternative. In such instances, the result will be either a price increase or a squeeze on profits. Either would be a deterrent to job-creating expansion. In other cases they would make labor-saving changes in their methods or equipment -- changes which would not have been worthwhile at the previous level of labor costs. In other instances producers would simply shut down marginal operations which had just barely paid their way under the previous overtime arrangement but which could no longer do so.

The effect of an increased overtime penalty would certainly be to reduce the number of man-hours of labor that industry would find it profitable to buy -- any labor-cost increase is bound to have that effect. We would then have a smaller "employment-pie" to divide up and the notion that more workers would share in it seems entirely unrealistic.

EMPLOYEE RELATIONS NEWS SUPPLEMENT

A Commentary for General Electric Management • by Employee Relations Service

April 27, 1964

Double Time for Overtime Would Reduce, Not Increase, Employment, Say Company and Industry Spokesmen

Where Things Stand

The double-time-for-overtime proposal which had been introduced in Congress as a solution for overcoming unemployment is presently in limbo. The Congressional hearings have been put in abeyance until sometime in early May when Labor Secretary Willard Wirtz is expected to reappear to give his summation.

The proposal stirred a storm as an unexpectedly wide segment of business and industry testified or submitted statements (including General Electric). The thrust of their universal opposition:

1. **The measure was a sure way to increase costs.**
2. **The measure was an unsure way to increase employment.**

A Congressional subcommittee member responded this way to a General Electric manager who had expressed opposition to him about the bill:

"We have now heard substantial testimony on this subject and, in all candor, I must assure you that I have not seen sufficient evidence as yet to justify this legislation. It appears to me whatever new job opportunities which this legislation might conceivably bring about would be offset by the new problems which it could create for employers in terms of added costs and production scheduling difficulties."

While the facts and experience presented by industry spokesmen might logically put the bill to rest, the vehemence of union and other support may keep it alive. After two months of hearings, only further developments in the subcommittee can indicate what will eventually happen. Three possibilities:

1. **A bill will be read out of committee for Congressional action, along the lines originally submitted.**
2. **The measure will die.**
3. **The whole matter will go on to further study.**

One thing seems sure: Union pressures in the direction of higher wages, overtime premiums, shorter work week, etc., remain politically potent enough to find expression in this or other legislative proposals. Eventual passage will likely be dependent on the ability of union publicists to successfully clothe such proposals in the fabric of the popular drive for more jobs.

Matched against that effort is the continuing need for business and industry spokesmen to expose fallacious approaches and to move ahead in sounder directions that really improve the nation's economic health and widen job opportunities.

"Unquestionably, this overtime penalty legislation is ailing politically, and deservedly so. . . . Its political demise is not yet certain, however."

So stated General Electric Vice President Virgil B. Day in commenting about H.R. 9802 for the U. S. Chamber of Commerce's National Conference on Overtime April 8 in Washington.

Day said testimony had exposed "the dazzling fallacy that arithmetic alone can somehow make jobs, simply by dividing the total amount of overtime worked by 40 hours and attaching a person to each 40-hour unit—as if our workforce consisted of so many homogenous, interchangeable parts, instead of representing perhaps the widest variety of skills found anywhere in the world."

Day also called attention to the little-noted fact that small businessmen opposed the measure as vehemently as do representatives from larger businesses, according to a poll of some 150 smaller Pittsburgh firms.

Summary

Looking ahead, Day offered this challenge to the Conference:

"The critical question for the future is not whether we will resist unsound measures and support sound ones. Instead, the big question is: Can businessmen themselves come up with sound ways for meeting the very natural human concern about employment security? Or will we sit back and allow others to formulate proposals — proposals shaped by what seems politically attractive in the short run, regardless of whether they are economically workable?

"So long as any significant number of unemployed exist, these proposals will come in one way or another. They may face us at the bargaining table—or in legislative halls—but they will come. And one of these days, one of these proposals will go into effect, somewhere, sometime, unless we ourselves can come up with sound solutions.

"So—looking toward the future—let's take the initiative.

"Let's take the initiative first 'back at the ranch'—in our own businesses and communities. We all know that that's where jobs are really made—they're not made here in Washington.

"Let's take the initiative in manpower planning, in training the unskilled, and in retraining those with the obsolete skills for the new jobs that we see coming with the new technologies in *our* plants. We all know—better than anyone here in Washington—what skills are going out of style in *our* plants and what skills *we* will need in the future.

"And let's take the initiative not only in product and marketing innovations so we can capture new markets and build others where none exist today, but in automation, too, so we can cut our costs, expand our markets and create more jobs. We all know these sources of business growth and job growth are all back home; they're not down here in Washington.

"And, then if there's still a need for legislation to aid the unemployed, let's take the initiative with our own ideas on how this aid can be supplied on a sound basis:

—to help the jobless without hurting jobs

—to benefit employees without punishing employers

—to minister to the weak, without injuring the strong

—in short, to restore vitality to the ailing parts of our economy, without infecting the healthy."

The General Electric Vice President's address was based in large part on the Company's statement on H.R. 9802. That statement was submitted April 14 to the General Subcommittee on Labor and the Select Subcommittee on Labor of the House Education and Labor Committee. The text follows:

Written Statement on Overtime

Gentlemen:

We respectfully submit for your consideration our views on the means for aiding the unemployed that are proposed in H.R. 9802, "The Overtime Penalty Act of 1964." We would appreciate your permission to enter these views in the record of your Hearings on H. R. 9802.

Our concern with the imposition of double time premium penalties after 40 hours is that it will not aid the 5% to 6% of the work force who are not employed, but instead will threaten the jobs of many of the 94% to 95% who are employed.

This threat to existing jobs arises from the increase in labor costs that would follow an increase in overtime premium penalties. The increase would occur whether an employer should choose to pay the proposed double time penalty rates or to incur the additional training and other costs of expanding his work force.

The higher unit labor costs, and in some cases higher unit capital costs, that are implicit in the basic purpose of the proposal to increase the overtime penalty premium are inconsistent with the basic objective of the Administration's non-inflationary wage guideposts. The latter are intended to keep increases in hourly compensation in line with increases in output per man hour of the economy and thus help stabilize unit labor costs and prices.

There is a fundamental and indestructible contradiction in a measure that seeks to increase employment by raising employment costs. This is why the application of the proposed Overtime Penalty Act would not only fail to help the 5% to 6% unemployed, but it would work toward injuring the 94% to 95% employed.

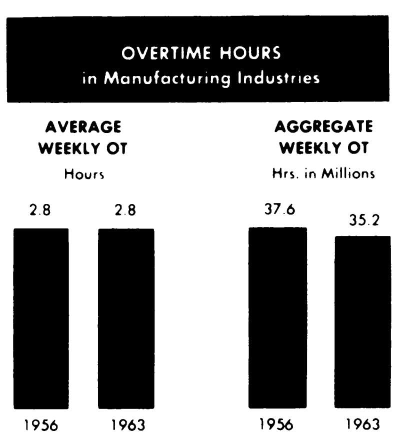
What follows is a brief discussion of the impact of the proposed legislation, together with some suggestions as to how we as a nation can work together to alleviate the unemployment problem.

The Primary Cause of Overtime

The reasons for overtime are many, and they differ from one period of business and defense activity to another and from one plant and product situation to another. (For the detailed reasons, see Page 8.) But one reason stands out. It is this: Customer orders and delivery dates are not spread evenly over the hours of a day or the days of a week or the weeks of a year. Customers "want what they want when they want it" without regard to whether their orders add up to a regular or very irregular daily, weekly or yearly work schedule.

The Trend of Overtime Work

It is generally acknowledged that much overtime is unavoidable (see Page 7).



Nevertheless, it is urged that a double time penalty is needed because it is argued that the time and one-half penalty rate under the Fair Labor Standards Act no longer serves as a deterrent to overtime. But this is not borne out by the facts, either for all manufacturing industries or for the electrical industry.

The figures provided by Secretary Wirtz show that the weekly overtime hours for manufacturing industries in 1963 averaged 2.8 hours per production employee, the same as for 1956, the first year in which these figures were available —a roughly comparable year. The aggregate number of weekly overtime hours in manufacturing industries, as compiled by B.L.S., actually decreased from 37.6 million hours in 1956 to 35.2 million in 1963. The overtime figures of B.L.S., of course, include more than hours worked over 40 in a week under the Fair Labor Standards Act. Overtime hours are premium hours by B.L.S. definition and include premium time for Saturdays and Sundays worked, daily overtime, etc. (see chart below).

Manufacturing industries that worked more overtime in 1963 than in 1956 were offset by those which worked less overtime. The offsetting increases and decreases in overtime among industries are due, of course, to such factors as different levels and trends of business activity, changes in product technology and labor requirements, work stabilization incentives in union contracts that penalize short work weeks, etc.

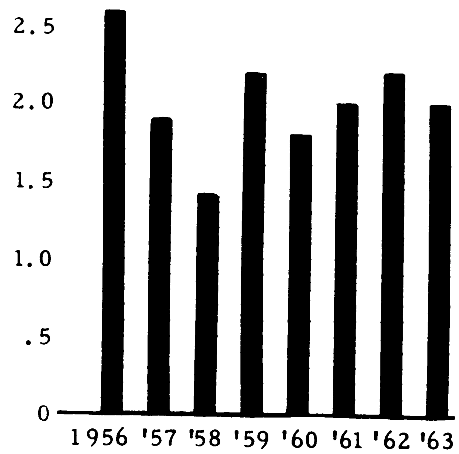
Overtime in the Electrical Industry

One of the industries in the over-all manufacturing group to show a decline in overtime is electrical equipment and supplies (see Page 3, column 1). Since 1956, the first year for which the overtime figures of B.L.S. are available, overtime generally followed the trend of business activity, although the 1963 average of 2.0 hours is lower than the 2.6 hours of weekly overtime for 1956. A lengthening of the picture of overtime hours is provided by reference to the average weekly hours of work. The weekly hours fall as business activity drops in the 1949 recession, rise during the Korean War period and capital goods boom, decline with the 1958 recession, and repeat the rise and fall in 1959 and 1961.

As the individual industries within the over-all manufacturing sector show differences (the range is from 1.4 overtime hours for apparel and related products to 5.0 hours for paper and allied products), so do the sub-industry groups within the electrical equipment and supplies industry. Among the electrical industry sub-groups the range is from

AVERAGE WEEKLY OVERTIME HOURS

in Electrical Equipment, Supplies, 1956-63



1.9 hours to 2.7 hours of overtime (see below).

The reasons why one industry or a sub-group within an industry, or a company within the industry, or one plant within a company, works more overtime than another, vary significantly not only with respect to the level of business activity but also the technical or non-technical nature of the products made and the availability of the skills needed. On the latter point, for instance, the product lines of the General Electric Company have a heavier weighting in technical, capital and defense goods than does the electrical industry as a whole, so that any comparison of the overtime hours worked by General Electric Company or any one of its plants with that of the average for the electrical industry has little significance.

The mere statistical showing of fewer total overtime hours does not imply, as is being suggested, that more workers are on payroll. Rather, based on past experience, the reverse is true. As business activity falls so does the need for overtime hours and the number of employees. Secretary Wirtz's statistics show that for the year of 1958, when unemployment was at the highest postwar rate, the overtime hours were lowest and so were the number of production workers.

Obviously, using any grand total of overtime hours as an indicator of job availability disregards the complexity of the situations as between individual plants and the many work units within the plants. It makes a highly unrealistic assumption on the availability and mobility of given numbers and kinds of skills throughout the nation to meet the different needs as to number, skill and time requirements of the many thousands of individual plant and work situations.

How different the situations are among companies in a particular industry is illustrated in the individual plants of the prepared feeds industry.

As many as 30 hours separate the plants with the lowest and highest weekly hours. The range of overtime hours is just as large: from 0 to 17 hours.

Contradicting the Wage Guidepost

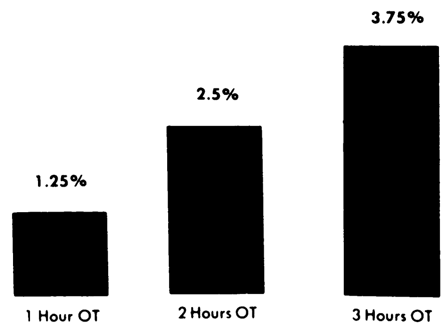
It seems appropriate at this point to mention one of the obvious inconsistencies in legislation which is expressly intended to *increase* penalty costs at a time when the Administration is actively promoting price stability through its non-inflationary wage and price guideposts.

It is obvious from the statements of union officials—the latest by Mr. Meany—that the guidepost theory is giving them some concern from the standpoint of public opinion. Many of us have reservations as to the validity of the output per manhour figures used by the Administration as the basis for its wage guidepost, as well as its adequacy in today's international marketplace. Nevertheless, the wage guidepost does enable the public to form some initial judgment as to the inflationary potential of a negotiated increase in hourly compensation. (See *Another Look at the "Wage Guideposts,"* a General Electric *Relations News Letter*, August, 1963.)

As to union officials, they are proclaiming that they do not intend to be handicapped by the wage guidepost or that the guidepost does not apply to the industries or companies with which they deal. But, if through legislation, a union is enabled to get an additional 50% overtime penalty premium outside the bargaining process, it rather effectively escapes any "count up" by the public of the inflationary potential of a settlement. And, of course, the added costs of hiring new employees would go unnoticed by the public until the new jobs, along with some old jobs began to disappear. An additional 50% overtime premium penalty after 40 hours as proposed by the Administration is equivalent to a 1.25% wage increase if an employee averages one hour overtime per week throughout the year. It is 2.5% for two hours of overtime (see above).

HOW ADDITIONAL 50% OVERTIME PENALTY INCREASES WAGES

as % of Wages where Overtime Averages 1, 2, or 3 Hours per Week Throughout Year



(Fringe benefits are difficult to add up. But the proposed additional 50% overtime premium penalty on $2.50 hourly rate is $1.25 an hour. On a weekly base of 40 hours at $2.50 an hour, or $100 weekly, the $1.25 overtime premium for one hour is equivalent to a 1.25% wage increase if an employee averages one hour overtime per week throughout the year. For two hours overtime the additional 50% premium pay is equivalent to a 2½% increase, etc. Adding hourly fringe benefits to the hourly wage rate to get a total compensation figure would increase the base and lower somewhat the effective percentage increase, but this might be offset in some cases by the

How Overtime Varies Within Electrical Industry

	Overtime Hours	*Number of Production Workers*
Electrical Distribution Equipment	2.7	112,100
Electrical Industrial Apparatus	2.7	128,800
Household Appliances	2.6	122,000
Electric Lighting & Wiring Equipment	2.5	119,800
Miscellaneous Electrical Equipment and Supplies	2.5	83,500
Radio & TV Receiving Sets	2.1	93,700
Communication Equipment	2.0	214,800
Electronic Components & Accessories	1.9	192,700
The Average: Electrical Equipment & Supplies Industry	2.3	1,067,000

increase in some benefits that might result from more overtime.)

Thus, through such legislation as is proposed in H.R. 9802, the unions in effect would be enabled to avoid some of the public glare of wage settlements that obviously disregarded the Administration's general non-inflationary wage guidepost and its modifications. It is a backdoor approach for getting another wage increase and raising costs. And, if the unions were to get double time after 40, they would use this as a springboard for demanding improvements in other related overtime provisions.

It is clear that unit labor costs would be increased if the employer were forced to pay higher penalty rates. It is also clear that unit labor costs would go up if he had to pay hiring costs exceeding the costs of the current overtime rates —which is the basic assumption of the bill. Otherwise, there would be no purpose for the bill at all.

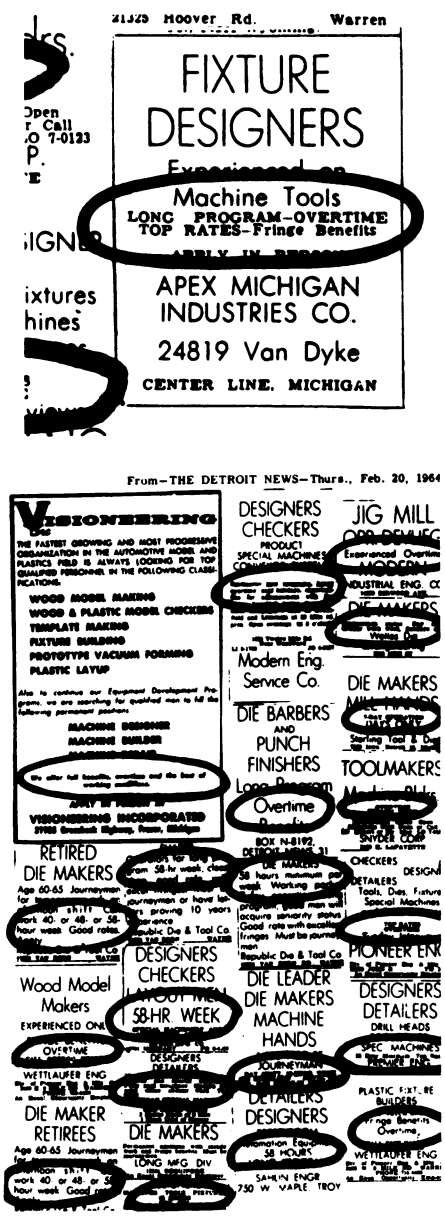
Employees and H.R. 9802

There is another side to the cost coin. It is one of employee incentive, for a double time cost penalty on employers is correspondingly a double time income incentive for employees. Increasing the incentive to want more overtime on the part of those presently employed works at cross purposes with the objective of providing employment for more people. While the press has been carrying stories about the claim of union officials that workers favor a reduction in the hours of overtime work, there is much to indicate that many employees are eager to have overtime work. As one union official recently put it: "Our guys really beef if somebody slips and doesn't follow the contract on allocating overtime equally." (Note Page 6 for the attitude of construction workers at the World's Fair.)

This employee attitude is borne out by arbitration cases. Sharing of overtime ranks fourth in the American Arbitration Association's table of frequent subjects of arbitration. The Association notes, too, that work-sharing provisions in union contracts have never achieved popularity. It is a fact that many workers in the skilled trades refuse to work a standard work week and will go where they can get overtime to increase their after-tax, take-home pay. This is confirmed by help-wanted advertisements (see center column).

If overtime is to be made less appealing to industry, it has been suggested it should likewise be made less appealing to employees. If union officials are really serious about taking the appeal out of overtime for the employee, let them support taxing away an employee's

TYPICAL OVERTIME ADS



overtime premium pay. Some union officials profess that they know of no opposition on the part of their members to sharing overtime work by adding more employees to the payroll.

Economic Consequences of Raising Overtime Costs

Some of the general economic consequences of raising the premium penalty on overtime have to do with (1) the adverse effects of incremental cost increases on prices, investment and employment; (2) inflation and the international balance of payments; (3) cost-price disadvantage to American producers, foreign competition and American investments abroad; (4) the handicap to small business; (5) inescapable pressures for more rapid introduction of labor-saving machinery and methods which might otherwise be non-economic.

We shall deal with several phases of these subjects. Concerning the last one, it is a truism that increases in employment costs force employers toward a more rapid introduction of labor-saving machinery. Too often, however, this truism is dismissed as being operative only "in the long run when we will all be dead."

On the contrary, if we look at the United States industry in the perspective of world-wide competition, we are struck with the uncomfortable fact that the "long run" is *now*.

While it is generally known that the average hourly wage and benefit level in the United States is higher (as much as three times higher) than the levels of the large industrial nations of Europe—and still higher than in Japan—it is not so well recognized that, as a consequence, foreign firms have many more employees relative to their sales volume. Note from the chart opposite that while the combined sales volume of four foreign electrical firms approximates that of the General Electric Company, they employ two and three-quarter times the number of people.

The pressure of higher compensation levels in the United States has made it necessary for American firms to turn to progressively more mechanization in order to stay competitive. Differences in wage levels are becoming increasingly significant in price competition in world markets as European and other nations narrow some of America's former competitive advantages of mass production, large markets, technology, quality and prompt deliveries.

It is apparent, too, from the much greater number of employees relative to a given amount of sales volume, that foreign firms have quite an opportunity to reduce employment costs through greater mechanization. The size of their capital investment programs is evidence of their objective to reduce their employment costs.

Thus, the obvious competitive need for American industry is for great restraint in adding still further to employment costs. The proposed double time for overtime would fly in the face of this and saddle U.S. industry with higher employment costs. By contrast, in ten Western European countries a penalty overtime premium of only 25% for the first and second hour of overtime predominates. For the third hour it ranges from 25% to 50%, for the fourth hour 50% predominates. In France, it is 25% for the first 8 hours, then 50%. And the normal weekly maximum hours of work fixed by law and collective agreements in Western Europe are generally quite higher than in the United States.

Meanwhile, in comparison with foreign economies, the U.S. economy is lagging not only in the over-all growth rate, but is experiencing a decreasing *share* of the world's exports of manufactured goods, despite a greater use of the tied loans of America's foreign aid program. At the same time we are facing rising imports and increasing pressures on our price structure. A decreasing share is most disturbing as an indicator of America's declining ability to compete with other industrial nations for sales and job opportunities.

A misconception, too, of the relative amounts of wage increases here and abroad has provided a misleading indicator of our competitive position. It is commonly accepted that there has been a closing of the wage gap between America and other industrial nations. But the facts are otherwise. While the much publicized *percentage* increases in wages abroad have been considerably in excess of those in the United States in recent years, this is not so in terms of cents per hour. For instance, in France the hourly earnings (excluding supplemental benefits) in manufacturing industries averaged \$1.73 lower than in the U.S. in 1958, but this gap widened to \$1.89 by 1962. It is to be noted that a 10% increase on a \$1.00 wage level (or 10¢)—which level is quite common in Europe—is no more than a 3.3% increase on a \$3.00 wage.

Finally, it should be noted that one of the few remaining advantages that the United States has over its competitors abroad is our advanced technology and our lead here is being subjected to increasingly severe challenges.

The conclusions that must be drawn from all of these considerations are inescapable. If U.S. industry should seek to recover higher employment costs through higher prices, it would lose more of its markets and jobs to foreign competitors. If it should seek to pay higher employment costs from profits, it will quickly lose its technological lead, which would again result in lost markets and lost jobs. Thus, increases in employment costs lead to substitution of less expensive machinery for more expensive employees, and the proposed Overtime Penalty Act would work toward accelerating this process.

The Great Challenge

The great challenge is not to devise schemes for slicing up or sharing a given amount of work, but to create expanding employment opportunities.

Any possible temporary increase in employment from such legislation would be offset by the disadvantages stemming from the certainty of increased costs. We might then well have a situation where we would harvest the worst of both possible worlds: (1) Inflation and (2) a decrease in employment attributable to the higher labor costs and their adverse effect on the competitive position of marginal firms in both domestic and foreign markets.

In short, our competition everywhere else in the world would be delighted to see this overtime penalty legislation passed here. The great beneficiaries would not be the workers in Pittsburgh, Schenectady and Detroit but the workers in Liverpool, Hamburg and Yokohama.

Congress should reject this legislative proposal and concentrate on creating a climate which encourages business and economic growth. Economic growth may be said to be business growth. And American business will grow only as it offers attractively priced products, particularly in the face of today's intensification of foreign competition. To increase costs through a double time premium penalty is not a means toward achieving a faster rate of business growth; it will act as a damper on growth, and growth is what we need to solve our problem of creating more job opportunities.

How the U. S. Can Compete for Jobs

Business growth requires a team effort on the part of the employer, the employee and the union. Such an effort is illustrated by the Utica story described below. And, there is also the need for competitive government if we are to have competitive industry; and this will also be detailed.

Competitive Employer, Employee, Union

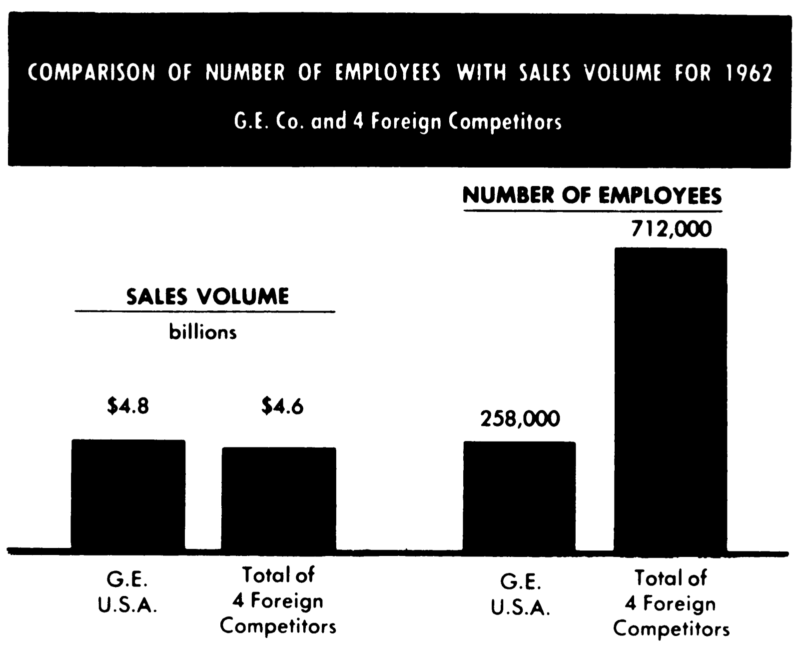
The team effort at one of our Utica plants contains the elements that suggest how America can compete successfully in domestic and world markets, despite some obvious advantages enjoyed by manufacturers abroad.

In 1959 we were not certain we could stay in the transistor radio business in the face of Japanese price and quality competition. Management at our Utica plant met the first key commitment to face the challenge squarely by investing in new plant and equipment. New machines stepped up output and held to a rigid quality standard. Investment in new and redesigned products was sharply increased.

The General Manager of the plant went to his people to explain the department's problems: "Our foreign competitors work just as hard as we do, they're just as smart, and their employees' pay rate is much lower than ours. Our only advantage is in working smarter as a team."

A management presentation of the competition story at the IAM local hall brought a record turnout, and the union newspaper described "a mood of understanding" which prevailed. Talks in the factory and offices plus continuous written communication elicited similarly hearty response from employees.

Formed into nine cost improvement teams, hourly and salaried employees turned in unbelievable cost reductions. Cost improvements doubled in 1960, doubled again in 1961. Savings from



employee suggestions also doubled over the last two years.

Manufacturing, engineering and marketing salaried employees, well aware that their incomes are several times higher than their Japanese counterparts, worked together to make striking improvements in the cost of components and completed radios.

The results? There have been some truly phenomenal cost and price reductions. For instances, the price of a six-transistor radio tumbled well over 50%. And instead of reducing employment, jobs at the Utica plant have increased by one-third.

Are our radio problems over? Far from it. Price reductions still wipe out cost improvements every year. Low-cost producers in Hong Kong and Okinawa are now underselling even the Japanese in low-end transistor radios. In short, the situation is "normal" in Utica—but the Radio Receiver team is in fighting trim.

Research and Investment

The Utica story illustrates how as part of the team effort the employer maintains competitiveness through investment in research for new and redesigned products and in new plant and equipment.

In General Electric today more than 65,000 additional employees—at least one out of every four—are working on jobs making products which were the "new ventures" of ten years ago. Substantial risk-taking investments have been made to build these product businesses.

As to the electrical industry, it has the highest rate of investment for research and development among all major industries. In 1961, 3.8% of industry sales went back into R&D, which was double the average of all industry, to make possible new products and jobs.

Job Training

The employer's management of manpower resources goes beyond successfully motivating employees to make their full contribution to the competitive battles of today. The employer should have a manpower planning and development program that is custom-tailored to fit the job requirement of his business and the aptitudes of his employees, if he is to have a competitive employee—one that makes an effective contribution to the needs of the business and to his own job security.

The plan should be in terms not only of the number of each particular skill required to produce the volume and kind of product that is forecast by his marketing managers for the years ahead but where the employees with the necessary skills and training may be expected to be obtained. Are they to come from the local labor market or will some skills require inplant training programs or a modification of the educational programs of local schools and colleges?

Training and education at General Electric are localized where possible. This is done for two basic reasons, each bearing on the willingness of the employee to equip himself for another job opportunity and on the employee's ability to make an effective, competitive contribution to the needs of the business and to his own job security:

1. Training, to be economically sound, *must be for a need.* If it is a future need, it must still be an identified need. Needs vary widely; hence, types of training and education must vary widely. Training for the sake of training makes no sense.

2. *Training, to be worthwhile, must fit the individuals' aptitudes.* Since these differ even more than local needs, it becomes more imperative than ever to localize the training and education efforts.

Wherever employees have been informed of future job opportunities and have been provided with the opportunities to train for them, the response has been enthusiastic.

Most business organizations—and this is certainly true of the General Electric Company—have at their command many likely candidates today to meet the manpower shortages ahead if a program can be worked out to develop these human resources on a sound, realistic basis. The most likely candidates for skilled craftsmen and foremen tomorrow, for example, are in one of the groups that are being hit hardest by unemployment today, that is the semi-skilled operatives in the 24-34 age groups who are particularly vulnerable to high layoff rates because of their low seniority. This suggests that it will be to the advantages of employees, unions, and employers to re-examine the seniority, layoff and rehiring provisions of contracts as an integral part of an over-all manpower planning and development program.

The training of employees within the General Electric Co. for current and future needs takes on many forms. At our Lynn, Mass. plant, for example, management trains primarily to relieve shortages in several classifications.

In Syracuse, one objective is to fill educational gaps among hourly people so that they may become more readily promotable. Receiving Tube Department's higher percentage of women employees poses problems of continuous training to replace its people who leave periodically because of pregnancies or other family reasons.

The highly technical content of Reentry Systems Department's work requires constant training to keep pace with technology.

There are some twenty General Elec-

World's Fair Construction Workers Reap Overtime

The claim by union officials that their members don't like or want overtime is refuted by the experience at the New York World's Fair.

"Around-the-clock construction, for which workers are earning up to $700 a week, has added millions of dollars to the building costs of World's Fair pavilions," *The New York Times* reported April 17.

A construction engineer at the Indian Pavilion said that the pavilion could not afford to pay overtime. "Consequently, the pavilion has had difficulty in recruiting workers," reported the newspaper.

The Hong Kong Pavilion estimates that 15% of its total construction costs were paid in overtime.

To reduce overtime costs, the Hollywood Pavilion exhibit was constructed in Phoenix, Ariz., dismantled and then transported to Flushing Meadow.

The United States has paid $100,000 in overtime for construction of a $10.6 million Federal Pavilion.

Carpenters who earn $183.75 for a 35-hour week and double time thereafter worked 12-hour shifts, seven days a week, earning $514 in overtime, in a drive to get projects completed by the April 22 opening date.

Among those earning double time for exceeding a 35-hour week are masons and bricklayers, whose base pay is $5.35 an hour; plasterers ($5.15); plumbers ($4.85); and sheet metal workers ($5.40). Laborers earn $4.05 an hour for a 40-hour week.

tric training programs in specific functional areas, such as manufacturing, marketing, finance, research, employee relations, etc. An across-the-board training program is provided by the Tuition Refund Program. Its basic features: Reimbursement of up to 100% of the amount of tuition may be granted by Department General Managers to individuals who, with prior approval, enroll in and successfully complete courses leading to a degree at a recognized school, provided that the courses relate to the employee's field of work.

This is a decentralized program discretionary with each Manager and financed as part of each department's regular operations. It can apply to either undergraduate or graduate education. In many cases it utilizes the facilities of colleges and universities in or near the community where the component is located. In the year that ended July 31, 1963, the Company spent $1,192,000 on this program. Almost 9,500 employees participated.

A more detailed description of the various training programs within General Electric is contained in the pamphlet entitled "Training in General Electric—The Human Side of the Story." (Available on request)

The Competitive Union and Modern Economic Realities

In a challenge to labor on the job front, former Secretary of Labor Arthur J. Goldberg had this to say:

> "A much larger understanding of the issues and the difficulties of solution is required of us all. For instance, labor organizations, in formulating their wage and price policies, must now look beyond the counsel of their traditions and out into the broad fields of modern economic realities, both at home and abroad. A union has existed for the benefit of its members, and still must do so—but the policies to achieve that end must include both long-range and the immediate welfare. It may be fine to save a job but it may not be so fine if the precedent of that action endangers many other jobs over a period of time."

On the problem of unemployment, Goldberg said this to labor and management:

> "Management must stop automatically resisting proposals to ease the human burden of automation whether they are made by labor unions or public officials. Management officials must do more than they have done to provide themselves the devices to prevent hard core unemployment. Retraining programs, allowance payments, vesting of pensions, care in the location and relocation of plants, and a host of other schemes should receive management's most serious attention. Labor for its part must meet management half way. It must abandon restrictive practices. Both sides must think out the operations of seniority systems. Both sides must concentrate on devices to increase mobility."

Union leadership holds an important key in successfully meeting the challenges of modern economic realities. We have been encouraged by the recognition of this, as expressed in the following joint statement by four unions at our Milwaukee X-Ray plant:

> ". . . We endorse and pledge our wholehearted support to the Company's Accent on Value program. To us, this is not a temporary program. Rather, it serves as a guide and reminder of what can and will be accomplished so long as all of us — accountants, clerks, draftsmen, engineers, foremen, methods men, managers, secretaries, salesmen, and all of us in the shop—continue to work together as a team."

Again, at our Owensboro tube plant the managing editor of the local union publication expressed her belief that all should join and help the union to grow. But she added that its members should feel "a great sense of responsibility and thankfulness for the good things we now have." She added that the union's members should realize that there is a good management in the plant and that management does have its problems.

In another instance of union cooperation, the three unions representing Lynn River Works employees of the Flight Propulsion Division endorsed the Division's "Zero Defects" program.

Competitive Government, Too

The role of government in creating more job opportunities has many aspects. For instance, in the climate government creates for business, in the depreciation allowance and special investment credit it allows on capital as compared with what other nations allow in the rate of corporate income tax assessed, and in the position it takes with other nations in bargaining on tariffs and the non-tariff barriers to trade, as well as in the domestic policies of its administrative agencies, our government can do much to assure that American industry and workers are competitive and share in world market growth.

Changes within the past year in the direction of liberalized depreciation allowances and tax credits on new investment also attest to the Administration's recognition of the inadequacy of capital investment and profits.

In the area of trying to develop a better public understanding of the relationship of wage and benefit increases and productivity increases to prices, the Administration's non-inflationary wage guideposts are a step in the right direction. But, the concept of a non-inflationary wage and benefit increase falls short as a weapon in America's competi-

Much of the Overtime Goes to Scarce Skilled People

Much of the overtime being worked goes to skilled employees because employees with the requisite skills aren't available when needed.

For example, here's General Electric's experience at various plant locations:

In Pittsfield, the skilled employees working overtime include power transformer assemblers, power transformer winders, welders, fabricators and burners. In such demand are these skills in the area that the Company finds it necessary to train employees for these classifications.

In Bridgeport, it often takes many months to find millwrights, riggers, tool machinists, and tinsmiths.

In Chicago, it normally takes 3 to 6 weeks to find tool and die makers, quality control inspectors, and maintenance craftsmen (electricians, plumbers, sheet-metal men).

In Louisville, the Company sometimes must wait three months to get planners, motion-time-study men and similar manufacturing-engineering personnel.

In Cleveland, the Company spent one year looking for a pipefitter and four months seeking a skilled machinist before finding them. Only about 10% of applicants interviewed for hourly jobs are found to be qualified.

In Lynn last year, the Company needed 300 to 400 new, skilled employees. In an eight-week period, it could find and hire only 144 skilled people.

No employer — including GE — seeks overtime. There's usually no alternative.

tive battle today, for prices in the world markets are not related to any non-inflationary wage policy of America, but to the demand and supply pressures of buyers and sellers of all competing nations. And, there is no cost or price or job curtain around our shores to protect us from the product inroads of the manufacturers of other nations. If our government were to raise costs on overtime work by adding a 100% premium penalty on top of the non-overtime rate, it would be most non-competitive with the overtime legislation and bargaining contracts in other nations.

Legislation for still larger overtime premium payments will not give an unskilled worker a few hours of a skilled machinist's job nor result in any meaningful sharing of jobs at any level or between labor markets. It will raise costs, take away a measure of flexibility in meeting the requirements of the customers, and hamper rather than help putting more employees to work.

The need of the nation today is for management, employees, unions and Government, working together, to strengthen the ability of American enterprise to cope with competition — to eliminate outmoded and inefficient work standards, practices and methods; and to keep flexible so as to meet the new challenges of tomorrow.

Here Are Reasons for Overtime in Actual Operating Situations

That there are many different situations requiring overtime is illustrated by the following list of reasons for overtime in one of our plants experiencing *a rise* in business and in the number of employees and in another of our plants that has had *a fall* in orders and in the number of employees.

In the plant situation where employment declined during the past year and efforts were being made to place the employees being laid off, there were the following factors that created the need for overtime work rather than for additional employees:

1. Make-up of product loss due to: Faulty part being installed during initial assembly, production problem of fitting part, foreign material being in product, down time of broken machinery, miscellaneous causes, late delivery of material.

2. The replacement of experienced personnel who were bumped out of a work component due to a reduction of work in another component.

3. Replacements for absentees, tardiness or vacationers.

4. Maintenance work that cannot be performed during production time.

5. Maintenance work related to other overtime.

6. Pre-counting and taking inventory (special event).

7. Installation of new machinery.

8. Installation of new process of system.

9. Special tests.

10. Continuous flow due to characteristics and properties of material being worked.

11. Continuous operations where required for 24-hour, 7-day per week coverage such as plant protection, power house, etc.

In the plant situation where product sales and employment have been rising, the following needs were not met by the new additions to the work force and overtime was necessary:

1. To meet sudden notice shipping deadlines.

2. To balance out demands for components and processes. Some operations are limiting factors in the continued expansion of product schedules.

3. To balance inventory stocks. If one model sells at a faster pace than forecasted and scheduled, it becomes a prime problem.

4. To make up lost production caused by emergency situations in which key equipment is inoperative.

5. To prepare special sales models or materials for promotional purposes.

6. To develop new equipment, processes or dies which cannot be tried out except on production facilities, hence must be performed at times which cause little or no disruption in the normal work cycle.

In such *"emergency" work* needs as are listed above, for both rising and declining employment situations, the imposition of a double time premium penalty would have little if any effect on the employment of additional people. It would, however, raise costs because of the operating need for overtime work and the increase in the penalty premium for overtime.

In other situations where considerations arise as to whether to work overtime or hire additional people, there are such factors as these which enter into the decision:

- The advisability of adding people to the current shift.

- The feasibility of starting a *second* shift; third shift.

- Could existing employment and machinery be *more effectively utilized?*

- For what period of time would it be necessary to hire additional people?

- The *anticipated efficiency* and productivity of additional people.

- The availability of skilled workers.

- The reaction of *the community* to frequent hiring and laying off.

- Comparable cost of overtime vs. adding people.

- Specialized training of operators.

- Floor space problems.

- Military customer demands for quick delivery.

- Union Contract problems with respect to upgrading and bumping (for instance, if we were to create 20 additional skilled jobs, we would have to promote from within the current work force, thus needing 60 to 80 moves to hire 20 at lower level skill).

- Additional unemployment costs caused by lay-off after peak load passes.

- Training supervisors.

Where skilled workers are not available, or where the additional output which is needed is not sufficient for a second shift, there will obviously be additional costs incurred by reason of the double time premium. Also, where in order to employ additional people rather than pay double time, extra equipment and supervisors are needed, costs will rise. The addition of new employees also means additional hiring and training costs, lowered productive efficiency, and various extra benefit charges.

The pressures of rising labor costs give rise to the consideration of such alternatives to the employment of additional people as the installation of new and more productive equipment, a slowing of deliveries, or even not bidding on new business that would be unprofitable under a double time penalty situation.

RESEARCH REPORT NUMBER ONE:

OVERTIME PAY

THE
MANPOWER®
RESEARCH
COUNCIL

A NON-PROFIT RESEARCH ORGANIZATION, SPONSORED AND
OPERATED AS A PUBLIC SERVICE BY MANPOWER, INC.

STATEMENT OF PURPOSE

The Manpower Research Council has its objective the development of an interchange of information on employment, industrial relations trends and activities, and management problems among the manufacturing and service industries of the United States. The Council is organized without stock and not for profit, but as a public service. It is supported by donated funds, office space and personnel, under the aegis of Manpower Inc.

MANPOWER® RESEARCH COUNCIL
820 NORTH PLANKINTON AVENUE • MILWAUKEE, WISCONSIN 53203 • BR 2-8500

FOR IMMEDIATE RELEASE

MILWAUKEE, WIS.—Proposed Federal legislation providing a higher penalty rate for overtime work will not increase employment as its proponents claim.

This is the consensus of personnel and industrial relations directors of 200 U. S. corporations recently polled by the Manpower Research Council, nonprofit organization sponsored by Manpower, Inc., in a report released today by Elmer L. Winter, Manpower president.

The proposed legislation is contained in the companion Overtime Penalty Bills H.R. 9802 and S. 2486, now being studied by Congressional committees.

The corporations covered by the study employ a total of 529,333 persons and represent a wide cross-section of U. S. industry. Ninety-eight per cent of the firms polled made overtime payments in 1963. The firms are members of a panel established for study purposes by the Manpower Research Council.

The major reason given by 61 per cent of the respondents for not replacing overtime workers with new employees was the lack of skilled workers and the excessive cost of developing the needed skills through company training programs.

Sixty-two per cent of the Research Council members reported that enactment of the proposed legislation would have the effect of stepping up their company plans concerning automation.

Sixty per cent felt that the proposed legislation would result in cost increases to their customers. However, 57 per cent of respondents said that customer service would not suffer as a result of the legislation.

According to the survey, the most frequent methods used to avoid or reduce overtime at present are earlier and better planning of work, cited by 34 per cent, and the use of part time workers, cited by 29 per cent. Overtime situations most frequently result from deadlines, indicated by 20 per cent, and seasonal peaks, indicated by 20 per cent.

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MANPOWER RESEARCH COUNCIL
820 NORTH PLANKINTON AVENUE • MILWAUKEE, WISCONSIN 53203 • BR 2-8500

This comprehensive report details the experiences of the over 200 corporations, employing a total of 529,333 people, who are members of the Manpower Research Council.

The subject under discussion dealt with the anticipated effects of proposed Federal legislation to increase the overtime premium.

A detailed analysis of the findings is contained on the following pages. Here is a brief summary:

- Ninety-eight per cent utilized employees on an overtime basis in 1963.
- The proposed law to require premium pay for overtime work will not provide a greater number of jobs.
- The major reason given by 61 per cent of the respondents for not replacing overtime workers with new employees was the lack of skilled workers and the excessive cost of developing the needed skills through company training programs.
- Sixty-two per cent reported that the enactment of the proposed legislation would have the effect of stepping up their company plans concerning automation.
- Sixty per cent felt that the proposed legislation would result in cost increases to their customers. However, 57 per cent said that customer service would not suffer as a result of the legislation.
- The most frequent methods used to avoid or reduce overtime at present are earlier and better planning of work, cited by 34 per cent and the use of part time workers, cited by 29 per cent.
- Overtime situations frequently result from deadlines, indicated by 20 per cent, and seasonal peaks, indicated by 20 per cent.

A limited number of additional copies of the report are available, should you wish to distribute them to others in your organization or to members of associations to which you belong.

A special form has been included on the last page of this booklet for that purpose.

Thank you for your co-operation. Within a few weeks you will be receiving the second questionnaire for use in gathering data for Research Report Number Two.

Elmer L. Winter

Elmer L. Winter
President, Manpower Research Council
Milwaukee, Wisconsin

MANPOWER RESEARCH COUNCIL
SUBJ: OVERTIME PAY
SUMMARY OF FINDINGS

1. Did any of your employees work overtime in 1963?

Yes	98%
No	2%

a. If so, assuming that 100% represents total number of hours worked, approximately what per cent of that total was worked at the overtime rate?

(Average)	13.8%

b. For what situations do you find overtime most needed?

Retooling	2%
Emergency repairs	14%
Deadlines	20%
Work volume exceeds available skills	13%
Breakdown of equipment	11%
Rearrangement of equipment	4%
Seasonal peaks	20%
Shifts in consumer demands	9%
Other	7%

REPRESENTATIVE VERBATIM COMMENTS

- *Relocation and consolidation of temporary offices*
- *Computing saving interest*
- *Change in schedules, delay due to late delivery of parts*
- *Avoidance of third shift operation*
- *Absenteeism, illness, vacations and other leaves*

2. What methods do you use to avoid or reduce overtime?

Hiring part-time workers	29%
Farming work out to other plants	11%
Temporary recall of those laid off or retired	18%
Earlier and better planning of work	34%
Other	8%

REPRESENTATIVE VERBATIM COMMENTS

- *Use outside contractors*
- *Accelerated training of new hires*
- *Stretch out project*
- *Building inventory during lulls*
- *Increase second and third shift production by shifting employees.*
- *Checking on absenteeism & taking disciplinary action*
- *No way to reduce or avoid overtime for emergency repairs & breakdowns*
- *Increase total permanent staff*
- *Increasing capacity - machines and manpower*

3. **The following questions pertain to the premium of double time for overtime under proposed legislation.**

a. **Would you continue to work as much overtime under this arrangement?**

Yes	39%
No	61%

b. **If not, how would you manage?**

1. Put on another shift	
Full time	8%
Part time	11%
2. Hire new employees for a short time	21%
3. Call retired or laid-off workers back	
Full time	11%
Part time	8%
4. Reassess need and eliminate some "Nice to do" items	25%
5. Some other means	16%

REPRESENTATIVE VERBATIM COMMENTS

- *Re-evaluate entire employment practices-hiring, staffing, wage scale, work hours, etc. Also re-evaluate present systems and procedures.*
- *Increase total employees but cut back hours to lower annual average hours per week and lower average dollar earnings per week, except for seasonal peaks.*
- *We would sharpen our planning.*
- *Probably more careful day to day observation of production schedules so as to internally transfer personnel into troublesome areas and prevent the necessity of overtime work.*
- *We are trying to eliminate overtime now. We do not consider 1-1/2 rate efficient use of work force.*
- *Cut out coffee breaks and become much more strict in the use of available time between 8 a.m. and 5 p.m. — greater use of part-time agencies.*
- *Increase inventory prior to peak periods, thereby decreasing production needs during seasonal peaks.*
- *In some cases we would extend production schedules and slow delivery.*

c. **If you wanted to replace overtime workers with new employees from the community, could you readily find workers with skills now provided most frequently by your present overtime workers?**

Yes	39%
No	61%

d. In your opinion, what would be the chief barrier to hiring new employees as a solution?

REPRESENTATIVE VERBATIM COMMENTS

- *Not enough qualified office workers now.*
- *Overtime work is usually seasonal (end of year); remainder of year we would be over-staffed.*
- *The skills required are not readily available in the labor market.*
- *Too costly for amount of overtime worked.*
- *Increased costs and difficulties would still persist with "peaks and valleys" of workload.*
- *Increased training, unemployment conpensation, workmen's compensation costs. Also, a space problem and equipment shortages on some jobs.*
- *Training for short peak loads. Cost of hiring, training and processing new people for these peaks.*
- *Need for extensive orientation and training necessary to bring new employee to efficient production on complex work.*
- *Time needed to train.*
- *Required investment in buildings and equipment; unemployment compensation costs of laying-off temporary workers.*
- *Getting our current employees to accept them for they may consider new employees the cause for the eliminated overtime.*
- *Since these employees would be used to cover peaks in production they would probably be laid off when work was slow. This would necessitate continual training and retraining of new employees, increased unemployment insurance costs, reduced production until the employees become orientated on the new job.*

e. Would the proposed legislation encourage short term employment and frequent hiring and layoff in your company?

Yes	45%
No	55%

REPRESENTATIVE VERBATIM COMMENTS

- *It is probably cheaper to pay double overtime than frequent hiring and layoff.*
- *Untrained workers would not solve peak production problems.*
- *To make up cost we would make layoff a more frequent practice where forced to double time, would try to stop paying for idle time.*
- *This is questionable since the majority of overtime is caused by breakdowns and emergency repairs.*
- *We attempt to the best of our ability to schedule work in such a manner as to prevent "seasonal" employment.*

f. Would the proposed legislation result in production inefficiences?

Yes 52%
No. 48%

REPRESENTATIVE VERBATIM COMMENTS

- *Constantly having to train or break in employees.*
- *Force us to hire inexperienced people.*
- *Present satisfied worker will suffer with shorter hours and lose efficiency.*
- *Overstaffing to cover peak periods.*

g. Would the proposed legislation impair customer service?

Yes 43%
No. 57%

REPRESENTATIVE VERBATIM COMMENTS

- *Temporarily until new methods are worked out.*
- *Would extend promise dates to insure meeting production committments on straight time basis.*
- *Definitely, to avoid overtime will not push through special jobs as fast.*

  We would not allow it to.

h. Would the proposed legislation result in cost increases to your customers?

Yes 60%
No. 40%

REPRESENTATIVE VERBATIM COMMENTS

- *Additional payroll costs would be passed along eventually to customers.*
- *Would increase training costs and turnover-layoff of employees; therefore, higher payroll costs.*
- *Naturally, with untrained help, we will incur more defective products. The cost of correcting these problems must eventually be passed to the customer.*
- *Obviously anything that adds cost and creates inefficiency will show up in cost structure.*

i. What effect would enactment of the proposed legislation have on your company plans concerning automation?

Increase	62%
None	38%

REPRESENTATIVE VERBATIM COMMENTS

- *Questionably, this legislation, if passed, will encourage automation.*
- *It will tend for us to re-evaluate the labor cost in manufacturing and since it will increase such cost, it will push us toward automation more rapidly.*
- *Anytime labor costs increase it makes automation more economically feasible.*
- *We would even consider additional capital cost a necessity to retool whenever possible. We would improve equipment.*
- *Past history dictates on obvious course. With any increase in labor costs, more proficient production methods are needed.*
- *We would hasten application of computer to further cost-saving and staff reducing projects.*

4. In your opinion would the enactment of the law tend to reduce unemployment?

Yes	19%
No	81%

REPRESENTATIVE VERBATIM COMMENTS

- *Added manufacturing costs would be passed on to the customer. Higher prices would be a boon to foreign competition. Result: possible increased unemployment.*
- *Not in our situation. Consideration would be given to dropping small orders-concentration on volume. High production periods with frequent shut downs would also be a consideration. More and more automation mandatory. Marginal operations would be closed down. Expansion lessened.*
- *Not in sufficient amount as to be significant since skilled and semi-skilled people are in short supply.*
- *The proposal attempts to treat the symptoms-not the basic disease.*

- *They gripe about too much automation and then turn around and force business into it. It doesn't make sense*
- *Many businesses have peaks of activity; these can best be handled through overtime; less costly than finding, hiring, processing and training new employees for a short term situation. Also helps control unemployment compensation costs.*
- *In our industry most overtime hours can neither be anticipated nor avoided. It would be next to impossible to correct the problem by hiring more people in any significant number.*
- *Double time on overtime may imply step-up in hiring to avoid penalty. But this is not necessarily so. It may be cheaper to absorb the cost of overtime than to absorb hiring and layoff costs.*
- *Temporarily it might appear to, but it would force small marginal producers who require much overtime out of business. Their work would go to larger factories who can automate to avoid overtime.*
- *The additional costs would result in further automation and unskilled (untrained) people would be dropped.*
- *Most companies would prefer increased productivity through added capital investment, do without frills, find ways to achieve same results with no additional personnel.*
- *In exchange for a few people working, a relative handful of hours here and there, there is a definite possibility that other people will join the ranks of the unemployed.*
- *Overtime is required, for the most part, out of the urgency of the moment rather than normal operating procedures. The implication that the major reason for unemployment is due to the employer's preference for paying overtime rather than increasing his work force seems without foundation. The lack of education, training and the lack of real incentive or motivation to work on the part of the majority of the unemployed seem to be the factors that contribute most to continued high unemployment in our area.*
- *Perhaps only a small reduction and this more through use of more contract services than actual placing of new employees on a given company's payroll.*
- *Temporarily yes, but permanently no. Due to increased automation and more seasonal and short term hiring and increased "moonlighting" by employees working reduced hours, unemployment could be increased.*
- *The same people would remain in the labor market since the law does not provide skills for un-skilled workers. Those remaining can earn more money.*

5. What general category of business are you in?

Manufacturing	86%
Service	7%
Insurance	2%
Retail	2.5%
Banking	2.5%

TO: **ELMER L. WINTER**
President
Manpower Research Council
820 N. Plankinton
Milwaukee, Wisconsin

Please send ______ additional copies of Manpower Research Council Survey Number One, Overtime Pay.

Send them to (Name) ____________________

(Company) ____________________

(Address) ____________________

(City) ____________________ (State) __________

I would be interested in having the Council study the following subjects in the future:

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Any other comments: ____________________

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AUTOMOBILE MANUFACTURERS ASSOCIATION, INC.
320 NEW CENTER BUILDING, DETROIT, MICHIGAN 48202

Those unemployment statistics

What they mean ...and don't mean!

by George Hagedorn
NAM Director of Economic Studies

Every month the public is presented with not one, but several, sets of government statistics on employment and unemployment. These get headlines in the press and are widely regarded as indicators of the nation's economic health or lack of it. They are cited in speeches and articles on national issues—sometimes with equal fervor by those taking opposite positions.

The preparation of such statistics is a complex task and one which involves many decisions which are unavoidably arbitrary. Even the problem of defining what is meant by an "employed person," an "unemployed person," or someone who is in neither category and is therefore "out of the labor force," is not as easy as it might seem.

Economic technicians are generally aware of the inherent difficulties in preparing such statistics. They understand the procedures used in meeting those difficulties, and the resulting limitations on the results. The technicians also appreciate the importance of going beyond the overall totals and studying the underlying data on what kind of people are unemployed, how long they have been unemployed, what industries they were previously connected with and other details which appear in the official reports.

Unfortunately, the general public does not have the background of understanding necessary for such a sophisticated appraisal of the published statistics. The press, since there is little news-value in the technical questions which concern statisticians, usually reports merely the overall totals and sometimes exaggerates their significance. Persons with political axes to grind either do not know about, or care about, the limitations of the data.

Within the limits of this brief article we will not try to make the reader a technical expert in the field. It is possible, however, to describe in broad terms how the figures are collected, and thus give some basis for understanding what they mean—and what they don't mean.

Several sets of statistics on employment and unemployment are collected by the government, from sources which are essentially independent of each other. Thus, the Bureau of Labor Statistics has a monthly report on the number of persons employed in nonagricultural establishments, estimated from regular reports received from employers and based on their payroll records. The Bureau of Employment Security publishes a monthly report on the number of persons drawing unemployment benefits. This is derived from the administrative records of state and federal unemployment insurance programs.

The statistics which receive the widest public attention, however, are those appearing in the Labor Department's **Monthly Report on the Labor Force.** This is an attempt to classify the entire non-institutional population of the country, past the age of 14, into three categories: the employed, the unemployed, and the remainder who are regarded as not in the labor force.

Since it is impractical to make a complete census of the country each month, the reports are based on a sample of 35,000 households, chosen by a process of "satisfied sampling" so as to be representative of the entire country.

Loosely speaking, an employed person is defined as one who has a job. An unemployed person is one who does not have a job but is looking for one. Those who neither have a job nor are looking for one are "out of the labor force."

Obviously, these loose definitions have to be substantially refined when they are applied in practice. Since the total number of unemployed is relatively a small part of the labor force—some 5 to 6% recently —the way in which fringe questions are handled can have considerable effect on the results. To meet this problem a complex set of procedural rules has been worked out over the years by the Bureau of Labor Statistics for the collection of data from the households. These are carefully explained in the Bureau's literature, and they form an essential part of the definition of concepts.

Many of these rules are debatable, in the sense that experts of equal competence and impartiality might have preferred to apply different criteria of classification. This is simply to say that there is, in many cases, no uniquely "right" answer to all the questions which arise.

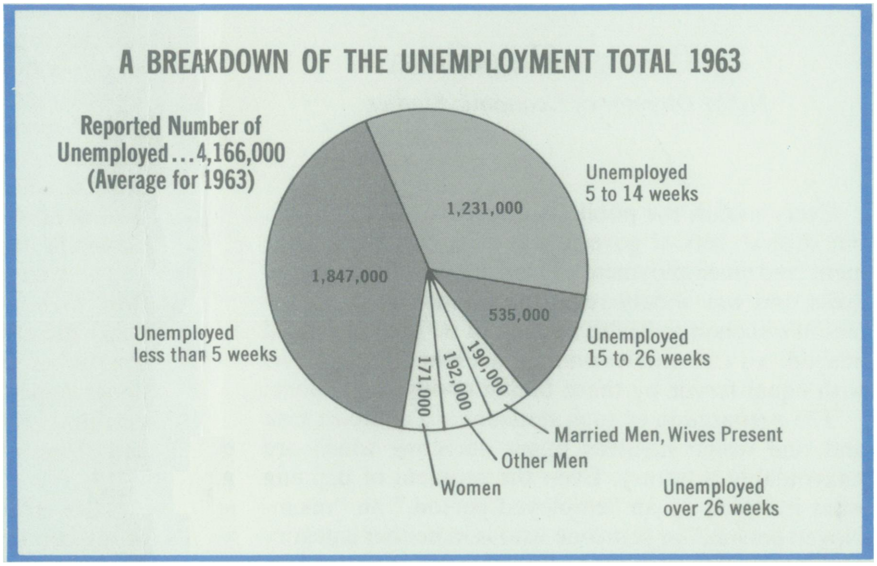
The count of employed persons involves relatively few problems, and most criticisms of the data have not been directed to this total. It would seem relatively simple to determine whether or not a person has a job, but even here there are controversial questions. Thus a person who worked only one hour for pay during the week is counted as employed—even though he may have spent most of his time looking for a full-time job. Similarly, a persón who worked for 15 hours without pay in a family enterprise is counted as employed—even though he may have simply been filling in his time until a suitable outside job opened up. Some persons have maintained that groups of this character should be classified as unemployed rather than employed.

Most of the problems arise, however, in the count of unemployed — those who do not have a job but are looking for one. Just what does a person have to do to be "looking for work?" How does the interviewer determine whether he has actually done any of these things? It seems inevitable that a large subjective element must enter the picture when the interviewer must rely on answers to questions and cannot make an investigation in depth of each case.

A person may be looking for work in the sense of being willing to take a "suitable" job if it became available, and actively seeking such a job. But his standards as to what is suitable may be highly unrealistic and may make his search for work a long drawn-out process, or in fact one that never ends. Meanwhile the support he receives from local welfare or unemployment insurance prevents his personal problem from becoming a desperate one.

Aside from the question of whether a given person is really looking for work, objections have been raised to including certain groups in the unemployed. Thus some people would argue that housewives or students who are looking for part-time work should not be included in the count of unemployed. The usual ground for such argument is that people in these categories are not suffering any personal hardship, even though they may be looking for a job.

But the housewife may be looking for a job in order to provide for a desired improvement, or to prevent a deterioration, in the family's standard of living. The student may need the part-time work to finance the continuation of his education. Undoubtedly there are also cases where the quest for a job is merely a passing whim, but it is hard to see how these cases could be segregated by any process of statistical counting.



The Labor Department makes it abundantly clear, moreover, that hardship is in no sense a criterion for classifying a person as unemployed. It is difficult enough to determine whether a person is "looking for a job" in any realistic sense. We would be getting into an area of hopeless subjectivity if we tried to determine whether he was suffering "hardship" in the course of his search for work.

On the other hand, there are those who would argue that "looking for work" should not be a condition for classifying a person as unemployed. They point to communities which are so depressed that job openings are practically non-existent and no one considers it worth while to look for one. From this point of view many people are omitted from the total of unemployed who, realistically, should be considered part of the unemployment problem of the country.

Because there had been serious concern as to the accuracy and meaningfulness of the government's labor force statistics, President Kennedy appointed, in November 1961, a Committee to Appraise Employment and Unemployment Statistics. This Committee was chaired by Professor Robert A. Gordon of the University of California. It included experts from industry and labor as well as from the academic world. After thorough study it issued a detailed report in September 1962.

The Committee did not recommend any drastic overhaul of the present methods for collecting employment and unemployment statistics. It did, however, make a number of constructive suggestions for extending and improving the information presently published.

Many of the suggestions made by the Committee have since been incorporated in the data. These, in general, give us a better picture of who the unemployed are and whether they are looking for full or part-time work. We also now have seasonally adjusted rates of unemployment for five classifications in addition to the overall rate.

Furthermore, following a suggestion of the Committee, experimental work is being undertaken to determine how intensive the search for a job is on the part of those classified as unemployed. Presently a simple "yes" answer to the question, "Are you looking for work?" qualifies them as being unemployed, and no attempt is made to discover the degree of effort involved in the looking. A separate sample group is being studied in order to determine the feasibility of collecting information on what specific steps these people have taken in their search for work.

Another area in which the Bureau of Labor Statistics is undertaking experimental work, at the suggestion of the Gordon Committee, is the collection of statistics on job vacancies. This would provide enlightening information since it would enable us to look at figures on the number of job openings alongside those on the number of unemployed persons. It, however, poses some technical difficulties just about as severe as those involved in measuring unemployment.

In addition to the national figures on employment and unemployment, the Labor Department also prepares data on labor market conditions in certain geographic areas. Some 150 major production and employment centers are classified monthly into six categories. These range from areas listed as having an "overall labor shortage" (less than 1.5% unemployed) to areas listed as having substantial unemployment (12.0% or more unemployed).

However, the procedure for this area classification seems to be a combination of statistical study and subjective guesswork. The published explanation reports that, in addition to the measured unemployment rate, "... consideration is also given to the area's employment outlook, as reflected by local employer estimates of their manpower requirements, the relationship between labor supply and demand, the seasonal pattern of employment and unemployment fluctuations in the area, and several other factors." It is somewhat disturbing to find the criteria of classification so vague and loose, since this classification is used to determine the area's eligibility for certain forms of federal assistance.

Reverting to the national figures derived from the household survey, the major problem seems to arise from public misunderstanding of the coverage of the total described as "unemployment." The public is likely to imagine that all those listed as jobless are "hard-core" long-term unemployed, suffering severe hardship. The chief hope for correcting this kind of misapprehension is in turning attention to the breakdown of the employment total presented in the official statistics.

Data are published monthly on the number of unemployed classified by: age, sex, race, marital status, industry and occupation of last job, duration of unemployment, and whether they are looking for full or part-time work. These data are so voluminous that we will not even try to describe them in detail. They do show clearly that only a small part of the unemployment total consists of heads of families who have been out of work for long periods.

To illustrate this point we show in chart form a breakdown of the unemployment total for the year 1963. In the average month of that year 4,166,000 persons were reported as unemployed in the nation.

But almost half of this total—1,847,000 persons—had been unemployed for less than five weeks. Presumably this group is largely composed of individuals who are making a normal and fairly painless transition between jobs.

Out of the 4,166,000 unemployed in the average month of 1963, only 553,000 had been out of a job for as long as half-a-year. And only a third of that group consisted of married men.

The concept of hard-core unemployment has never been given a precise definition, and it probably cannot be rigidly defined. But if, for the moment, we consider it to be composed of married men who have been out of work for more than a half-year, we find only 190,000 persons in that category. This is only 1 in 22 of the reported total number of unemployed. It is only about three-tenths of one percent of the civilian labor force of the nation — as compared with the reported figure of over 5.7 percent for unemployment generally in 1963.

This discussion is not meant to imply that unemployment among groups other than married men out of work for more than half-a-year should not be cause for concern. However, breaking the total down in this fashion does help to put the unemployment problem in better perspective than the overall figures customarily reported in the press.

While we have used the year 1963 as an illustration, the situation remains essentially the same no matter what period is chosen. The "hard-core" unemployed, by any reasonable definition, are always only a small margin in the total officially reported as unemployed.

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