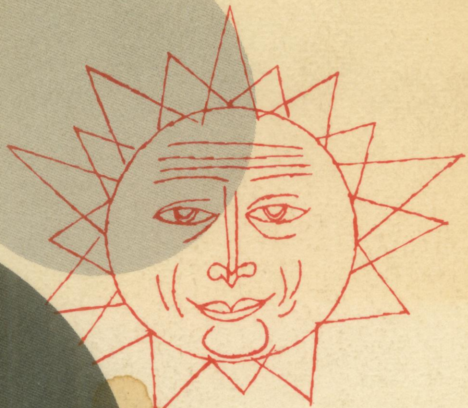

GUARANTEED WAGES

by J. W. GARBARINO

institute of industrial relations
university of california, berkeley

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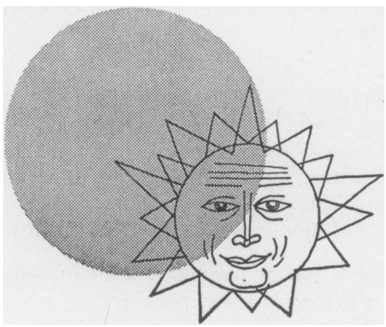

By J. W. GARBARINO
Edited by Irving Bernstein

Institute of Industrial Relations
University of California, Berkeley

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Foreword

THE INSTITUTE OF INDUSTRIAL RELATIONS of the University of California was created for the purpose, among others, of conducting research in industrial relations. A basic problem is to reach as large an audience as possible. Hence the Institute seeks through this series of popular pamphlets to disseminate research beyond the professional academic group. Pamphlets like this one are designed for the use of labor organizations, management, government officials, schools and universities, and the general public. Those pamphlets already published (a list appears on the preceding page) have achieved a wide distribution among these groups. The Institute research program includes, as well, a substantial number of monographs and journal articles, a list of which is available to interested persons upon request.

The issue of the guaranteed annual wage has provoked sharp controversy. As is usual with matters in dispute, the arguments give off more heat than light. A basic purpose of Professor Garbarino's pamphlet is to shed illumination. He has provided us with a background against which to view the conflict: the underlying problem of unemployment as it reflects itself in income insecurity and the experience with guarantee schemes, notably unemployment compensation, both in this country and abroad. He has also sketched the plans currently proposed as well as the contentions of unions and management in regard to them. Finally, he has indicated the problems that must be resolved if these schemes are to gain serious consideration.

Joseph W. Garbarino is on the staff of both the School of Business Administration and the Institute of Industrial Relations of the University of California, Berkeley. He has taught labor problems and has written on many aspects of wages. Hence he is eminently qualified to deal with the guaranteed wage.

The Institute wishes to express its appreciation to the following persons for their review and constructive criticism of the manuscript: Walter Galenson, Max Kossoris, F. Theodore Malm, and George A. Pettitt.

The cover design and the cartoons are the work of J. Chris Smith. Sherman I. Rifkin was most helpful in suggesting ideas for these illustrations. Philip Klein assisted with the research and Mrs. Anne P. Cook with the editing.

The viewpoint expressed is that of the author and may not necessarily be that of the Institute of Industrial Relations.

ARTHUR M. ROSS, *Director*
Northern Division

EDGAR L. WARREN, *Director*
Southern Division

Contents

I. Income Security and Unemployment

"It's a must!"

"It's murder!"

In April 1954, a newspaper story used these quotations to illustrate the reactions of a union negotiator and a company spokesman to a union proposal that the company include a "guaranteed wage" plan in their collective bargaining contract.

While neither statement should necessarily be taken at face value, they are evidence of the strong desire of workers for security of income and of management's awareness that the burden of satisfying that desire might be extremely heavy.

In an economy in which workers depend on money wages to support themselves and their families there are few catastrophes that can compare with the interruption of regular pay checks. In the United States about three-fourths of the labor force work as employees dependent on wages or salaries for their income. Under these circumstances a program to "guarantee wages" is certain to have wide appeal. This will be particularly true at times when many workers feel threatened with the loss of their jobs.

While there are many causes for instability of income in individual cases, the most important single factor is involuntary unemployment. Although we recognize that enforced idleness has serious social as well as economic consequences, economic aspects dominate in an economy in which we satisfy most of our material wants by the use of money. A man out of work suffers psychologically from a feeling of having lost his place in society, but the suffering stemming from the emptiness of his wallet is more immediate and pressing.

Over the years many attempts to help workers deal with interruptions in income have been made in the industrial economies of America and Europe. The problem has been attacked by charitable groups, workers' organizations, business units, and governmental bodies. The attack has been a two-pronged one. Much effort has been devoted to eliminating the causes of income insecurity by stabilizing employment and production through programs applied to the individual business and to the economy as a whole. When unemployment has occurred in spite of these efforts, attempts have been made to deal with it through direct relief, work relief, many types of wage supplement plans, and "unemployment insurance" plans.

In recent years attention in the United States has been centered on plans to cope with unstable incomes through the device of "guaranteed wages." This phrase has been applied to so many different types of specific plans that a simple definition is difficult. By a guaranteed wage plan we will mean any plan to provide workers with the assurance of a substantial part of their usual wage for a fairly long period into the future.

Because many salaries are on an annual basis and because a substantial part of income insecurity is due to seasonal changes within the year, the guaranteed *annual* wage has attracted much interest. This version, however, emphasizes one specific time period. In this pamphlet we will discuss the issue in general terms which can be applied to any indefinite long period as well as to annual guarantees.

We may note at once that by our definition the unemployment compensation systems existing in each of the 48 states are guaranteed wage plans. In a very real sense this is true, and the essential unity of the problem of income security is becoming increasingly apparent. An important feature of the current discussion of wage guarantees is its emphasis on "integrating" a governmental and private approach to the general problem.

While proposals to tie together public (governmental) and private plans for stabilizing income are a new development in the United States, this system has a long history in Europe. In Chapter III of this pamphlet we shall take a quick look at some European attempts to maintain the income of unemployed workers. We shall also describe some of the earlier American systems. Chapters IV through VII will discuss the current plans advanced by American unions to "guarantee wages."

First, however, we shall briefly outline the causes of unemployment and indicate the size of the unemployment problem in the United States.

II. The Nature and Extent of Unemployment

1. THE NATURE OF THE PROBLEM

"DEPRESSION PSYCHOSIS" is a term which has been used recently to describe one aspect of the mental outlook of American workers and their unions. It is argued that the experience of the 1930's created a distorted picture of the American economy as one continuously teetering on the edge of a slide into mass unemployment. This feeling has survived more than a decade of record high employment in the 1940's and the early 1950's; from 1942 through 1953 annual unemployment averaged 3.3 percent and never exceeded 5.5 percent of the civilian labor force. It survived the introduction of drastic changes in part designed to increase the economy's stability: unemployment compensation, farm price support, bank deposit insurance, and others. It survived in the face of repeated governmental assurances that "the shame of mass unemployment" would not be tolerated—witness the Employment Act of 1946 and many presidential statements.

In spite of these circumstances it is not hard to explain the intense and continuing concern with the threat of unemployment. Many of today's workers were either out of work themselves or were members of families whose breadwinner was unemployed during the 1930's. In 1933, one of every four members of the labor force was out of work and looking for a job. In 1937, the best year of ten consecutive years, one of every seven workers was jobless. In addition to the millions who personally suffered the economic and social impact of unemployment, other millions lived with the fear that they might be the next to suffer the blow.

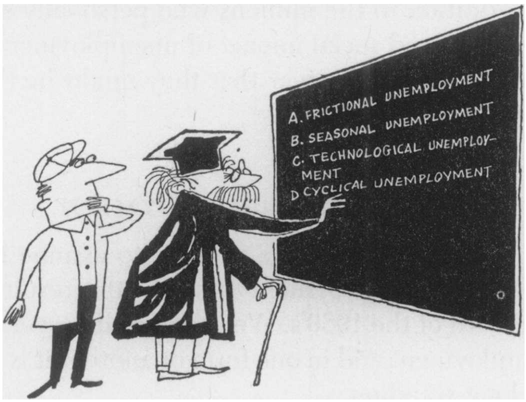
2. TYPES OF UNEMPLOYMENT

But it would be a mistake to assume that today's fear of unemployment is solely the result of the tragic record of the 1930's. We can identify several types of unemployment and in one form or another it is a problem of long standing.

a. *Frictional unemployment.* In a dynamic economy some part of the work force is always without a job at any given time. Businesses are born and die, change locations, adapt their operations to shifts in customers' wants; workers move from one area to another, enter and leave school and military service, switch from one job to another. The unemployment which results from the hundreds of thousands of such shifts is called "frictional" unemployment since it stems from the "frictions" generated by a complex economy in action.

b. *Seasonal unemployment.* Many businesses such as canning, clothing, and construction have their production schedules determined in part by the seasons (or style changes) with some resulting fluctuations in employment.

c. *Technological unemployment.* One of the sources of the economic strength of the American economy is the effort we devote to finding new ways of doing things and



our willingness to adapt ourselves to these changes. New methods and products often eliminate jobs in one area or industry while creating them in others. Unemployment existing during the process of adaptation to changes in technology is called "technological" unemployment.

In a progressive economy some joblessness of these three kinds is inevitable. At any one time this unemployment seldom affects more than a small part of the work force and usually lasts only for short periods. Nevertheless, the problems it raises have concerned workers, unions, employers, and the government for many decades. The fact that some unemployment may be "normal" to the workings of the economic system does not prevent that part of it which is involuntary from being painful to the individuals involved.

d. *Cyclical unemployment.* More important than the shifts in business described above are the fluctuations or "cycles" in general business activity which seem to have occurred at irregular intervals for as long as we have economic records. The depressions in the level of business are a much more serious problem because the unemployment they cause affects a larger proportion of the workers and lasts for longer periods. The prevention and cure of "cyclical" unemployment, while retaining democratic institutions and freedom of action for employees and employers, has been in the past and is today one of our major long-run problems.

As evidence of the long-continued concern of labor groups with this issue we note that as early as the first half of the nineteenth century American unions attempted to set up systems of benefits for out-of-work members. The almost continuous importance of this question through good years and bad was demonstrated by the launching of a congressional study of unemployment in 1928 during an era regarded as highly prosperous.

3. EXTENT OF THE PROBLEM

One of the peculiar things about unemployment is that we did not develop a fairly satisfactory system of continuously measuring the size of the problem until 1940. Since that time the Bureau of the Census has estimated the extent of unemployment on a monthly basis. In addition, fairly accurate estimates for 1929–1939 have been published by the Bureau of Labor Statistics.

The usual method of analyzing unemployment is to express the number of people out of work as a percentage of the civilian labor force (that part of the civilian population with jobs or looking for jobs).

A sample of unemployment percentages chosen to illustrate high and low years since 1929 is given below:

TABLE 1

PERCENTAGE OF U. S. CIVILIAN LABOR FORCE UNEMPLOYED

Year	*Percent*	*Year*	*Percent*
1929	3.2	1944	1.2
1933	24.9	1948	3.4
1937	14.3	1949	5.5
1938	19.0	1953	2.4

SOURCE: Joint Committee on the Economic Report, *Historical and Descriptive Supplement to Economic Indicators*, 1953, and *Economic Indicators*, March, 1954.

For the years before 1929, there are no figures which are comparable in scope or accuracy to those for the later period. Several private estimates of unemployment for parts of the total civilian labor force are available but all have substantial limitations.

Data from one of the best known of these studies covering the manufacturing, transportation, building construction, and coal mining industries are shown in Table 2. Once again we have chosen years to show peaks and troughs of unemployment.

TABLE 2

UNEMPLOYMENT PERCENTAGES AMONG LABOR FORCE "ATTACHED" TO FOUR MAJOR INDUSTRIES

Year	*Percent*	*Year*	*Percent*
1897	18.0	1914	16.4
1902	6.8	1918	5.5
1904	10.1	1921	23.1
1906	5.9	1923	7.9
1908	16.4	1924	12.0
1912	7.0	1926	7.5

SOURCE: Paul Douglas, *Real Wages in the United States, 1897–1926* (Boston: Houghton Mifflin, 1930), p. 460.

It should be emphasized that these four industries are more susceptible to unemployment than the economy as a whole. This means that if the figures for government, trade, finance, agriculture, and other industries were included (as they were for Table 1), the percentages for these same years would be substantially lowered.

4. DIFFERENCES IN UNEMPLOYMENT

This last point helps to explain why some groups are more interested in income stabilization than others. The unemployment problem differs in importance among industries and also among occupations and areas of the country. In 1949, about 12 percent of the workers in construction but only about 2 percent of those working for banks and insurance companies were out of work at any one time. In April of that year, almost one-seventh of the nonfarm laborers but only about one-thirtieth of the clerical workers were reported as unemployed.

The preceding figures refer to differences in unemployment experience among broad industry and occupational groups. The differences between individual firms are even more pronounced. The U. S. Chamber of Commerce found that between January, 1951, and December, 1952, employment declines in 45 wood furniture companies ranged from under 10 percent to over 90 percent for production workers.

Differences in experience such as these help to explain why so many varieties of plans to stabilize income have been developed. They also suggest that there may be areas in which the attainment of a high degree of stability may be extremely difficult if not impossible. Unfortunately, there are indications that wage guarantees are easiest to develop where they are needed least.

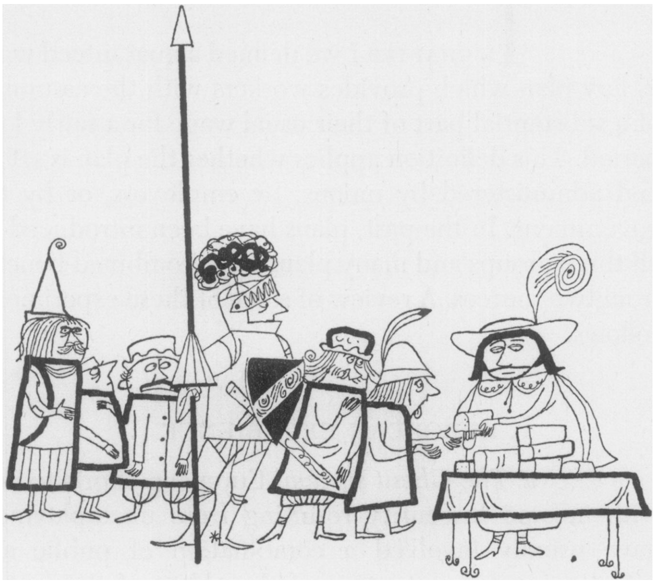
III. A Look at the Past

IN CHAPTER I we defined a guaranteed wage as any plan which provides workers with the assurance of a substantial part of their usual wage for a fairly long period. This definition applies whether the plan is set up and administered by unions, by employers, or by the government. In the past, plans have been introduced by all three groups and many plans have combined benefits from two sources. A review of some of these experiments follows.

1. EUROPEAN EXPERIENCE

a. *The Ghent system.* European efforts to deal with income insecurity resulting from unemployment have usually involved a combination of public and private arrangements. One of the oldest of these combination plans was known as the "Ghent system" after the Belgian city where it was first introduced in 1900. The Ghent system became very popular in many European countries though it never spread to the United States.

The basic idea was that the government should pay a subsidy out of its general funds to any voluntary organizations (usually trade unions) which provided out-of-work payments for its members. The government hoped to reduce the need for direct relief payments to the unemployed by encouraging private groups to set up their own unemployment relief systems. While some



unions introduced benefit systems to qualify for the government payments, the system of direct subsidy was not very successful in meeting the problem.

In 1938 the number of workers covered in the seven or eight European countries using some variety of the Ghent system was still very small. Most of those who were covered were skilled workers, so that almost all unskilled workers were left unprotected during periods of unemployment. It seemed clear that systems which depended on the voluntary adoption of plans under the incentive of subsidies could not do the whole job effectively.

b. *British experience.* The other major European effort to achieve a guaranteed income through the combination of public and private plans was developed in England. The public or governmental part of the program is important because, unlike the Ghent system, it compels the workers and the employers in industries covered by the unemployment insurance law to participate in the plan. The National Insurance Act was passed in 1911, and though many modifications have been made over the years, the structure of the plan has remained basically the same.

Contributions to the system are made by the British Treasury, the employer, and the worker. Each worker is issued an Unemployment Insurance Card and each week both the worker and his employer purchase stamps which are put on the card. If the worker is laid off, he is given his card by his employer. The worker presents his card to the government labor exchange office and registers for work. Three days after registering he becomes eligible for benefits which are drawn until he gets a job or exhausts his benefits. The maximum duration of benefits is 26 weeks. Scope of the plan has been gradually broadened over the years until it now covers the workers in all industries (including agriculture) except domestic service.

In addition to the public benefits, a number of private companies set up plans to provide supplements to the insurance payments. Most of these were introduced during the 1920's to deal with the unemployment problem resulting from the effects of World War I and the long-continued postwar readjustment. By 1930, about 15 employers had installed supplemental unemployment benefit systems of their own. Two of these were joint union and company projects.

Some of these systems derived part of their funds from workers' contributions but most of them were supported entirely by the employer. From our point of view it is interesting to note that some of the plans were very similar to the proposals put forth by American unions today.

For example, a manufacturer of cocoa products installed a plan in 1921 which closely resembled the plans presently advocated by the CIO in the United States. The Rowntree and Company plan called for setting up of a company fund of 10,000 pounds which was to be kept at this level by payments not exceeding one percent of the payroll. The company's liability for benefits was to be limited to the fund. Workers who had six months' service with the company were eligible for benefits which were to vary with age and family responsibilities. No worker could receive more than 75 percent of his average weekly earnings, and the duration of the benefits was to be determined by length of service, with a maximum of 15 weeks. In the next chapter we shall see that the guaranteed wage proposals now being discussed in the United States have many of these same characteristics: trust funds financed by the employer, eligibility determined by length of service, limited liability for the employer, benefits based on weekly earnings and tied to length of service, etc.

These private systems did not cover very many workers at any time. The 15 plans in operation in 1930 covered no more than 50 to 60 thousand workers, compared to the 12 million included in the public insurance system. They are of interest to us because, like current American proposals, they are employer-supported supplements to an existing public benefit system.

Many English unions also had their own unemployment benefit systems. These were supported by contributions from the members and handled entirely by the union officials. Like the employer plans, the benefits they paid were in addition to payments from the governmental system.

2. AMERICAN EXPERIENCE

a. *Union plans.* During most of the 19th century the prevailing view in the United States was that unemployment was a personal rather than a social problem. As experience with the realities of industrial life grew, this view began to change. One of the first attempts to deal with unemployment on a community basis was the establishment of several state employment offices, beginning with Ohio in 1890.

Meanwhile, however, a fairly large number of local unions and a few international unions tried on their own to set up out-of-work benefits for their members. The first record of such an attempt goes back to 1831, but union plans were never very numerous and were quite limited in their total coverage.

The plans often started as a temporary program to meet a particularly severe unemployment problem and then were converted to a long-term basis. They were financed by contributions from members and paid limited benefits. The largest locals with benefit plans were in the printing trades in New York City, where a Pressmen's Union local with more than 10,000 members maintained a program.

The limited nature of American union experiments is shown by the estimate that only 35,000 workers (about one percent of total union membership) were covered in 1930. It is unlikely that there were more than 30 to 40 small plans in existence at any one time.

b. *Company plans.* The first company benefit program in the United States was introduced in 1916 by the Dennison Manufacturing Company. The first plan actually to pay out benefits was the Columbia Conserve Company plan. While these companies were pioneers in the field, most of the discussion of employer-guaranteed wages has centered around what are sometimes called the "Big Three" plans. These are the Procter and Gamble, the George A. Hormel, and the Nunn-Bush Shoe Company plans.

The oldest of the group is the Procter and Gamble which has been in effect in the same general form for more than 30 years. Before the company set up the plan it launched a comprehensive drive to stabilize production and employment by changing some of its business methods. The plan guarantees 48 weeks of work to employees with more than two years' service. Ordinarily the guarantee is for full pay but the company reserves the right to reduce it to 75 percent of the regularly scheduled weekly hours. Rates of pay are not specified in the guarantee. The company also has the right to cancel the guarantee at any time. While this actually means that the "guarantee" could be suspended at will, in practice the company has been very successful in stabilizing production and has had to make few payments under the plan.

The Hormel plan was originally installed gradually, over a period of years at the beginning of the depression of the 'thirties. The company has since been unionized and the plan is now part of the collective bargaining agreement. The two most unusual features of the Hormel plan are that it covers the entire labor force of the company and that normally workers give up overtime pay and average their working hours over the year. The workers are guaranteed 38 hours of work per week for the 52 weeks but may be required to work as many as 10 hours a day or 53 hours a week without getting overtime pay. New employees are assigned to an "extra" gang and are shifted among jobs and departments as they are needed. Some flexibility in the job assignments of workers in other departments is also permitted. In a way the plan could be compared to a company savings plan in which money earned as overtime pay at one time of the year is paid out to workers during the slack periods.

The Nunn-Bush plan does not provide for a guarantee of any fixed amount of income. A certain percentage of the sales value of shoes manufactured during a particular time period is placed in a wage fund. Employees with more than one year of service draw regular checks from the fund. Periodically the total drawings are balanced against the amounts paid in and any surplus is distributed. If a deficit results, future drawings may be reduced. Employees' final earnings thus depend directly on the value of the production of the company. Like the Hormel plan, the Nunn-Bush plan is subject to joint agreement between management and the union in the plants.

These three plans differ widely in their provisions. The Procter and Gamble system is a guarantee of an amount of *work*, not an amount of *income*, since wage rates are not set in the guarantee. The Hormel program is an income guarantee with the wages set by collective bargaining. The Nunn-Bush plan guarantees 52 pay checks but the final amount of income involved depends on the company's sales. These differences reflect the fact that all three plans were installed originally as independent experiments by managements operating in three different industries (Procter and Gamble, soap; Hormel, meat packing; Nunn-Bush, shoes).

While it is true that the three industries are quite different, they are alike in some important ways. The firms are all making products in common use for sale to individual consumers. This means that their business is not likely to be severely affected by depressions. In these industries the most important cause of unstable incomes has been seasonal fluctuations during the year. All three companies devoted much effort to stabilizing production before installing a guaranteed wage plan. So successful have been their stabilization programs that the guarantees have cost them comparatively small amounts.

The Hormel plan is the most comprehensive and the best known of the Big Three. Plans of this type are sometimes called "traditional" guaranteed wage plans. They are income guarantees to all regular employees usually for a period of one year. Meeting the guarantee is a management responsibility and there are no limitations on liability.

While company wage guarantees of many other kinds have appeared in this country, once again the total number of workers covered has been very small.

c. *Joint plans.* In addition to union and company plans, some joint employer-union arrangements have been set up. The first of these was begun in 1894 in the wallpaper industry. Most of the joint plans, however, have appeared in the clothing and hosiery industries. The workers covered by such systems have usually been in what are called union-wide plans. The employees of a number of employers, usually including all of the companies organized by the union in a given area, would be included. These plans worked by building up a special benefit fund from contributions of both workers and employers.

While the variety of wage guarantee programs has been great, their coverage has been small. In 1930, it was estimated that union, company, and joint plans together covered only about 150,000 workers.

3. UNEMPLOYMENT COMPENSATION

Under the impact of the depression of the 1930's a number of social measures were adopted as part of the "New Deal" of President Franklin D. Roosevelt. One of these was a compulsory unemployment compensation plan. The state of Wisconsin, a pioneer in social legislation at this time, had considered compulsory unemployment insurance laws since about 1920. The Wisconsin movement was led by Professor John R. Commons, who had been largely responsible for developing workmen's compensation plans. He felt that the same idea could be applied to unemployment. Wisconsin passed its own Unemployment Compensation Act in 1932, but it was dropped in 1935 when the present state systems were set up under the Social Security Act.

Our current unemployment compensation system is a kind of employer-financed wage guarantee on a wide scale. The program is administered by each state under its own laws which must conform in general to a national pattern. Separate state benefit funds are maintained by taxing the payrolls of covered employers. Workers who are laid off must register for jobs at the state employment offices. Weekly benefits are paid for a maximum of 26 weeks to eligible workers who do not secure jobs. This system is so important a part of the modern guaranteed wage movement that we shall give all of Chapter VII to a discussion of it.

This completes our brief survey of the many ways in which we have tried to stabilize workers' incomes in the past. In the last few years a new wave of private wage guarantee proposals has appeared. In the next three chapters we shall study this "new look" in guaranteed income plans.

IV. The "New Look" in Guaranteed Wages

1. BACKGROUND

THE MODERN phase of the guaranteed wage movement began with the publication of the "Latimer report" in January, 1947.

This report was the last link in a chain of events which began in December, 1943. At that time the United Steelworkers of America (CIO) asked the steel industry to guarantee to their workers a minimum weekly wage equal to 40 hours' pay for the duration of their new contract. The issue went before the National War Labor Board in 1944. The Board did not grant the union demand, pointing out the lack of information on the subject and recommending that the whole question of guaranteeing wages be studied on a national scale. President Roosevelt adopted the recommendation, and the study, directed by Murray W. Latimer, was launched in the fall of 1945.

The Latimer report recognized the essential unity of the income security issue and recommended that unemployment compensation be "integrated" with private wage guarantees. This type of integration is described later as one of the keynotes of the current wage guarantee plans of the CIO.

The first concrete proposal of this nature was put forth by the Steelworkers, the issue this time being argued before the Wage Stabilization Board in 1951–1952. The Board suggested that the parties study the problem before their negotiations for the 1954–1956 contract. Proposals of a similar nature have since been submitted by the Steelworkers and other CIO unions to various companies.

2. THE NEW PLANS IN OUTLINE

Most of the new type plans follow the same general form, although the individual union proposals have important differences in detail. The variety results in part from differences in conditions in particular industries and in part from differences in the choice of collective bargaining strategy.

In simplified form the general pattern looks like this:

1) eligibility of workers to be determined by seniority,
2) guaranteed pay to represent a large percentage of weekly take-home,
3) unemployment compensation to be deducted from the overall guarantee, if possible,
4) some kind of trust fund financing with limited liability for the employer.

The last two provisions distinguish the new plans from what we now call the "traditional" guaranteed wage plans.

The traditional plans were not "integrated" with state unemployment benefits. The company undertook a flat guarantee of work or income entirely on its own. There is considerable doubt as to whether the integration scheme is legal under the state laws governing unemployment compensation. The unsettled question is whether weekly payments from a trust fund to workers on layoff would bar the workers from receiving state unemployment compensation at the same time.

In addition, the traditional plans usually did not provide for building up funds in advance to pay the guarantee and for limiting liability to the contributions to the funds. (Of course, there were many other ways of limiting liability in the older plans, chiefly by allowing the company to cancel the plan altogether.)

Since the Steelworkers were the first major union in the field with a detailed plan of the new type, let us take a close look at their proposal.

3. THE STEELWORKER PLAN

This plan has been carefully prepared to meet anticipated objections in advance. The summary below is taken from the proposal presented to the Aluminum Corporation of America in the summer of 1953.

Who is covered? All employees with three or more years of service with the company.

How much is the guarantee? The minimum weekly payment is to be 30 times the employee's basic hourly wage rate. Any benefits paid by state unemployment systems would be deducted from the guaranteed amount to be paid by the company.

How long is the guarantee? The maximum length of the guarantee period would be 52 weeks from the date of unemployment. The union apparently contemplates that an unemployed worker could qualify for a new guarantee if he worked a certain number of hours during the 52 week period following his first layoff.

How is it paid for? The company is to pay 10 cents for each manhour worked into a trust fund. The liability of the company is to be limited to the payment of this contribution to the fund.

4. ANALYSIS OF THE STEELWORKER PLAN

The Steelworker version of the guaranteed wage is designed to be difficult to turn down. For the employer the most important parts of such a proposal are the cost figures. The union in this case seems to believe that "the best offense is a good defense."

The cost burden to the employer has been limited in three important respects:

1) Coverage has been limited. The provision that no worker with less than three years' service be covered limits the cost since short service workers would presumably be the first to be laid off. For the steel industry as a whole the union estimated in 1951 that about 30 percent of all employees would be excluded by this provision. The proportion excluded would vary with employment conditions, falling in depression and rising in prosperity.

2) Benefits have been limited. The plan calls for a guarantee of about 75 percent of straight-time wages. This would permit a substantial reduction of hours before guarantee payments must be made. When layoffs of short service workers are combined with general reductions in hours, we see that the companies could operate considerably below capacity without bringing the guarantee into play.

3) Liability has been limited. One of the strongest arguments against the traditional guaranteed wage plan has been the unpredictable and possibly disastrous size of the liability which might result. Since the plan limits the employer's obligation to the 10 cents an hour to be paid into the trust fund, this objection is very much weakened. Note also that in a period of declining employment total payments into the fund drop as hours worked fall off.

It is sometimes argued that the provision for deducting unemployment compensation from the guaranteed weekly wage would also act to reduce the cost burden of the guarantee to the employer. This may or may not be true depending on how the state unemployment compensation systems are financed. Since employers as a whole pay for unemployment compensation, an employer can avoid paying his full compensation costs only by shifting some of the burden to other employers. This might be possible to some extent under some circumstances. A possible shift of the compensation burden might also result if state funds were exhausted and were supplemented by general revenues or federal funds. No accurate general statement on this point can be made at this time.

5. THE AUTOMOBILE WORKERS' VERSION

The United Automobile Workers (CIO) have not yet presented a detailed plan in negotiations. However, their educational and publicity offices have revealed a "tentative" plan which shows very substantial differences in viewpoint from the Steelworkers. (The UAW plan includes a demand for a guaranteed workweek as well as the usual wage guarantee. In this pamphlet we do not discuss that part of the plan.)

If we study the UAW proposal we find major differences from the Steelworker plan in several areas:

1) The UAW proposes wider coverage. All workers with any seniority are to have some guarantee, the length of the period varying with seniority. The maximum guarantee would be 52 weeks.

2) The UAW proposes higher benefits. Their tentative plan asks for payments "sufficient to enable [the workers] to maintain the same living standards as when fully employed."

3) The UAW financing plan is radically different. They suggest a combination of "pay-as-you-go," trust funds, and "reinsurance."

Pay-as-you-go means that to some extent the cost to the employer rises as unemployment rises and falls as unemployment falls. Money for the benefits paid to laid-off employees comes out of current income. The pay-as-you-go system is intended to give the employer a direct incentive to avoid unemployment by making this week's layoffs increase this week's costs immediately.

In addition, a trust fund would be built up out of contributions from the company based on the size of the payrolls. If benefits to laid-off workers on a pay-as-you-go basis would cost more than an agreed-on percentage of total payroll, the trust fund could be used to make up the difference. Under no circumstances would the company have to pay out of current income an amount greater than this maximum percentage of payroll. If the benefits due workers on a pay-as-you-go basis used up the maximum percentage agreed on, no additions to the trust fund would be made. If the fund were exhausted, benefits would have to be limited to the payroll percentage being currently collected.

Reinsurance apparently means that a common pool of funds would be set up to be used as a reserve for a number of company plans. It is claimed that this will permit smaller individual company reserves by "spreading the risk" of any one reserve trust fund going bankrupt.

The most important difference between the Steelworker and the UAW plans is the financing arrangement. Under the Steelworker system the cost to the company would be set in advance and would not change, no matter what happened to unemployment during the contract. Under the UAW plan the maximum cost would be set in advance but the actual cost might rise and fall as employment rose and fell. This difference reflects the UAW interest in trying to give the employers an "incentive" to stabilize production.

The differences in the plans are due to a number of causes. They reflect variety in union philosophy, in industrial conditions such as seasonality of production, and in the stage of development of the plans. We should remember that in 1954 the UAW plan has not been presented to an employer in bargaining. The Steelworker proposal was designed to be sold to specific employers and hence it stresses low costs. At this stage of its campaign the UAW program is aimed not only at employers but also at its members and the general public and hence it stresses high benefits.

Other CIO unions such as the Electrical Workers and the Oil Workers have advanced guaranteed wage proposals at least in broad terms. They seem to be of the same general form as those outlined above.

6. A MODERN VERSION OF "TRADITIONAL" PLANS

Most of the interest and discussion of the past few years has centered on what we have called the "new look" in guaranteed wages. However, we must not ignore modern versions of the traditional guaranteed wage which have not only been proposed but have actually been placed in effect.

These typically involve a straight guarantee of full-time weekly wages, usually on an annual basis, for the "regular" or "normal" work force of a company. No trust funds are established and liability is not explicitly limited.

Like the earlier versions, the modern variety of these plans has appeared in comparatively small firms in stable, consumer goods industries. The principal new element in today's plans is that they were installed through collective bargaining. This means that they do not allow the flexibility which softened the impact of the guarantees in most of the older plans.

Let us take a look at one of these plans in detail, that of the Brown Shoe Company and Local 688 (St. Louis) of the International Brotherhood of Teamsters, negotiated in January, 1953. Their contract is one of a fairly large number of this general type which have been established for warehouse and distribution workers by this local. We will go over the Teamster plan in the same way we went over the Steelworker plan in a previous section.

Who is covered? Included in the guarantee are the 425 workers with the highest seniority status at the time of reaching agreement. This figure represents the lowest number on the payroll during the preceding year (1952). When the agreement was reached the company had about 475 on its payroll. The 425 figure does not change—replacements for workers who leave are selected from the excluded workers by seniority.

How much is the guarantee? Covered workers are guaranteed "at least 2000 straight-time hours each contract year." Overtime worked in one week cannot be offset against time lost in a short week or during unemployment. This means that the worker is guaranteed a minimum of full pay for 2000 hours annually.

How long is the guarantee? As we have seen, the guarantee is based on the contract year which begins on November 1. While the agreement is part of a five-year contract, discussion on ending or amending the guarantee can be reopened any November 1 if 60 days' notice is given.

How is it paid for? Fulfilling the guarantee is a company responsibility. No financial arrangements are included in the contract.

Considerable interest has been aroused by the provision that "This guarantee shall be absolute and not be excused for any reason excepting the failure or refusal of employees to work." It is reported that this permits union members to refuse to handle "hot cargo" and to respect the picket lines of a legal strike without affecting the guarantee.

One protection to the company is provided by permitting temporary transfer of covered employees under the guarantee to other departments of the company provided that this does not result in layoffs in those departments.

7. ANALYSIS OF THE TEAMSTER PLAN

A meaningful way of looking at the differences between the limited-liability type plan and the Teamster plan is outlined below:

1) In the Steelworker plan, the employer accepts a sure cost (his fund contribution) in return for a limited liability.

2) In the Teamster plan, the employer accepts the chance

of a large loss in return for the chance of a low cost. Since no limitation on cost is written into the Teamster plan, the employer faces the prospect of a possible loss of uncertain size. There is also the possibility, however, that in a "normal" year the plan might cost him nothing at all.

Viewing the two plans in this way brings out the circumstances which might influence the adoption of one or the other.

Since the Teamster plan involves balancing the chance of low cost against the chance of large loss, it will tend to be favored by successful firms with a record of stable employment. Firms which are used to operating with a core of regular employees, supplemented by temporary workers in special situations, may easily adjust to such a guarantee. This is particularly true when, as in the Brown Shoe case, the guarantee applies to one division of a larger business.

This type of plan is also attractive to smaller businesses since there is no need for an involved machinery to administer the arrangement. The Brown Shoe plan is not much more complicated administratively than putting the workers on a salary basis.

The Steelworker limited-liability type of plan, on the other hand, is particularly suited to large-scale organizations with a record of considerable instability of unemployment. This includes industries such as construction where the employers may be comparatively small and transient but where the unions may administer the system. In this case the employer trades a certain cost for limited liability. Regardless of what happens to employment the contributions to the fund continue, but the employer knows in advance that this contribution is the maximum cost for the duration of the agreement. Just as the Teamster plan, from a cost standpoint, is like putting the covered workers on salary, the cost effects of the limited plan are like agreeing to an hourly wage increase for all workers who are employed during the term of the agreement.

Some other AFL unions and at least one CIO union have negotiated plans similar to the Teamster type.

In closing, we should note that it is easy to overemphasize the unlimited nature of the liability in the Teamster plan. Realistically, the union would probably accept a modification of the plan if the alternative were bankruptcy for the firm. Management, however, does accept the possibility of sustaining serious losses.

V. Labor's Case for Guaranteed Wages

LABOR SEES wage guarantees as a simultaneous attack on the symptoms and the causes of unemployment.

Symptoms. We have already seen that the interruption of income is the major symptom of unemployment. Wage guarantees are set up to stabilize income in full or in part for fairly long periods. To the extent that they successfully do this they are a temporary relief from the burdens of unemployment for those covered by the plans.

There is a possibility that increasing income security for the covered workers may mean decreasing it for those excluded. The existence of the guarantee may lead to the "saving" of available work to meet the guarantee to the covered workers. Other employees who formerly had some work in busy periods may now find themselves completely unemployed. In this situation labor would argue that the remedy is not to abandon wage guarantees but to provide enough full-time jobs to furnish work for all.

Causes. In Chapter II we described four types of unemployment: frictional, seasonal, technological, and cyclical. Actually when we say that there are different *kinds* of unemployment, we really mean that there are different *causes* of unemployment.

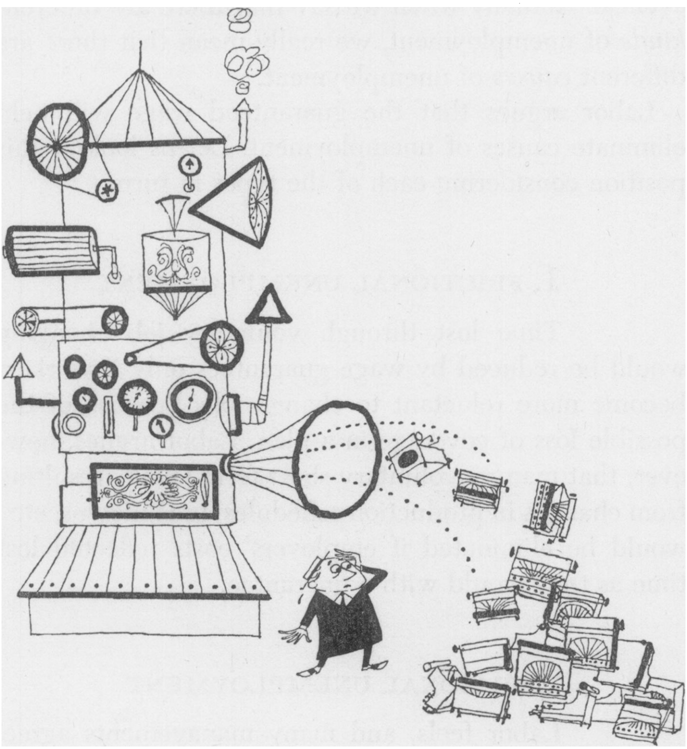
Labor argues that the guaranteed wage will help eliminate causes of unemployment. Let us look at this position considering each of the types in turn.

1. FRICTIONAL UNEMPLOYMENT

Time lost through voluntary job changing would be reduced by wage guarantees only if workers become more reluctant to change jobs because of the possible loss of coverage in a plan. Labor argues, however, that many involuntary short-term layoffs resulting from changes in production schedules, breakdowns, etc., would be eliminated if employers' costs reflected lost time as they would with a guarantee.

2. SEASONAL UNEMPLOYMENT

Labor feels, and many managements agree, that unemployment during slack seasons due to the weather, habits, or style patterns could be greatly reduced if large-scale attacks were made on the problem. The unions think that the way to get these attacks launched is to provide an "incentive" for action by putting pressure on "the pocketbook nerve" of management. The UAW had this to say on the topic of the 1953 production schedule in the automobile industry:



A much different course of action would have been followed by the corporations if we already had our guaranteed annual wage plan in operation. In that case, the corporations, in planning their year's production, would have had to take into account the guarantee liabilities with which they would have been faced as a result of concentrating an unduly large share of the year's total production in the first six months.

In rebuttal, management points out that incentives to regularize production already exist in the form of lower costs for steady operation but that consumer desires have to be taken into consideration.

3. TECHNOLOGICAL UNEMPLOYMENT

A common union argument is that unemployment of all types is a social cost which should not be borne by workers alone but should be shared by the whole community. Technological unemployment provides the best justification of this reasoning.

The community at large benefits from technological change in the form of more and better goods at lower costs. The short-run burdens are often borne almost exclusively by workers whose jobs have been eliminated. In labor's view wage guarantees will distribute this cost more fairly and reduce unemployment associated with gains in technology. As the UAW puts it: "Workers displaced by such [automatic] machinery, if they are to be paid under wage guarantee, are not likely to be left idle."

4. CYCLICAL UNEMPLOYMENT

There are two separate versions of the way wage guarantees might operate to reduce cyclical unemployment.

One theory is illustrated by a statement by the International Union of Electrical Workers (CIO): ". . . if each employer knew that other employers were providing their workers with a *guarantee of work or an income* there would therefore be the *guarantee of a market.*" In effect, the claim is that the widespread adoption of plans to stabilize income would so stabilize production and employment that the guarantee funds would not have to be used.

The difficulty with this notion is that wage guarantees are proposed on an individual company or at most an industry basis. Let us make the debatable assumptions that these guarantees could be set up simultaneously throughout the economy and that they were successful in completely stabilizing worker spending. Even then no individual company or industry could be sure that its income from consumer spending would cover its share of the guarantee. A company which guarantees wages that would pay for the labor necessary for producing one million dollars worth of goods in the next year may not get one million dollars worth of orders in that time. This might be true even if the combined amounts spent by the public covered the combined guarantees of all companies.

In actuality, consumer spending habits, particularly for items such as automobiles, appliances, and furniture, are subject to considerable fluctuation. Even if a nation-wide plan which succeeded in completely stabilizing consumer income were set up, we must remember that about one-third of our total production is purchased for final use, not by consumers, but by government and business organizations. These facts greatly complicate the problem of stabilizing income flows and spending patterns. The guaranteed market theory has very limited validity in this form.

Nevertheless, there is a way in which wage guarantees act to reduce cyclical unemployment at least in the early stages of depression.

We sometimes refer to the unemployment conpensation system as a "stabilizer" of the economy because it pays out money collected in good years to workers unemployed in bad years. This enables many workers who would otherwise be without income to maintain part of their purchasing power. A wage guarantee which builds up funds in periods of high employment and pays them out in periods of low employment works exactly the same way. The new plans meet this description.

If guarantees of this type covered a large number of workers and built up substantial funds, they would have a significant effect on unemployment. We should mention that the same amounts collected and paid out through the state unemployment systems would have the same effect.

5. FUND CONTRIBUTION VS. WAGE INCREASE

One of the strongest arguments for the new plans is the claim that paying 10 cents an hour into a trust fund is no more of a cost burden than paying 10 cents an hour as a straight wage increase. Management has adjusted to several annual wage increases of this size or larger in past years without disastrous results. Labor argues that this sum is a small price to pay for the potential benefits of wage guarantees.

Considering the direct cost effects when a plan is established, there is no difference between paying into a fund on an hourly basis and paying the same amount as an hourly wage increase. But there are at least two ways in which the effects may be quite different. One of these raises an internal union problem; the other is a joint union-employer problem.

The internal union problem arises in the following way: If the union can get 10 cents an hour for a trust fund, this suggests that it might have bargained a 10-cent-an-hour direct wage increase. The wage increase would have gone immediately into higher pay checks for all of the employed members. But in the average guaranteed wage proposal some of the members are not covered by the guarantee. These employees may resent giving up a wage increase in return for a guarantee from which they are excluded.

For different reasons, the high seniority workers may react the same way. Long service workers may feel that their seniority protects them against layoffs. In that case they too are giving up a wage increase in return for a guarantee from which they may never benefit.

The workers who benefit from a guaranteed wage plan are those with enough seniority to qualify for coverage but with too little seniority to feel secure in their jobs. The size of this group varies from company to company. It also varies with workers' opinions as to what future business conditions are likely to be. If we are successful in avoiding large-scale unemployment in the future, this group may turn out to be a comparatively small part of the union membership. Each union has to decide for itself whether the future gain to the group that stands to benefit from a guarantee will offset the immediate loss to all members from giving up a wage increase.

The realization that only a part (and possibly a minor part) of the membership actually may benefit from a guarantee helps to explain why unions refuse to give up gains which may affect large groups (such as overtime, transfer rules, etc.) in exchange for a guarantee.

The joint union-employer problem results from the varying patterns of seniority which exist among the workers in different companies. If two competing firms give a 10-cent-an-hour wage increase, the effect on costs of production is about the same in the two cases. If these two companies set up identical wage guarantee plans, the results may be quite different even if they have exactly the same employment experience. This puzzling situation may arise because Company A may have a larger number of low seniority workers not covered by the guarantee than Company B.

Suppose that both firms lay off the same percentage of their workers. The resulting guarantee costs to Company A will be lower than those of Company B because fewer of A's laid-off workers would be eligible for payments. B's trust fund reserve might be exhausted while A's would not. If this happened, either B's contributions must be raised above A's or their workers' benefits must be reduced below A's. These complications do not follow from a straight wage increase.

The Steelworkers' figures show that this is a real problem. They studied the seniority pattern for 20 basic steel companies. In one of these companies they found that 94 percent of the workers had more than three years' seniority and thus would have been included in the guarantee. In another company only 51 percent of the workers would have been included.

This point also indicates that the seniority system of companies giving guarantees based on seniority might have to be completely overhauled. For example, a company with plant-wide seniority would have different guarantee costs than a company with departmental seniority.

This discussion suggests that while contributions to a fund are similar to wage increases at the time they are negotiated, there may be important differences in the effects.

6. SUMMING UP

Some preliminary conclusions can be drawn at this point.

Successful wage guarantees, by definition, help give greater security of income to the worker. They would probably have some effect in reducing frictional, seasonal, and technological unemployment through the "incentive" impact of increasing the costs of irregular employment to the employer. This gain may mean the loss of some temporary jobs in the industry but, if this occurred, it might be a desirable result.

Cyclical unemployment in the early stages of a depression would be reduced if funds collected previously were available to workers who were laid off.

Unfortunately, as many unions recognize, even under the best conditions wage guarantees seem to be able to do a better job of treating the symptoms than the causes of unemployment.

VI. Management's Case Against Wage Guarantees

We have already mentioned a few of management's views on wage guarantees in discussing some of the labor arguments. As in many other questions, however, the points made by each group are not simply opposing sides of the same issue. Employers may concede some merit to a labor argument but advance a separate reason for resisting guarantees. Labor often reverses this process. The problem is not one of deciding which side is right on a particular issue but rather which of two sets of different arguments should be given the most weight.

Employers and unions agree that steady work and steady pay are desirable. Management's position is that stabilization of production must come before guarantees. Attempts to force stabilization by wage guarantees won by strike threats will, in their opinion, be worse than nothing. We examine their case in the following sections.

1. THE "TRADITIONAL" GUARANTEED WAGE

Most employers are particularly opposed to taking on the unpredictable liabilities involved in a flat guarantee of full-time pay to a large majority of their labor force. The exceptions are those who have been successful in stabilizing much of their employment already and who are able to limit the guarantee to these workers. In this case an employer may reap advantages in public relations, employee morale, and productivity with little if any cost. This appears to have been true of some of the older guarantee plans in the past.

We may wonder why a union would ever seek a guarantee which did little more than recognize an already existing situation. There are a number of possible reasons: (1) it is a kind of "disaster insurance" for the worker, (2) it may be regarded as a "down payment" on a stronger guarantee, (3) like the employer, the union likes high membership morale and loyalty and a wage guarantee may be a useful symbol for this purpose.

Unfortunately, the value of a guarantee to both parties drops rapidly as the percentage of workers covered falls. In most companies the coverage which management will accept is too low to mean anything to their workers and their unions. In these cases management would bitterly resist signing the "blank check" guarantee of the traditional type.

Unions often recognize (and in many instances agree with) management's views in these companies. This explains the development of the limited-liability type of guarantee plan.

2. THE LIMITED-LIABILITY PLANS

Management has a number of objections to the new-type plans which apply to their technical aspects. Some of these are of major importance (for example, the possible illegality of paying state benefits and private guarantee benefits to the same worker at the same time). In this section, however, we are going to discuss objections which seem to be more fundamental. We shall try to summarize some of management's misgivings in the form of a few questions.

a. *The limitation question.* Is liability really limited under these plans?

In any given contract liability is limited to stated contributions to the trust fund. But contracts must be renewed regularly and can be reopened frequently. If the fund goes broke during a contract period, management feels that in the next negotiations they will not be able to refuse demands to increase contributions. They point to the United Mine Workers' Welfare fund which began with a 5-cent-a-ton contribution and climbed to 40 cents a ton in seven years. Like other employee benefits, what looks like a limited plan in the short run may grow continuously in successive contracts.

Employers also foresee the possibility of exhausting the fund reserve by paying full benefits to short service workers (who will be the first to be laid off). If layoffs continue, long service workers might then find themselves receiving smaller benefits than the low seniority people had gotten. Under these circumstances management feels it would be difficult to make the limitation stick.

To this kind of argument unions reply that the problem is not basically different from the pressure for increasing wages with which employers deal continuously at present. Each wage settlement limits employer liability for wages for the term of the contract. But new demands may be presented at each renegotiation. These may or may not be granted. Unions say that wage guarantees are simply one more bargaining issue of the same kind.

b. *The prerogative question.* Does a wage guarantee lead to the loss of important management prerogatives? This question is related to the previous one concerning the effectiveness of guarantee limitations.

If limitations on the contribution guarantees are actually observed, benefits may have to be cut down. Many employers feel that unions will not accept these cuts passively. They believe the unions will claim the right to challenge management decisions on work load and assignment, scheduling, location and methods of production, price policies, sales policies—in other words, all management areas. Decisions in all these areas obviously affect the number of workers employed and the stability of employment. If full benefits are not available, management believes that there will be heavy pressure on unions to keep workers who have counted on a guaranteed wage on the actual payroll.

In a way a wage guarantee is a bargain between unions and management on how many jobs will be provided. Employers feel that this opens up a whole new area of difficulty. They fear that companies which are having trouble meeting their guarantees will be used as levers to get industry-wide arrangements using centralized control to safeguard jobs. This control would have to involve all aspects of management functions. It is doubtful if such centers of private power could exist without demands being made for regulation by government. The result would be a drastic reduction in management's "right to manage."

To this argument unions answer that some of these traditional management prerogatives are already subject to negotiation in some industries without the dire results pictured above.

c. *The stagnation question.* Will attempts at stabilization result in stagnation?

Once again the answer depends partly on how effective the limitations of the plans are in practice. Employers are concerned with the effects of wage guarantees on the total number of jobs available. With the labor force growing at a rate of well over half a million persons a year, new jobs must be constantly created to keep unemployment from rising.

This requires the expansion of existing businesses and the creation of new businesses. But if creating a job means creating a long-term wage commitment at the same time, the risk involved in any expansion may become too great. Employers will "play it safe." Rather than expand employment, employers facing wage guarantees may even act to reduce risk by dropping low profit items or products with fluctuating demand. Management argues that the net result might be short-run stabilization and long-run stagnation.

The union answer to this is that management has long supported methods of rewarding employers with stable employment records by lower taxes under state benefit systems. The effect of this is to increase the risk of expansion in much the same way as wage guarantees (but within narrower limits).

3. SUMMING UP

Management's case against guarantees rests on the fear of their long-run consequences. Basically employers doubt that true limitations on cost are possible. In their opinion both logic and past experience with collective bargaining argue against successful limitation. They fear that this issue is a Trojan horse in bargaining. With today's limited plans as an opening wedge, they predict expansion of union activity into new areas. At the end of the road they see decreased management freedom in individual companies, industry-wide or union-wide combinations set up to salvage the guarantees, and eventual governmental intervention.

This attitude is illustrated by some quotations from a discussion of guarantees published by Industrial Relations Counselors, Inc., a management consulting group.

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

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

Preliminary estimates of the cost of a guarantee may be very misleading....

If companies undertake commitments beyond their financial capacity, they may find the government becoming deeply interested in the company's operations....

Formal contract negotiations in this area could well open the way to demands for joint union-management action in vital areas of management functions.

In a real sense these objections are not directed at wage guarantees as such but at wage guarantees coupled with collective bargaining. Whether you think management's case is sound or exaggerated depends as much on what you think of collective bargaining as on what you think of specific wage guarantee plans.

VII. A New Look at the "New Look"

1. PUBLIC GUARANTEED WAGES

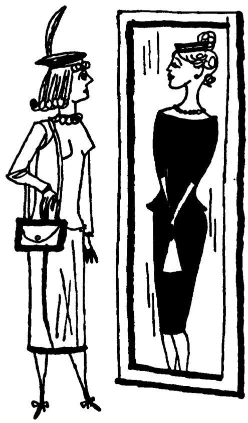
IN PRESENTING their guaranteed wage proposal to the Wage Stabilization Board the Steelworkers stated: "A wage guarantee is not a single device; the term comprehends a whole series of arrangements differing in many important respects."

With this in mind we turn to a type of guaranteed wage plan which has been in operation for over 16 years, which has paid out more than 11 billion dollars in benefits, and which covers millions of workers in a wide variety of industries.

Our unemployment compensation system is such a plan. The limited-liability type of wage guarantee has often been called "private unemployment compensation." It is just as valid to call the compensation system a "public guaranteed wage."

Let us follow this idea through by looking at unemployment compensation in the same way we looked at the Steelworkers' wage plan. We shall ask the same questions, remembering that the answers can only be approximate in this case because the various state systems differ.

Who is covered? Workers in most branches of industry (agriculture, government, and domestic service are the principal exceptions) who earn certain minimum amounts in wages in the year prior to becoming unemployed are eligible for benefits.



How much is the guarantee? The guarantee varies between minimum and maximum amounts depending on the worker's previous earnings. While it is difficult to be exact, the benefits at present seem to be about one-third of full-time earnings before deductions.

How long is the guarantee? Benefits are paid for a number of weeks which depends on the previous employment and earnings record of the worker. The maximum length of the guarantee period in 1953 was 26 weeks (24 states). The minimum length was 16 weeks (4 states).

How is it paid for? A special tax based on the amount of payroll is paid by employers into a state trust fund. The tax varies according to the previous unemployment record of the employer and the condition of the state's fund. The rate typically varies from 0 to just under 3 percent of payrolls.

We see that the majority of American workers already have what might be called a "guaranteed semiannual wage" in the unemployment compensation system.

2. ADVANTAGES OF THE PUBLIC SYSTEM

As a guaranteed wage the unemployment compensation system has a number of important advantages over most private plans. Some of these are noted below:

a. *Coverage.* Coverage in the public plan is much wider than private plans could hope to achieve. In most states all private employers with more than a minimum number of employees in the manufacturing, trade, construction, highway transportation, finance, service, and public utility industries are included. (Railroad and airline workers are under a separate industry-wide system.)

Eligibility is not based on seniority but on earnings. In the usual case a worker can become eligible by working less than a year in a covered job.

Coverage is also independent of union organization, an important point in many occupations and areas which are not organized.

b. *Mobility.* Workers are free to change jobs without loss of benefits. As long as they remain under the broad industry coverage they may change their place of residence, the kind of work they do, or the industry in which they work with little or no loss of protection. In private plans mobility would be severely curtailed.

c. *Reinsurance.* While the states have different financing arrangements, in general the systems enjoy the benefits of a type of "reinsurance." Within states the compensation fund represents a pooling of individual company reserves similar to that suggested in the UAW guaranteed wage plan. It is possible that in an unemployment crisis federal funds would also be used to supplement the 9 billion dollar reserve already in the hands of the state funds.

d. *Administration.* The machinery for running the plan is presently in existence and has a long record of successful experience behind it. Such problems as recruiting and training staff and investing funds have already been solved.

The union specialists are aware of these advantages. They feel, however, that there are offsetting disadvantages to the public system. Let us look at some of the union objections to the present setup.

3. UNION OBJECTIONS

a. *Level of benefits.* The unions believe that benefit levels were too low to begin with and that they have not been adjusted upward to reflect today's higher wage levels. In the nation as a whole in 1953 average benefits were about 33 percent of average weekly pay (before taxes) in manufacturing. This compares with 43 percent in 1939. Labor argues that 43 percent was not enough in 1939 and that 33 per cent was even less satisfactory in 1953.

In reply management points out that benefits must be set well below average wages when fully employed to preserve incentives to work. They also argue that while average benefits may have gone up less than average full-time pay, they have gone up more than the cost of living.

The issue between the two groups is whether unemployment benefits should be related to a customary standard of living or to a minimum standard.

b. *Duration of benefits.* The 52-week guarantee period advocated in private plans is twice as long as the maximum period for which state unemployment compensation can be paid. Benefit periods have been kept comparatively short under the state systems because they were originally set up to protect against "temporary" wage loss. Longer benefit periods would make the system more suited to deal with cyclical unemployment.

A statement by the National Association of Manufacturers illustrates an opposing view on this point: ". . . the function of the program during depression must be limited to a first line of defense, leaving the relief of hardship resulting from longer periods of unemployment to other programs."

c. *Administration.* Many unions feel that the administration of the benefit system should be changed. They feel that the determination of tax rates, benefit levels and duration, eligibility and disqualification provisions, etc. by state legislatures results in the business viewpoint being dominant.

To some extent collective bargaining power and lobbying power are substitutes for one another for both labor and management. Today, unions believe that their bargaining power is greater than their lobbying power. Therefore they are pressing for a collectively bargained unemployment benefit system to remedy what they believe are faults in the state system.

4. A COMPROMISE PUBLIC PLAN?

The discussion of the advantages of the unemployment compensation system as a form of guaranteed wage has brought out the reasons why some observers believe that it would be wiser to liberalize the public system than to set up new private arrangements. Professor Sumner H. Slichter of Harvard University reflects this view in saying: "Far preferable to a spotty extension of supplementary unemployment [benefits] would be a liberalization of the state unemployment compensation schemes."

The unions make no secret of the fact that they expect such liberalization to be a byproduct of their plans. They maintain that years of lobbying for higher old age benefits under the Social Security system were unsuccessful until unions began to negotiate private pension plans tied in with the public plan. It then became much easier to secure broadened public pensions. The unions expect private wage guarantees to have the same effect on unemployment benefits. This does not mean, however, that unions will necessarily accept an expanded state system as a substitute for private plans.

In their present form the public arrangements are not a satisfactory substitute for even a conservative private guarantee such as the Steelworker proposal. It is very unlikely that the full objectives of the more ambitious union plans could be achieved under any feasible change in the state systems.

There would, however, be many headaches for both unions and management in negotiating and administering a wide variety of private plans. For this reason it might be possible to work out a compromise extension of the existing unemployment benefit system which would meet enough of the unions' objections to be acceptable. Such a compromise would also have to hurdle objections to changing the system like those raised in the NAM statement quoted earlier. Possibly the biggest obstacle of all would be getting a liberalized plan through the 48 separate state legislatures.

To many persons the advantages of a public system over a collection of separate private plans justify making a major effort in this direction. Supporters of this view argue that the social problem of unemployment cannot be met by private programs which are likely to give the greatest protection where it is least needed.

VIII. Conclusion

THIS IS A GOOD time to remind ourselves that none of the comparatively limited programs we have discussed in this pamphlet will completely solve the problem of unemployment. A much broader approach will be necessary even to come close to that objective. We have been looking at only one type of plan to help stabilize income.

We have seen that today there are three major alternatives which aim at increasing income security. Basic to all three is the existence of a successfully functioning unemployment compensation system. The choices seem to be:

1) To continue the existing tax-supported unemployment compensation program as a way of providing a basic minimum income for a limited period to a broad coverage. In addition to this minimum program, to continue and increase voluntary efforts by management to stabilize production and employment. Voluntary wage guarantees may follow stabilization if desired.

2) To continue the existing public program, perhaps with somewhat liberalized benefits. In addition, to add to public benefits employer-financed private benefits for those groups winning them in collective bargaining.

3) To continue the existing public system but with bene-

fits sufficiently liberalized so that this program can offer an effective alternative to private plans.

The choice among these three programs for providing greater income stability is not an easy one. The decision is in the hands of employers and organized labor with the public playing a major role through the state legislatures. In making the choice it is important to keep in mind the desired end—income security.

To repeat Mr. Latimer's caution:

"What is important is not the device but the objective."

IX. Suggestions for Further Reading

THE OUTSTANDING single source of factual information about experience with guaranteed wages in the United States is the "Latimer report," *Guaranteed Wages*, a report to the President by the Advisory Board of the Office of War Mobilization and reconversion, Office of Temporary Controls (Washington: 1947). This report contains an analysis of the unemployment compensation system as well as of private guarantee plans. It is particularly noteworthy for an appendix providing an economic analysis of guaranteed wages written by Professors Alvin Hansen and Paul Samuelson.

Probably the most comprehensive private study available is that by A. D. H. Kaplan published by the Brookings Institution, *The Guarantee of Annual Wages* (Washington: 1947). This book presents industry and labor views on the subject, reviews some of the experience with guarantee plans, and discusses the implications of industry-wide guarantees from a generally critical viewpoint. A somewhat different approach is used by Joseph L. Snider in his *The Guarantee of Work and Wages* (Cambridge: Harvard University Press, 1947).

The important post-Latimer report developments have not yet been chronicled in book form. A wealth of pamphlet material is available from a wide variety of sources. The CIO and its member unions have released a substantial volume of material on the "new" plans. The Steelworkers' proposal before the Wage Stabilization Board (Case No. D-18-C) was presented as a union exhibit entitled *A Guaranteed Wage Plan for the Workers in the Steel Industry.* This exhibit, along with an appendix illustrating the methods of calculation, was made available by Otis Brubaker, Research Director of the United Steelworkers. The United Automobile Workers' "tentative plan" was published as a booklet under the title *Preparing a Guaranteed Wage Plan* (UAW-CIO publication 321). Copies can be obtained from the UAW-CIO Education Department, 8000 East Jefferson Avenue, Detroit 14, Michigan.

The U. S. Chamber of Commerce has published two pamphlets on the subject. *The Economics of the Guaranteed Wage* (Washington: 1953) and *Jobs? or Jobless Pay?* (Washington: 1954) both represent a management viewpoint and include analyses of union proposals.

An excellent summary of some of the background of the topic along with a discussion of the problems it raises for management is to be found in Industrial Relations Counselors publication No. 131, *The Guaranteed Annual Wage: An Active Issue* (October, 1953).

In addition, almost every publication specializing in business or economic problems carried articles on this subject in the two years following 1952.

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