

A STUDY OF THE GUARANTEED ANNUAL WAGE

There are signs that industry, government, and labor are all beginning to regard the guaranteed annual wage with great seriousness. Major companies and unions are already engaged in highly significant research activities devoted to a thorough analysis of the problem in preparation for negotiation. In top Detroit business circles, discussion waxes hot over which automobile company will be the first to have GAW demands in 1955. In official Washington, the subject is of high interest in the NLRB, the Dept. of Labor, and the Dept. of Health, Education and Welfare (unemployment compensation). It is an issue that is basic, easy to understand, attractive to the public, and highly volatile.

One question which immediately comes to mind is: Are the unions using their GAW demands as a bargaining position to be traded off for more direct wage benefits, or are they serious enough to employ economic sanctions to attain the GAW? Before such questions can be discussed, however, we need to have a clear idea of what the guaranteed annual wage means today.

The term GAW, in its purest form, would mean guaranteeing an annual salary to the employees. Presumably the amount of this guarantee would be approximately the worker's earnings at time of layoff. In times of full employment and production, the guarantee would involve little or no cost to the employer. Conversely, during reduced production and layoff periods, workers would be paid the guaranteed annual salary whether or not they were actually employed. Labor costs thus tend to become fixed charges against the business, in contrast to being variable charges that are now employer-regulated to levels of production. Actually, at the present time, the GAW is neither defined or demanded in its purest form. It has been observed, however, that over the past several years there has been a gradual leaning to a more liberal interpretation of the term.

The idea of guaranteeing work and wages goes back sixty years or more, though practical difficulties have stood in the way of widespread adoption. One of the earliest plans was a union-negotiated agreement in the wallpaper industry, which guaranteed 12 months' employment each year and lasted, with changes, from 1894 to 1930. More often guarantees have been voluntary arrangements initiated by the employer. When they have become too expensive, they have been dropped. The number of plans in force grew during the depression of the thirties even though some were abandoned because of union opposition, or the start of federal and state social security programs. According to the most recent Bureau of Labor Statistics study of the subject, in 1946, only about 60,000 employees were covered under guaranteed wage plans of one sort or another.

Proctor & Gamble has a system, noncontractual, which assures an annual minimum of 48 weeks" employment for employees who have been on the rolls for two years or more. The best-known so-called guaranteed wage plan is that operated by the meat packing firm, Geo. A. Hormel & Co., at its plant in Austin, Minnesota. The Hormel plan, developed into its present form over a period of 23 years, guarantees 52 equal paychecks each year for a minimum of 38 hours per week to all regular employees. The employee accepts fluctuations in his working hours, ordinarily without overtime bonuses, and changing job assignments at the convenience of the employer. As to its guarantee, the Co. states: "Certainly our Company is wholly unable to redeem the money consideration in such a guarantee unless we can keep our people actually and profitably employed. The entire asset value of our company, cashing everything we own, would only be sufficient to redeem a ten months" guarantee... So, when using the phrase GAW, we must ask the question---guaranteed by what? The only guarantee we know of is the ability of management to manage, coupled with willingness of workers to work. If either fails, then the guarantee fails." In a recent Wall Street Journal story on Hormel's operation, it is interesting to note that the GAW of Hormel cost that firm \$650,000 for their fiscal year ending October 31. The lack of work was due to a shortage of hogs.

In the demands for a GAW, the advocate argues that if every employer were forced to keep on paying employees whether they were working or not, the national income would be maintained, sales volume for business collectively would hold up, and hence there would not have to be any layoffs. Thus we would have achieved the miracle of perpetual prosperity. The unpleasant question recurs, however, as to who would want to work when he had the option to play.

The above is briefly some of the history, and issues involved. Now, let us examine the probable union approach in attempting to install some type of GAW. It has been observed that when collective bargaining demands were drawn up early this year, officers of three CIO unions announced that the GAW would be a major goal in 1954. To date, ^{ONE} ~~the~~ third of three unions—the United Rubber Workers—signed new contracts. In rubber, as in steel and electrical manufacturing, the annual wage wasn't mentioned in settlement terms. The fate of the three GAW demands this year leads to a question in business circles about what the United Auto Workers (CIO) intends to do about its annual-wage drive, scheduled in 1955. The UAW-CIO group still insists that in their scheduled wage-policy conference in Detroit this November, that their annual-wage position will "definitely be militant.". Further possible moves by the CIO on GAW demands have been deduced from recent newspaper stories. Walter Reuther reports that "the GAW will serve as a regulator of the process of technological change. Under the GAW, management would avoid the introduction of automation in times when major layoffs would result. We really don't want to be paid for not working, but we want to make it costly for a company to have unemployment. A worker not working is not contributing to the economic welfare of the Nation". From industry there has been ^{LARGELY} ~~only~~ silence to these demands. A GM representative supposedly in partial answer to increased introduction of automation states that GM has about doubled its employment since 1940 while increasing its use of automatic machinery. Others claim that automation will create more, not fewer, jobs in industry. It is further noted that CIO-AUW is asking members for \$2.50 per member per month to build up their strike fund to \$25,000,000 by early spring

It will be interesting to observe the union approach to management on the GAW issue. There may be a parallel between the way in which pensions were worked into the wage picture, and ^{THE} present demand for a GAW. On the pension issue, there was first a period in which the unions educated their rank and file to the pension concept, and then proceeded to build up a public consciousness for support to the idea. On the subject of the GAW it is now noted the research departments of the major unions are thoroughly and competently preparing for GAW bargaining. They are ready to offer specific proposals tailored to their particular industry conditions. The UAW-CIO has employed an advisory committee of outstanding university economists to give their best advice on GAW. The unions are ready when the time seems ripe.

It must also be said that unions demands on the GAW issue are becoming more realistic. Major unions are currently talking in terms of limiting eligible workers, reducing the time obligation, defining and limiting company liability, and intergrating GAW plans with state unemployment compensation. Union officials have also run into the problem of selling their members on GAWs in a full-employment economy. To obtain a contract with a GAW provision, union negotiators will probably have to give up a portion of a wage increase or some other type of direct benefit. This the members do not like. They prefer a direct wage increase, noncontributory insurance, liberalized pensions, longer paid vacations, and more holidays. Also for an annual plan to be acceptable, contract changes providing for more liberal seniority, transfer, and work assignment clauses will probably be necessary. For the unions to back-track in these areas is a sacrifice of an especially distasteful sort, particularly if it means negotiating an entirely new contract. Another worry is that financial support of a GAW in the first few years of a plan is likely to be limited. If unemployment occurs during these earlier years, persons with the least seniority are the first laid off and the first to receive guaranteed benefits. By the time employees with the greatest company service and seniority become unemployed, the monies accumulated to defray a GAW liability could easily have been dissipated, and thus the long-service employees would be left without benefits.

Whatever the approach pattern by the unions may be, it is felt that there are several basic factors to be taken into consideration. One is that no major union demand, reduced to its real intent, will seek company liability of full pay to all regular workers. The common limitation will probably hold the company's liability to a certain number of cents for each man-hour worked during the course of any one year. As to guaranteed employment, union thinking runs to guaranteeing a certain amount of employment at prevailing rates rather than a given number of dollars to be paid over a specified period. It is not likely that the amount of employment guaranteed will be full time. In like manner, it is not likely that all employees will be eligible for payments under plans as presently conceived. The most common eligibility requirement will be between one and three years seniority. Then, as to benefit payments to be paid during a period of unemployment, overtime compensation, shift premiums, and bonuses will probably be eliminated and straight-time earnings will be used as a base for calculation. Layoffs occasioned by acts of God or by other occurrences beyond the control of the employer will probably be considered exceptions to the plan. Another factor, will probably be the integrating of the GAW with unemployment compensation. Under such an arrangement the worker would receive state unemployment benefits, supplemented by employer-contributed compensation, to bring the total guaranteed pay up to a level predetermined by negotiation. Another point in bargaining for the GAW will be the time period involved. It is felt that in most GAW contracts, they will be annual in duration, and renewable at contract negotiation time. Finally, there is the point of administration of the accepted GAW plan. It is felt that this is not a serious point of conflict but rather a bargaining point, inasmuch as most major companies oppose joint administration unless the plan provides for employee contributions to the payments.

We have discussed briefly the probable union approach, but there are also some management considerations. The guaranteed annual wage even in a limited form,

is a severe financial risk for most companies to undertake. The GAW would be another type of fringe benefit, and its cost could easily overshadow all other fringe payments combined. The fixed charge of a GAW could involve contract obligations over which the employer may have no control. Such factors as cyclical unemployment, changes in the tariff, material or production restrictions from partial or large-scale war conditions, or strikes among the company's suppliers, are only a few that should be carefully weighed before taking on a GAW plan. The thought of integrating a GAW plan with unemployment compensation is practically impossible under some state laws. The problem of providing an incentive for the employee to return to work when he is under the protective wing of a GAW plan produces a delicate point for possible sociological study. Finally, management would be faced with a tax problem when considering any GAW plan. Should the GAW plan be set up like a pension plan, the tax liabilities surrounding this manner of GAW financing are not clear at this time. There is some evidence that contributions to a GAW fund may not be allowed as a business expense until such time as the accumulated monies are actually paid the workers as benefits.

In conclusion, it may be observed that there is some common ground upon which labor and management may be brought together via a GAW plan. For essentially, labor wants security and the GAW might provide that security against unemployment. Management wants reduced costs and greater profits. The common denominator of these two goals is a continuing regularity of production and employment. If real efforts were made to stabilize production, there would be definite benefits to management, labor, and the public. And if some stability of production could be worked out, the GAW liability would be significantly reduced. There is the further mutual point of concern by labor and management, and that lies in the cost of any GAW plan. Security is only possible on a profit base, and since all wage guarantees are based on a profit making operation, it is essential that any GAW plan must be

such that the company's profit making ability is not imparred. Finally, the GAW has a wide public interest since it is a fundemental issue, involving security and stability of income, which is a basic objective of everyone.

However, lest we be lulled into a state of feeling that a GAW would provide the ecomonic cure all, we should weigh the comments of A.D.H. Kaplan in his conclusions from his study of wage guarantees for the Brookings foundation: " a young and growing nation is marked by confidence in the ability of its individuals to create opportunities for expanding output and improving economic levels. What it seeks mainly to protect is the sporting chance--the freedom of opportunity to make the most of one's abilities. The general guarantee of jobs and payrolls implies the general acceptance of fixed placements in a regulated economy. A basic decision to be made , before widespread guarantees are instituted in any but the already stable consumer lines, concerns the kind of economic order we are prepared to accept in order to ensure existing jobs and payrolls".

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Question: IS THERE NEED FOR VASTLY INCREASED GOV'T. SUPPORT TO INSURE A COLLEGE EDUCATION FOR ALL, WHO CAN PROFIT FROM IT?

I shall endeavor to show that there is a positive need for greatly increased Gov't. support to insure a college education for all.

Education is our biggest and most hopeful of the Nation's endeavors. It is not only our democracy's biggest obligation but is ^a necessity. Free people must use wisely their talents, ~~and~~ ^{to} make the best of those individuals with talent, but who lack the means to avail themselves of a continued education at or beyond the college level, a free Gov't. program is compulsory. A society such as ours must allow for maximum development of individuals at all levels.

The level of schooling has gradually risen over the years. In the school year 1900, the enrollment in our high schools, was equal to 11% of the youth of usual high school age. In 1940, this percentage rose to 73%. At the college level, 1900 only 4% ⁱⁿ of the population 18 years through 21 years of age, were enrolled in institutions of higher learning. In 1947, this percentage rose to 16%. The number of college students were 1½ million in 1940, which jumped to 2,354,000 in 1947, of which about 1 million were veterans.

One of the gravest charges to which American society is subject is that of failing to provide a reasonable equality of educational opportunity for its youth. For the great majority of our boys and girls, the kind and amount of education they may hope to attain depends, not only upon their own abilities, but on the family or community into which they happened to be born, or worse still, on the color of their skin, or the religion of their parents.

The old, comfortable idea that any boy can get a college education who has it in him, is no longer true. In 1945, when the total national income was far greater than in any period of our history, half of the children under 18 years were growing up in families which had a cash income of \$2530, or less. In the elementary and secondary schools the effects of these economic conditions are overcome to a considerable extent by free education, and in our State this holds through 16 years of age. But this does not apply at the college level. Even in State supported institutions, we have been

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moving away from the principle of free education. Higher tuition payments have been necessary to off-set rising costs. Nor are tuition costs the whole of it. There just are not enough colleges and universities in the country, and they are not distributed properly to bring them within the reach of all of our young people. By not allowing these educational opportunities, we are depriving the Nation of a vast amount of potential leadership, and social competence which it sorely needs.

An individual's birthplace should not determine how much, and what kind of education he is likely to get. Variations are found from State to State, and even, in urban and rural areas. The economic and cultural levels in the blighted areas must be raised, and this can only be done through outside financial assistance.

Figures also conclusively show that there are racial, and religious barriers. Gains have been made. However, the "Quota" system practiced by many colleges and universities, denies admission to certain minorities, particularly to Negroes and Jews. This is definitely un-American, and is contributing to the growing tension in one of the crucial areas of our democracy. From the viewpoint of the individual, they are denying to millions of our young people what the democratic creed assumes to be their birthright: an equal chance ^{of} with all others to make the most their native abilities.

This is especially serious when it is observed that more of our talented young people do not continue beyond high school in this day when the complexity of life and our social problems means that we need desperately every bit of trained intelligence we can muster. Our rising ^{GENERATION} ~~general~~ must have facilities made available to them so they may keep up with the rapid changes going on in all phases of life. Our world is rapidly becoming more competitive which necessitates a higher level of education.

We must equalize opportunity. We must set as our goals, an educational system in which that level-- high school, college, graduate school, or professional school, will provide a qualified individual, in any part of our country who may encounter an insurperable economic barrier to the attainment of the kind of education suited to his aptitudes and interests. High school has been pretty well attained, and we should now move to permit free education through the 14th grade level. This could be done by a 2 year Jr. college, a community college, or what ^{EVER} you may wish to call it.

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How many young people are involved? We stated earlier that there were about 2,354,000 college enrollments in 1947. The President's Commission believes this will rise to a minimum of 4,600,000 by 1960. From talent appraisal studies, we learn that at least 49% of our population have a mental ability to complete 14 yrs. of schooling, and at least 32% have the mental ability to complete an advanced liberal or specialized professional education.

Who is to do the job? We can expect private institutions to contribute immeasurably to the expansion and improvement of their facilities, but the big load must be carried by publicly supported schools. Community and State support must be augmented by Federal aid. Simply to keep our youth in school longer will not achieve our goals, so the type of curriculum must ^{also} be given close scrutiny. The question of ^{this} cost for all naturally arises. It is only necessary to point out that our Nation can afford it; indeed, we cannot NOT afford it.

Excerpts from "Higher Education for American Democracy" - a Report of the President's Commission on Higher Education.