DEVELOPMENT AND PRESENT STATUS OF PLANS

FOR

THE REGULARIZING OF WORKERS EMPLOYMENT AND INCOME

by

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A Thesis submitted to the Faculty of the
Graduate School, Marquette University
in Partial Fulfillment of the Re-
quirements for the Degree of
Master of Arts

Milwaukee, Wisconsin
April, 1956

PREFACE

On March 19, 1956 the Department of Internal Revenue in their Bulletin No. 12 ruled that contributions into trust funds under supplementary unemployment benefit agreements are deductible business expenses. The Ford and General Motors companies had been notified of this action concerning their plan by a letter from the assistant Commissioner of Internal Revenue, dated December 2, 1955. The Department of Labor indicated in September 1955 that supplementary unemployment benefits would not be considered as wages under either the Fair Labor Standards Act or the Walsh-Healy Public Contracts Act. Thus two conditions necessary for the continuance of all of the SUB plans have been met. The third condition of some of the plans, that states covering two-thirds of the company's workers must agree to integrate the supplemental benefits with state unemployment benefits, seems certain to be satisfied. The die is cast. In a few years we should have empirical studies on the psychological, sociological, and economic effects of SUB on our economy.

In this study I have been primarily concerned with the recently negotiated SUB plans. These have been union initiated and despite some protestation on the part of the unions I believe their emphasis has been on the maintenance of income rather than employment. Their position seems to be that they want steady employment and if they can bargain for a year-round wage, management will see to it that work is available the year-round. My study reflects this emphasis on income maintenance.

I wish to thank the personnel at the Marquette Memorial library, the Milwaukee Public library, and the Milwaukee Vocational and Adult School library for their courteous and friendly service.

Miss Ellen Otto of Nordberg Manufacturing Company made available to me many industrial publications which were extremely helpful.

Special commendation should go to my advisor and, after so many pleasant conferences, my friend, Dr. John V. Spielmans. I am grateful for his suggestions and encouragement.

Finally, I am sure that I could not have completed this study without the aid and encouragement of my wife.

LIST OF TABLES

TABLE OF CONTENTS

PART III. THE PLANS TAKE SHAPE

PART I

IN THE BEGINNING

CHAPTER I

INTRODUCTION

The 1955 UAW-CIO campaign for a guaranteed annual wage culminating with the signing of what have been termed "historic" contracts with Ford and General Motors has recently emphasized labor's traditional demand for "more."

Speaking at the CIO's 15th Annual Convention, Walter Reuther said, "You know we go to the bargaining table and management asks: 'Don't you ever get tired of asking for more and more and more?' The answer is, as long as science and technology through the creation of abundance makes more not only economically just, but makes more and more economically necessary --- the answer is yes, we are going in year after year and asking for more and more and more because we are entitled to more and more and more."[1]

Commenting on the annual wage as an aspect of "more", George Meany , president of the newly merged AFL-CIO says, "At the moment, regularity of income or of consuming power is being sought by some unions through a guaranteed annual wage. Actually the goal is not new; it is simply one more projection of the basic desire of workers for a decent year round standard of living. Perhaps 'guaranteed' is a misnomer, subject to misinterpretation. Few things in the world can be 'guaranteed'. But a worker wants to 'regularize' his pay and assure himself a year-round income so that he can plan and pay for his purchases."[2]

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[1] Newsweek, May 30, 1955, p. 67.

[2] George Meany, "What Labor Means by 'More,'" Fortune, March, 1955, reprint, p.7.

Early Plans

As Mr. Meany points out, the goal of regularity in income is not new. In the form of a guaranteed annual wage it is seen first in this country in 1894. In that year the Machine Printers and Color Mixers union (now the AFL Wall Paper Craftsmen) obtained an agreement with the National Wall Paper Company guaranteeing them eleven months of work. The National Wall Paper Company was an amalgamation formed in 1892 which controlled from 50 to 75% of the trade. This concentration of control made possible the union's effective demand, which was motivated by an extremely seasonal work year, for, "In the nineties it was usual for men in the industry to work 14 hours a day for three or four months in the year, and be completely unemployed for one to four months."[3] In 1896 the union and the National Wall Paper Company agreed to a twelve month guarantee. With various modifications the plan survived until 1930. It succumbed in a dispute over the plan's administration in a time of depression when the industry was being hit by a rise of substitute materials.[4]

Perhaps the next most well-known of the earlier plans was one instituted in 1917 by the Columbia Conserve Company of Indianapolis. Unlike the Wallpaper Company guarantee this plan was employer initiated. The stated plan of the company president, William P. Hapgood, was to guarantee regular workers a yearly salary, give them a voice in management, a share of the profits, and eventually turn over the ownership of the company to them. In a pamphlet putting forth his ideas, Mr. Hapgood stated:

> It is not that the demands of trade unions are excessive or unreasonable, but rather because they demand too little. Their

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[3]Bryce M. Stewart, Unemployment Benefits in the United States, Industrial Relations Counselors, N.Y., 1930, p.365.

[4]U.S., Bureau of Labor Statistics, Guaranteed Wage Plans in the United States, Bulletin 925, 1947, p.6.

leaders, for the most part, think in terms of a little more bread and a little more leisure, whereas they should ask for more responsibility and greater participation in management.[5]

Mr. Hapgood goes on to argue that, obviously, all workers have the same desire for financial safety and income regularity as do owners and, "Accordingly we placed most of the wage force on a salary basis with the understanding that they would be retained by the year except in the case of bad behavior, or until this plan proved to be too great a load for the business to carry."[6]

After twenty-five years of operation the plan was discontinued. A labor dispute over wages and union organization resulted in a court order ending the employee-ownership feature of the plan. Concurrently, the company abandoned the guarantee feature. Both company and union expressed interest in future re-establishment of a wage or employment guarantee.[7]

These two prominent, early wage-guarantee plans show, I believe, the driving force behind labor's post-World War II demand for a guaranteed annual wage. The worker in our highly technological economy has found cyclical and seasonal unemployment a condition of labor. This has made him job-conscious and this in turn has manifested itself, when the opportunity permitted, in the demand for the guaranteed wage. The same forces obtain, I think, even in the case of employer-initiated plans. Such plans are usually promulgated by a paternalistic employer or by one with a high degree of social consciousness, or one having a combination of these traits. In any case it would seem that the root-source is the financial insecurity of the worker.

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[5] William P. Hapgood, "An experiment in Industrial Democracy," The Columbia Conserve Co., Indianapolis, Indiana, p.11.

[6] Ibid.

[7] (Murray W. Latimer) Guaranteed Wages: Report to the President by the Advisory Board, U.S. Office of War Mobilization and Conversion,

More Recent Studies

A reading of the following statistical surveys made by the Bureau of Labor Statistics indicates that prior to the recent breakthrough by the UAW and the US of A, the number of plans in force and the number of workers covered by the plans were not too impressive. Table 1, however, does show growth and an acceleration both after the recession of 1921 and during and after the depression of the '30's.

TABLE 1. - Number of guaranteed wage or employment plans in Bureau of Labor Statistics Survey, by year of initiation[8]

Year of Initiation	Number of Plans
TOTAL	347
Prior to 1900	3
1905	1
1912	1
1913	1
1914	1
1915	1
1916	1
1917	1
1918	1
1919	1
1920	4
1921	3
1922	1
1923	4
1924	3
1925	2
1926	2
1927	2
1928	1
1929	4
1930	2
1931	5
1932	6
1933	6
1934	102[a]

1947, p. 294. This is the so-called <u>Latimer Report</u> and for reasons of brevity will be so referred to in this study.

[8] Ibid., p. 290.

TABLE 1 - Continued

Year of Initiation	Number of Plans
1935	17
1936	11
1937	10
1938	23
1939	20
1940	19
1941	21
1942	19
1943	8
1944	21
1945	9
Data not available	11

[a]Includes 96 plans initiated in 1934 under the encouragement of the tax exemption provisions of the Wisconsin unemployment compensation law.

In compiling their statistics the Bureau of Labor Statistics included in their study " all arrangements written or unwritten, by which an employer guaranteed or assured to some or all of his employees, in advance, a definite period of employment equal to at least 3 months a year, or an equivalent amount of wages."[9] Of the 347 plans tabulated under this generous guaranteed wage classification only 196 were still in operation at the time of the study.

The following table shows the number of plans in existence in each year up to the beginning of 1946:

[9]Ibid.

TABLE 2. - Total number of guaranteed wage or employment plans in Bureau of Labor Statistics Survey that were in operation each year, 1893-1945.[10]

Year	Number of plans in operation at end of each year	Year	Number of plans in operation at end of each year
1893	1	1929 ...	35
1894-1895 . .	2	1930 . .	36
1896-1904 . .	3	1931 . .	38
1905-1911 . .	4	1932 . .	41
1912	5	1933 . .	46
1913 . . .	6	1934 . .	148[a]
1914-1915 . .	7	1935 . .	68
1916	8	1936 . .	79
1917	9	1937 . .	87
1918	10	1938 . .	107
1919	11	1939 . .	125
1920	15	1940 . .	138
1921	18	1941 . .	154
1922	19	1942 . .	166
1923	23	1943 . .	167
1924	26	1944 . .	183
1925	28	1945 . .	185
1926	29	(Data not available - 11 plans)	196
1927	31		
1928	32		

[a] Includes 96 plans initiated under the encouragement of the tax exemption provisions of the Wisconsin unemployment compensation law in 1934 and discontinued in 1935 when the tax exemption was eliminated.

The 96 Wisconsin plans referred to in the footnotes of Tables 1 and 2 were the result of the 1932 Wisconsin unemployment insurance law, which placed a tax on all employers, but remitted the tax to those who established employment guarantees. All 96 plans were subsequently discontinued when Wisconsin, upon the passage of a Federal Unemployment insurance law, modified its tax to conform to the Federal tax.

[10] Ibid., p. 295.

A.D.H. Kaplan compiled an interesting list of better-known companies which had terminated plans. In addition to depicting the transient quality of some of the plans, this list gives an indication of employee coverage. The list follows:[11]

Company	Industry	Date	Approximate No. of Employees
Chemical Paper Co.	Paper	1921-1934	184
Cleveland Garment Workers	Women's Clothing	1921-1931	3,000
Columbia Conserve Co.	Canning	1917-1942	64
Crocker McElwain Co.	Paper	1921-1934	127
Cromwell Silver Mfg. Co.	Silver	1939 only	100
Davison Chemical Corp. (Curtis Bay Station)	Fertilizers & Chemicals	1939-1940	300
General Electric Co.	Lamp Dept.	1931-1938	7,000
General Motors Corp.	Automobiles	1939-1941	150,000
Inter. Harvester Co.	Agricultural Machinery	1940-1943	50,000
Morton Salt Co.	Salt	1938-1942	(Those with 1 year's service)
Oneida, Ltd.	Tableware	1940-1942	2,700
Patterson Mfg. Co.	Auto Batteries	1937-1938	50
Samarkand Co.	Ice Cream	1929-1934	(All regular employees)
Stewart Paint Mfg. Co.	Paint	1940-1942	("A few key employees")
Wallpaper Assn. of the U.S.	Wallpaper	1909-1930	400

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11 A.D.H. Kaplan, The Guarantee of Annual Wages, The Brookings Institution, Washington D.C., 1947, p. 75.

A study in 1952 by the Bureau of Labor Statistics in which a sample of nearly 2,600 collective bargaining agreements was analyzed for wage or work guarantees "showed that only 184, or 7% of the total, provided for a guarantee of any type."[12] They summarize their findings in the following table.

TABLE 3. - Wage or Work Guarantees in Collective-bargaining Agreements

Type of Guarantee	Number of agreements analyzed	Agreements with employment data	
		Number	Workers covered
Total agreements analyzed	2,590	2,428	5,750,000
Agreements with guarantee provision . . .	184	166	246,000[a]
Annual basis (or for substantial part of year) .	20	18	12,000
Weekly, semimonthly, or monthly basis covering -			
All or most employees . . .	115	102	169,000
Particular occupational groups	49	46	65,000

[a]Total number of workers in bargaining units covered by contracts providing a guarantee of some type. The number of workers in these bargaining units actually covered by the guarantee provision is not known, since some of the guarantees are restricted to particular occupational groups, long-service employees, etc.

Only by an heroic effort were they able to arrive at a 7 per cent figure. Agreements covering a substantial part of a year, as can be seen

[12]Morton Levine and James Nix, "Guaranteed Employment and Wages Under Collective Agreements," <u>Monthly Labor Review</u>, May 1952, p. 555.

in Table 3, were found in less than one per cent of the contracts. Approximately two per cent of the workers are in bargaining units covered by such agreements. This coverage must be taken with the grain of salt served up in the Table's footnote.

The Present Study

Coverage, as shown in the studies described above, is in strong contrast to the coverage, as of mid-September 1955, claimed by the UAW-CIO in the United Automobile Worker.[13] Barely three months after the signing of the Ford pact, 867,200 UAW-CIO members were covered by supplementary unemployment benefit (SUB) plans. A breakdown of the companies and the number of workers covered follows:

Company	Size of Work Force
General Motors	375,000
Ford	140,000
Chrysler	140,000
International Harvester	40,000
Americal Motors	24,000
Caterpillar Tractor	18,000
Allis-Chalmers	17,500
Bendix Aviation	17,000
Budd	16,000
John Deere	12,500
Dana Corporation	6,000
Detroit Tool and Die Assn.	6,000
Eaton Manufacturing	4,000
White Motor	4,000
Midland Steel (two locals)	3,800
Kelsey-Hayes	3,700
Bower Roller Bearing	3,500
Houdaille-Hershey	2,500
Borg-Warner (four locals)	2,400
Detroit Steel Products	2,000
51 other companies	26,800
	867,200

[13] As quoted in Management Record, National Industrial Conference Board, October 1955, p. 406.

Thus we catch a glimpse of the explosive expansion of guarantee plans following the tradition-breaking UAW-CIO-Ford Company contract of June 8, 1956. It is the purpose of this study to present and evaluate representative, post-World War II union proposals for the guarantee of work and wages, and the resulting supplementary unemployment benefit agreements in terms of worker security and income stabilization. In order to do this I have set these proposals and plans against a background of the three best-known, still active, traditional plans, those of Hormel, Procter and Gamble, and Nunn-Bush. Then I have described the motivating forces behind the post-war renewal of interest in the guaranteed annual wage, and have set forth and evaluated labor's GAW proposals. Finally, I have, in some detail, described and analyzed several leading SUB agreements and have attempted to show their probable impact on our industrial society.

CHAPTER II

TRADITIONAL PLANS - THE BIG THREE

"Steady year-round employment is so economical in the operation of a business, it is hard to see why manufacturers have not made more progress toward guaranteeing annual employment."[1]

Ray Vicker, a reporter for the Wall Street Journal, recently used this quotation by Richard R. Deupree, chairman of the Procter and Gamble Company to lead into his article on annual wages.

In the heated discussions which have been engendered by labor's post-war drive for a guaranteed wage, the three most publicized guaranteed wage plans have come in for renewed praise, condemnation, and analysis. Differing in many ways the guaranteed wage programs set up by Procter and gamble of Cincinnati, Ohio, Nunn-Bush of Milwaukee, Wisconsin, and Hormel of Austin, Minnesota have these two things in common: They were all management initiated and they are enthusiastically supported by the management of these firms and in general by the employees.

This enthusiasm seems to be fairly well self-contained of late. In an Employee Relations News letter put out by General Electric it is pointedly stated that:

> Private plans are not workable in any more than a few special types of business where the stabilization already exists prior to the announcements of such guarantees --- or where the various 'escape' clauses make them for the most part neither meaningful nor actually productive

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[1]<u>Wall Street Journal</u>, March 2, 1955, p.1.

of any real security that did not already exist from other causes. Only those survive which, in the long run, cost little or nothing to operate. Government studies indicate that, after all the efforts, less than one-tenth of one per cent of the work force is covered by any kind of a private guarantee.[2]

One large auto maker is quoted as stating,

> GAW would create an artificial shortage of cars. Unlike soap, shoes, and meat, the auto companies cannot gauge their production over a year's time. Autos involve an up and down selling season. You can't tell a customer when to buy a car. GAW would force regulated production which would mean in certain key selling periods a lack of cars. Also, where would we get the storage space to stack all the cars? To store a car for more than 30 days is harmful to the vehicle. After 30 days in storage, you'd have to tune up the engine again.[3]

In the same article UAW spokesmen aver that, "No consideration can be given to plans under which the workers 'bank' their overtime pay during some parts of the year to draw on it during short work weeks in other parts." (Hormel plan.) Also, "..there is no guarantee at all" when a plan is tied to company sales. (Nunn-Bush plan.) The Procter and Gamble plan is dismissed with, "These plans are limited to a calendar year, which means that the workers' security grows less and less as the year goes on."[4]

In the same vein, Boris Shishkin states,

> A guarantee plan which in effect merely divides wages equally over a year to cover periods of employment and unemployment is not a satisfactory guarantee but rather a diminution of wage standards. A deferring of payment of wages earned one week to another week, without an assurance of a specific number of weeks of work, is only a wage-advance or forced-savings policy. Similarly, plans which provide for guarantee of wages which fluctuate with the company's sales volume can be exceedingly dangerous because they permit an undermining of reasonable and dependable wages.[5]

Even the protagonists of these long-lasting, well-publicized plans, whose ardor for their own plans presumably is not cooling, are becoming

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[2]Employee Relations News Letter, General Electric, May 5, 1954, p. 7.

[3]Wall Street Journal, March 2, 1955, p. 1. [4]Ibid., p. 7.

[5]Boris Shishkin, "Some Problems of Annual Wage Guarantees," Paper presented before the Annual Meeting of the Industrial Relations Research Assn., Dec. 28, 1953.

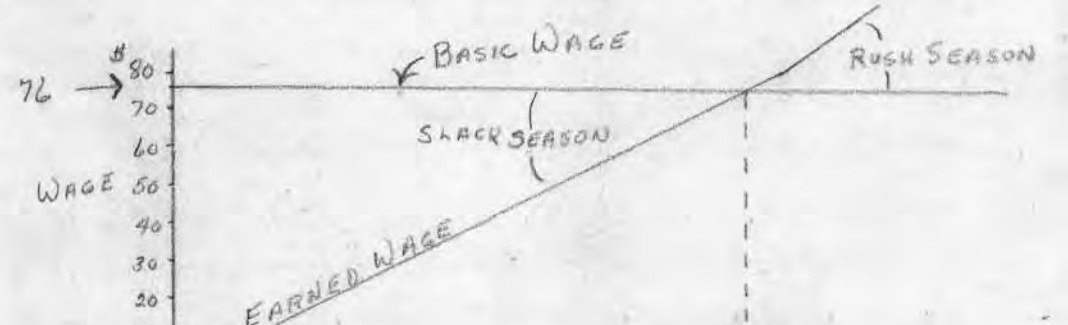
more circumspect in their public pronouncements. A Chamber of Commerce study emphasizes the idea that,

> Business executives who have adopted private guaranteed wage plans stress that the guarantee is a result of natural stability or prior regularization policies and programs.
>
> For this reason Jay C. Hormel, Chairman of the Board of George A. Hormel Company, Austin, Minnesota, states that he now regrets that his stabilization program has become identified with such phrases as 'annual wages' and 'guaranteed wages.' He feels that the cart has been put before the horse. Richard R. Deupree, Chairman of the Board of Procter and Gamble Company, another leader in the field, has viewed the guarantee as a result of prior long-range management policies to regularize production, or sales, or both.
>
> The guarantee is incidental, especially since most companies reserve the right to terminate it. And, certainly, the market has a patent voice in continuing or terminating it.[6]

In taking a closer look at the so-called "big three" of the guaranteed wage and work plans it is fitting that we start with the Hormel Plan, as it has had the most publicity and is the most comprehensive of the three plans.

The Hormel Plan

The main idea of Hormel's "straight-time" of guaranteed employment plan is that every worker from the day he is hired is guaranteed 38 hours of work a week for a period of 52 weeks. The Hormel worker's basic pay is the same for each week of the year. It is his hourly rate multiplied by 38. This is true whether he works 20 hours or the maximum 53 hours.



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[6]The Economics of the Guaranteed Wages, Chamber of Commerce of the United States, 1953, p. 2.

Thus, the worker will put in less than 38 hours in the slack season and more than 38 in the rush season, but if his pay is $2.00 per hour, as in the above diagram, his basic pay check will be $76.00 for every week of the 52. Fundamentally, the regularizing of income is made possible by an averaging of short and long work weeks. Hormel is able to do this due to a clause in the Fair Labor Standards Act of 1938. Mr. Fayette Sherman, personnel director of the company recounts,

> The president and the business agent of our local union (United Packinghouse Workers of America - CIO) were called before the Senate Investigating Committee. Mr. Hormel also testified before that committee. As a result, Section 7 (b) (2) of the Fair Labor Standards Act was written into the law, permitting us to continue the Annual Wage. Section 7 (b) (2) requires that the wage plan be the result of collective bargaining with a certified bona fide union. The law permits employees employed on an annual basis to work daily hours up to 12 without overtime, and weekly hours up to 56 without overtime and requires that an employee does not exceed 2,080 hours in the applicable 52 week period.
>
> Our union is certified as bona fide. We have a union shop. When the Fair Labor Standards Act became effective, we were operating on a 53 hour maximum week. That limitation was carried over from the NRA. Our employees can work 53 hours without overtime pay unless 10 hours is exceeded in any one day, whereupon the penalties become effective but only after 48 hours in that week. Double time is paid for Sunday and holiday work. When an employee earns time and one-half, we pay only the half, crediting the whole hours to the 2,080 hours for the year. Likewise for Sunday time. If the employee earns double time, we pay one hour's time and credit the remaining hour to the yearly hours.[7]

According to a recent newspaper article the union at Hormel estimates the average pay of its members to be $5,200. The workers average less than 38 hours per week. In 1951 the workers averaged 35.3 hours and this was the highest in recent years. Due to a drop in hog supplies, the 1954 average was 33.4 hours.

> "'We paid out $650,000 last year for unworked time,' H.H. Corey, president says. Actually a substantial portion of that amount was saved because there were no layoffs and this cut the firm's unemployment

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[7] Fayette Sherman, prepared article distributed by Hormel Company, p. 4.

insurance tax. Hormel pays the minimum Minnesota tax of 1/10 of 1% of the payroll: firms with a heavy labor turnover pay a 2.7% tax."[8]

A working agreement is made up of many parts and it is necessary to examine Hormel's incentive plan and their joint earnings policy along with the annual wage if we are to obtain a fair perspective. Hormel's incentive pay system is based on production schedules set up from records of previous production. These records are used as standards from which expected units of production per man or per gang per hour are set. Any gains in production are added to the weekly pay.

> For example, if a department in its slack time works 20 hours and it produces 24 hours of work, each member is paid the basic check plus the 4 hours gain, or 42 hours pay --- 38 basic hours plus 4 hours gain. If, on the other hand, a department works 48 hours and produces only 48 hours of work, each member receives a 38 hour check, because there was no gain within the hours.[9]

The Joint Earnings Plan was instituted in 1939, and is a type of profit sharing. Mr. Sherman describes it in this manner.

> The first computation is the 'gross income' of the Company, from which all expenses of operation are deducted, including the services and salaries of the employees who do not participate because they are ineligible, but not including the wages and salaries of the Joint Earnings employees. Thus, all sales income and miscellaneous income are thrown into, and all expenses except salaries and wages are deducted from, what we call the Joint Earnings account. The division between the employees and the stockholders of the amount that is left, or the Joint Earnings amount, is on a sliding scale basis. If the profits of the Company are low, the employees' percentage share is greater. If the profits of the Company are high, the employees' percentage share is less. The sliding scale basis was used in this manner for two reasons. It was felt that the stockholder is better able to put away money in good years to cover the poor years than is the employee, and it also has the effect of giving the employee a share even in lean years, which assures him that the plan is still in operation.[10]

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[8] Ray Vicker, Wall Street Journal, March 2, 1955, p. 1.

[9] Fayette Sherman, op. cit., p. 5.

[10] Ibid., p. 8.

All employees who are on the payroll at the beginning and the end of any fiscal year are eligible to participate in the Joint Earnings plan.

It can be seen that the security afforded by the Hormel wage guarantee cannot be viewed apart from the opportunity for high earnings allowed by the incentive pay system and the Joint Earnings plan. Mr. Sherman says,

> ....without the annual wage and without the incentives, we are convinced that we could not handle our present volume without more personnel and more facilities.
>
> The rate of production in all our departments has been most satisfying. The main concern of our supervision is to see that the employees don't work so fast in acquiring the gain that the quality is neglected.[11]

Mr. Fred H. Blum in his study of the Hormel Company states,

> It is interesting that profit-sharing rather than guaranteed wages becomes symbolic of workers' identification with the company. Production under the annual wage and wage incentive system is so closely related to the workers' own group-effort as to be seen primarily in this light.[12]

Mr. Fayette Sherman summarizes his talk by saying,

> I think I have told you now that security is not a new idea in Austin. In 1933, our Company started to build security for the employees. We became security minded before security became the topic of the day. Mr. Hormel has always said -- 'Don't ever take out of the barrel more than you put into it, because some day the barrel will be empty.' Our people have as much security as we can possibly give them, but none of the security is contractual security. All of the security depends on earnings.[13]

According to Blum,

> To have shown a way of eliminating the fear of losing one's job and the fear of a speed up -- these are the major achievements of the Austin experiment. The security system which is based on guaranteed wages must, therefore, be considered an essential aspect of a democratization of the work process.[14]

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[11]Fayette Sherman, op. cit., p. 6.

[12]Fred. H. Blum, Toward a More Democratic Work Process, p. 64.

[13]Fayette Sherman, op. cit., p. 11.

[14]Fred H. Blum , op. cit., p. 161.

The Procter and Gamble Plan

Procter and Gamble does not have a guaranteed wage plan. They have a guaranteed employment plan and they emphasize the difference. Mr. Richard R. Deupree, chairman of the Board states,

> ....let me make clear that a guaranteed job is different from a guaranteed wage. We guarantee a workman 48 weeks work at some job and we guarantee only 48 weeks work after a man has been with us for two years; that is after he has had a chance to become acquainted with us and we with him.[15]

The Procter and Gamble guarantee is a company initiated plan which was started in 1924. The basis of the work guarantee is the stabilization of production through market stabilization. The Company explains it this way:

> Dealers were in the habit of buying soap and shortening on a seasonal basis, manufacturers produced these products in large quantities when dealers were building their inventories, and cut production when the peak buying period was over. Mr. Procter reasoned that the housewife consumes soap and shortening at a fairly even rate; that the seasonal demand was created only by fluctuations in dealer stocks; and that since soap and shortening are consumed evenly throughout the year, it should be possible to produce them evenly and therefore stabilized employment should be feasible.
>
> The first step was to estimate consumption for six months or a year and divide this by the number of producing days in the period. From this could be developed a schedule which called for an even rate of production throughout the period.
>
> The next problem was to change the buying habits of the dealers. The company's sales force had to be retrained and greatly enlarged; dealers had to be discouraged from stocking up heavily on a seasonal basis, and the total quantity sold to dealers in a given period had to be limited to the approximate level of consumption during that period. Since dealer purchasing could not be leveled out as completely as could the Company's production, storage facilities had to be provided.[16]

As in the case of Hormel the company is proud and happy with its plan. They point out that no worker has been without 48 weeks of work

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[15] Richard R. Deupree, A talk given at 30th Pacific Coast Management Conference, Calif. Personnel Management Assn., Berkeley, Oct. 20, 1953, p. 8.

[16] More Than A Quarter Century of Guaranteed Annual Employment, Procter and Gamble pamphlet, p. 7.

since the plan's inception, that their labor turnover rate is below the national average and that the plan is responsible for savings in construction, purchasing, and in production. Savings in construction are a result of regularization of production. It becomes unnecessary to enlarge plant capacity to take care of peaks in demand only to see plant and equipment idled during slack periods. Concerning savings through purchasing, Mr. Deupree says, "I think anyone attempting to set up such a plan would be surprised at the lowered costs of goods resulting from placing an order with any manufacturer with instructions to ship a given amount each day, or each week, or each month, and have the order bona fide."[17] It is felt that savings in production result from increased worker morale and a steady and reliable work force with a minimum of training costs because of the low labor turnover.

Finally the company cites with approval this summary that appeared in Printer's Ink Magazine, January 2, 1948:

> So far as employees are concerned they are able to count on steady pay checks. They have no fear of long intervals without work or pay. Their great fear of economic insecurity is removed. They can plan to buy a home, increase insurance, educate a child or undertake any other long-term expense with the assurance that income will not disappear when it is most needed. Even a depression does not mean complete loss of work. At worst, it may cause a temporary cut in income. They know that their wages match the wages paid by leading companies in the community for similar types of work. They are conscious that the Company has their interest in mind at all times. This produces a lasting loyalty and the desire to give the best they can. ......Employees are in a position to know where corners can be cut in time or labor during production. Where employment is protected there is a readiness to cooperate that has been responsible for cutting production costs.[18]

In adding to this summary let us re-emphasize that the Procter and Gamble Plan is a guarantee of work, not of wages. Employees may be transferred from one job to another and they receive the job rate which is not

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[17] Richard R. Deupree, op. cit., p. 3.

[18] More Than A Quarter Century of Guaranteed Annual Employment, op. cit., p.10.

necessarily their usual pay scale. Moreover the Board reserves the right to limit the guarantee to 75% of the established hour week. Since the present work week is 40 hours the guarantee of employment could be reduced to 30 hours by board action. The Company also reserves the "unqualified right" to withdraw, terminate, or modify the guarantee at any time. As Joseph L. Snider points out, "It is a firm policy of the officers of the company that the guarantee plan is something which the management accords to the workers and is not a subject for negotiation with them."[19]

The Procter and Gamble guarantee revised in 1946 and in effect at the present time is included in this study as Appendix I.

The Nunn-Bush Plan

The Nunn-Bush plan was started in 1935 and reflects the philosophy of Mr. Henry L. Nunn who was president of the company at that time. In his autobiographical study The Whole Man Goes To Work, Mr. Nunn traces the development of the plan. He points out that,

> One of the first problems which our management labor team set out to solve was the irregularity of income when economic conditions resulted in reduced employment. Clearly some method should be found which would enable the factory worker to budget his living expenses with the same feeling of security enjoyed by the salary worker in the office. Even in good times, the shoe industry is seasonal in nature with periods of peak production normally followed by weeks of part-time operation. And I had not forgotten the day when I was compelled to lay off 125 men and women, knowing they could not get work elsewhere.[20]

After many proposals had been considered and found wanting it was decided that what was needed was annual salaries for everybody, but that the amount of these salaries must be tied to company sales. That is, when sales were up salaries would go up and when sales were down salaries would

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[19]Joseph L. Snider, The Guarantee of Work and Wages, Graduate School of Business Administration, Harvard University, Boston, 1947, p. 12.

[20]Henry L. Nunn, The Whole Man Goes To Work, Harper and Bros., N.Y., 1953, p. 97.

be down. The thinking was (and still is) that this would give flexibility and would keep labor cost in its proper relation to income. A company study of the relationship of wage costs to net sales during the years 1926 to 1934 was made, and it was found that the average wage cost was 19.46 per cent with very little variation in the extremes. The following are the percentages by the year:

1926 - 21.17%	1931 - 19.18%
1927 - 19.95%	1932 - 18.91%
1928 - 18.79%	1933 - 20.13%
1929 - 19.32%	1934 - 19.14%
1930 - 18.18%	

Mr. Nunn remarks that,

> For a period that covered such a wide variation in business conditions and wage rates, the stability was remarkable. There seemed to be an underlying principle here permitting labor to receive only a constant percentage of the values received. The wage and the value of the product moved together like a team of horses.[21]

With this as background and beginning on the first working day of July, 1935, the company estimated the yearly income of each worker up to July 1, 1936. This estimate was based on 48 full 40 hour weeks and the estimated income was spread over 52 checks, each check representing 37 hours. It was decided that the worker should get a fixed proportion of the value of what he produced. This, it was thought, would provide flexibility of operation as well as 52 pay checks a year. The worker's fortunes would be tied with that of the company, his wage rising and falling with company earnings.

> It was agreed that if ever labor's share exceeded 20½ per cent, it would be reduced to the extent necessary to bring the cost down to

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[21] Ibid., p. 99.

20 per cent, which was the figure we had established. If labor's share proved less than 20 per cent, additional compensation would be paid to each worker in the proportion that his contribution to production bore to the total. For example:

Factory's total production for month	$1,000,000
Labor's 20% share of production	200,000
Total amount actually paid to workers during month	180,000
Excess of earnings over amount paid out	20,000

The additional compensation due to a worker who had received $100 during the month (regardless whether he worked full or part-time) would be computed in the following manner. Since he received $100 out of the total of $180,000 paid out, he would be entitled to 100/180,000 of the $20,000 excess --- in this case, an additional $11.11.[22]

In March, 1948, it was decided to change the basis of the worker's share of production from 20% of overall selling price to 36% of value added to raw material costs. This was necessitated by a tremendous rise in prices of raw materials necessary to the manufacture of shoes and a relative "stickiness" of price of the finished shoes.

Workers are classified into seven different categories, and those who participate in the plan are called associates. The weekly pay-checks which the associates draw are really withdrawals, not earnings. Earnings can only be figured after production figures for the month are computed. Then, as in the above example, withdrawals are matched with actual earnings. Excess earnings over withdrawals are not paid out immediately but are put in the associate's reserve account. Since 1943 these accounts have been kept on an individual rather than a group basis. When the amount in the associate's reserve reaches an agreed upon percentage of his yearly differential pay (the percentage was 25 in 1952) excess earnings are paid out. The reserve is invested in U.S. Government "F" bonds.

[22]Ibid., p. 101.

The policy has been to increase reserves during good times and to allow them to decrease when earnings diminish. During illness workers can draw from their reserves, rebuilding them with excess earnings when they return.

The philosophy behind the plan is summed up by Mr. Nunn when he says,

> Many industries do not lend themselves to the same degree of regularity in production as the shoe industry. Nevertheless, there is the same degree of need by their workers for regularity in pay, and though the nature of the business is such that work is available even as little as half the time, the worker has to eat, be sheltered, and clothed fifty-two weeks a year. It would be much better for management, labor, and society in general for every industry and its personnel to think in terms of annual income and regularity of pay checks, regardless of irregularity of work. I dare say the executives and other salaried people of such companies, cursed with irregularity of demand for their goods, do not earn their pay with the same uniformity of effort as they receive their pay checks.[23]

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[23]Ibid., p. 119.

PART II

PROPOSAL AND COUNTER PROPOSAL

CHAPTER III

POST-WAR RENEWAL OF INTEREST

Traditionally job conscious, labor became increasingly preoccupied with security measures as World War II approached its close. The possibility of mass unemployment during the reconversion period just ahead resulted in increased activity in the field of job security and the search for ways and means of attaining and maintaining "full" employment.

In his study, The Guarantee of Annual Wages, A.D.H. Kaplan points out,

> The unprecedented demand for labor in World War II eased the stress on job security. As labor turnover reached its all-time high, workers moved freely to more lucrative jobs from the occupations to which they had been attached. Special wartime legislation was deemed necessary to freeze them temporarily to their industrial posts. But as the end of the war approached, the concern for job security reappeared. Wage rates represented a fiction unless a steady job ensured regular take-home pay. Moreover, in many occupations the wage rates had already been brought up to a point where further efforts to enlarge labor's share in the production were destined to yield diminishing returns. It was logical, therefore, that an increasing fraction of the labor leadership should give weight to job tenure and regularity of take-home pay as the next major objective of collective bargaining.
>
> Meanwhile the Wagner Act under wartime conditions vastly extended the areas of jurisdiction for labor organizations. With the memberships of several single unions approaching the half million figure, the workers in key industries like steel, automobiles, and textiles were brought almost without exception under the aegis of their respective industrial unions. The scope of union decisions was expanded to the level of industry-wide policy; and, indeed, through the CIO and the AFL, some aspects of union policy assumed nation-wide implications. It is in this setting that the guaranteed annual wage has assumed its current prominence as a national issue.[1]

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[1] A.D.H. Kaplan, The Guarantee of Annual Wages, The Brookings Institution, Washington, D.C., 1947, p. 6.

WLB Recommendation to the President (1944)

In case D-18-C before the Wage Stabilization Board, Murray W. Latimer states,

> The movement to make wage guarantees a major means of meeting the problem of unemployment in the United States may be said to have been initiated by the United Steelworkers of America with the proposal to the steel industry, in December 1943, that:
>
> 'Each employee of the respective companies shall be guaranteed a minimum weekly wage for each week during the life of the contract. Such minimum weekly wage shall be computed in the following manner: The individual employee's straight time average hourly rate of earnings for the year preceding the effective date of this contract, or such portion thereof during which the employee may have been employed by the company, plus the general wage adjustment included in the new contract, shall be multiplied by 40 hours. For each week during the life of this contract that the employee, for reasons beyond his control, does not receive a sum equal to this minimum amount, the company shall make up the difference.'[2]

The above proposal, along with others, was referred to the National War Labor Board in 1944. The Board denied the request for a wage guarantee but its recommendations to President Roosevelt resulted in the monumental report by the Advisory Board of the Office of War Mobilization which has become known as the Latimer Report.

The recommendations of the Board were:

> Report To The President on the Creation Of A National Commission To Study The Question of Guaranteed Wage Plans
>
> In the case of Carnegie-Illinois Steel Corp. et al., and the United Steelworkers of America the Union demanded a guaranteed wage for each employee of each company during the life of the contract. The Board disposed of this demand by unanimously adopting the following statement:
>
> 'The facts set forth in the panel report indicate that this demand in its present form would, if granted, subject the industry to such serious financial risks, notwithstanding the carry-back and other provisions of the tax laws, as to be unworkable. These risks could be

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[2] Murray W. Latimer, Union Exhibit, Case No. D-18-C, In The Matter of United Steelworkers of America, CIO, and Various Steel and Iron Ore Companies, Wage Stabilization Board, p. 5.

reduced by modifications and safeguards worked out through collective bargaining, but in the present state of the country's information on the subject the Board is not prepared, in this case or in other dispute cases to impose such guarantees by order. The Board is, however, recommending to the President in a separate report:

(1) That the whole question of guaranteed wage plans, and the possibility of their future development in American industries as an aid in the stabilization of employment and the regularization of production, should now be comprehensively studied on a national scale;

(2) That such a study should be conducted by a specially appointed commission charged with the duty of examining into the experience which industry and labor have thus far had with these plans, and of reporting the facts for the benefit of the country, together with recommendations regarding any further steps in this direction which may seem practical and desirable;

(3) That such a body would be best able to perform its nationally important tasks if created independently of the War Labor Board by the President; and

(4) That the President appoint a commission for these purposes.'

The reasons which lead the Board to take this action may be summarized as follows:

The country's information on the important subject of guaranteed annual wage plans is very limited. There appear to be only some 50 or 60 plans of this sort in existence, although the exact total is uncertain. An undetermined number have been tried and discontinued, for reasons not known. Some of the existing plans are reported to be successful, with benefits resulting to the employers as well as to the workers through the greater regulation of production and employment. All but a few of the plans, however, have been limited to consumer goods industries or retail trades in which a relatively steady demand prevails and none appears to have been attempted in a durable goods industry like steel, where the demand has fluctuated widely from year to year, being dependent in turn upon the fluctuating needs of other industries. Each plan has differed from every other, and most of the plans have been initiated by the employers themselves. No comprehensive and authoritative study has been made of the nature and coverage of the plans now in existence, or of their actual effects on employment, production, and profits, or of the reason why other plans have gone out of existence.

The question is one which demands investigation. A guaranteed annual wage is one of the main aspirations of American workers. The search for it is part of the search for continuity of employment which is perhaps the most vital economic and social objective of our times. The War Labor Board cannot be indifferent to the human problems created by this search. For in the field of industrial disputes these problems are with us now, and the Board is required by law to dispose of them fairly and equitably. They are reflected in demands for annual guarantees in a number of pending cases before the Board; and the fear of unemployment which has led to these demands is contributing also to the pressure for a change in the national wage stabilization policy. Charged with responsibility both for wage stabilization and for the settlement of industrial disputes, the War Labor Board cannot shut its eyes to these developments. The Board is convinced that it would be derelict in its duty if it were simply to dismiss the demands of the unions without proposing a single step forward.[3]

Post World War II Studies

The monumental work, familiarly known as the Latimer Report was the result of the study advocated by the War Labor Board. Kaplan's study, The Guarantee of Annual Wages, under the auspices of the Brookings Institution, the Latimer Report and The Guarantee of Work and Wagesby Joseph L. Snider of Harvard University were all published in 1947. The coincidence of publication of three major works on the same subject was, without doubt, due to the meager information available on this aspect of the worker's "search for continuity of employment", and to the increasing insistence by labor at the bargaining table as a means of attaining this continuity.

In the foreward to his book The Guarantee of Annual Wages, A.D.H. Kaplan comments upon the Latimer Report stating:

There was a sense of urgency in the motivation, to ensure wartime labor against the threat of employment insecurity which was widely predicted. Since then the annual wage has temporarily yielded the forefront of public discussion to more immediately pressing issues of national labor policy. The current high levels of employment and living costs would also account for temporary sublimation of the annual wage as a prime issue in current collective bargaining.[4]

Kaplan continues prophetically, declaring that, "The problem of employment security is too fundamental, however, to remain long in the background."[5]

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[3] Latimer Report, p. 187.

[4] A.D.H. Kaplan, op. cit., p. v. [5] Ibid.

Similarly, the Latimer Report points out, "The tragedy, suffering, and frustration which characterized the 12 years (1929-41) produced a deep-rooted demand for security --- of which the guaranteed wage is becoming one of the most important expressions."[6]

As A.D.H. Kaplan stated, the years immediately following the cessation of hostilities of World War II found labor setting aside its drive for GAW. Organized labor was embroiled in bargaining for successive rounds of wage increases, tying wages to the cost-of-living index, obtaining pensions, and battling the Taft-Hartley Act. Murray Latimer states,

> Activity in the guaranteed wage field since the publication of the Guaranteed Wages Report has been at a low level. This has been due primarily, in my judgment, to the fact that, first, the reconversion period was relatively brief and that employment has, on the whole, been at an unusually high level. Of more importance has been the continuous pressure on the level of cash wages because of the almost continuous rise in consumer prices. Finally, there were other areas --- pension, insurance and health --- in which Union action was essential because the existing provisions were at a level even lower than for unemployment compensation.[7]

Mr. Latimer then points out that,

> The Union proposal at this stage, while not indicative of any lessening need for current income to meet rising living costs, does correctly imply that provisions which have been made in other fields have left those with respect to unemployment compensation at a relatively unsatisfactory stage.[8]

It has been indicated that the basic motivating force behind the drive for the regularizing of employment and income is the drive for job security. It is a fundamental drive of labor which in the post-World War II era has emerged under the banner labeled GAW. Causation of economic and social phenomena is usually complex. Anxiety over possible

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[6]Latimer Report, p. 10.

[7]Murray W. Latimer, Case D-18-C, p. 7. [8]Ibid.

and actual post-war unemployemnt of both a seasonal and cyclical nature was certainly a factor in the renewal of emphasis on the regularizing of income and employment. Technological advances were accelerated during the war years, and labor could not help but be impressed by what they saw and heard concerning the concept of automation. Again, as was pointed out by Murray Latimer, it was felt that unemployment compensation was becoming increasingly inadequate as wages, cost of living, and living standards rose.

In addition the war-time growth of labor put labor in a better bargaining position. A steadily rising Gross National Product perhaps developed a climate where union members and the general public would give credence to the opinion that industry could afford a GAW. The tremendous increase in post-war credit buying and its resultant increase in consumer debt must add lustre to the goal of continuing steady income and employment.

Whatever the complex of social causes which culminated in the demand for the regularizing of income and employment, it was primarily the spectre of insecurity and unemployment that was advanced by those unions who led the demand for some form of guaranteed annual wage.

Since the publishing of the Latimer Report in 1947 the demands for a guaranteed annual wage have been in terms of integration with unemployment compensation payment or (as they now are called) Supplemental Unemployment Benefits. (SUB) The reasons for this integration are apparent in this conclusion from the Report. According to the Report, integration would:

1. Reduce guarantee costs
2. Utilize available office facilities, and the
3. Guarantee and unemployment compensation would tend to reinforce each other.

The Report continues,

> Coordination of unemployment compensation and wage guarantees can best be accomplished by simply authorizing unemployment compensation payments to workers with a guarantee whenever they would otherwise be eligible for unemployment compensation benefits. Thus in a period when the guaranteeing employer had no productive work available the employees could receive unemployment compensation under the appropriate State law and the balance of the guaranteed amount by supplementation from the employer.[9]

More succinctly Mr. Latimer states, "In a substantial sense, the problem of guaranteeing wages is a problem of supplementing unemployment insurance."[10]

Union Motivation: United Steelworkers

Continuing to press their demand for a guarantee of wages in conformity with the recommendation set forth by the Latimer Report, the United Steelworkers of America (CIO) emphasize the important role that the fear of unemployment and its concomitant loss of income plays in their persistent demand. In a paper titled "The Guaranteed Annual Wage - Some Observations Concerning the USA-CIO Demand in 1951-1952" they say,

> Security of employment, or income, has been one of the major objectives of the Steelworkers for many years. The Union position is that industry has a responsibility to provide for its employees at times when their services are temporarily not needed which is at least as great as its responsibility to maintain its machinery during idle periods.

In the same paper it is stated that,

> Provision of some guarantee against loss of income because of unemployment is necessary particularly now because unemployment benefits paid by the states have increased, in the post-war period, far less than living costs or wages. In almost all steel-producing states unemployment benefits will today buy considerably less than the benefits in effect in 1945. In at least one important steel producing state, Alabama, the average monetary unemployment benefits, uncorrected for the change in the value of the dollar, has actually declined since 1945.

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[9] Latimer Report, p. 16.

[10] Ibid., p. 11.

In their case before the Wage Stabilization Board in 1952 it is pointed out that,

> Even in a year when employment, generally, and in steel is as high as in 1950, there will be a substantial volume of unemployment in the steel industry. A substantial part of the early 1950 unemployment was carried over from 1949; but there was an appreciable volume of new unemployment according to the BLS statistics.[11]

The following table is given:

TABLE 4. - Average Unemployment Rate, Average Number Unemployed, And Numbers Becoming Unemployed During the Year 12

Basic Steel Industry
1937-1941 and 1947-1950

Year	Average Unemployment Rate: % of Workers Attached to Industry	Average Unemployment Rate: % of Workers Employed	Ave.No. of Workers Unemployed During Year	No. Unemployed Beginning of Year	Spells of Unemploym't Beginning During Year
				(in 1000's)	
1937	5.7	6.1	29.5	12.0	141.4
1938	31.0	44.9	164.5	120.5	105.1
1939	22.9	29.7	121.4	152.8	37.9
1940	11.8	13.4	62.8	47.7	75.3
1941	5.4	5.7	30.9	41.7	40.8
1947	4.6	4.8	25.0	36.0	19.5
1948	3.9	4.0	21.6	26.7	15.1
1949	8.1	8.8	45.9	15.9	88.4
1950	6.1	6.5	34.6	61.7	19.7

[11] Murray Latimer, Case D-18-C, p. 9.

[12] Ibid.

Mr. Latimer declares that the table overstates past unemployment in the steel industry (this is done so that cost estimates for the guarantee will be generous), but that even if the overstatement is as great as one half, it still shows that thousands of steelworkers will be unemployed during any given year, even a year of high employment, while a recession will raise the number of unemployed several times over. He goes on to say,

> Since 1938, when a steelworker becomes unemployed his first and normal reliance for sustenance --- other than his own savings, if any, and the incurrence of personal indebtedness --- is upon unemployment compensation under state or Federal law. Unemployment compensation is small in amount and is payable for relatively brief periods; in every slump in the steel industry we know that steelworkers --- sometimes many of them --- are compelled to resort to public assistance.[13]

In a special issue of Steel Laborspot-lighting the guaranteed annual wage before the 1954 negotiations, US of A reiterates their belief that the problem of GAW is the problem of layoffs and unemployment. Feeling that there need not again be a depression of the magnitude of the'30's they say,

> But since there need be no broad economic setback if proper steps are taken, the second aspect of the layoff is of major importance right now --- and that is the down-to-earth, make-ends-meet reality which the individual worker faces when he is laid off. For even if you are the only man laid off, and even if it is 'just for a few weeks', it is still a layoff --- or, to put it bluntly, temporary unemployment, and the loss of all income except for the meager unemployment compensation available.
>
> The United Steelworkers of America and its leaders are convinced that both these factors --- the nation's economic health and the individual worker's livelihood --- are problems that can be coped with and, furthermore, should be planned for, provided for, now, in a period of relative prosperity, to head off the possibility of more serious downturns of production and employment in the years to come.
>
> We are also convinced that the Guaranteed Annual Wage is a basic, practical way to do that.[14]

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[13] Murray Latimer, Case D-18-C, p. 9.

[14] Steel Labor, Feb. 1954, p. 8.

Union Motivation: United Automobile Workers

In a similar vein the UAW-CIO reports that,

> From 1948 on, the Research Department of our Union had been systematically collecting all available material on the subject matter of wage guarantees. At the same time the Research Department began assembling information on lay-offs in the automobile industry and on corporation practices and other factors responsible for lay-offs.
>
> The post World War II period saw an industry working full blast to fill pent up demands for heavy consumer goods which had not been produced during the war. At an ever increasing rate, during the same period, industry was introducing new and revolutionary production techniques developed under the pressure of war production.
>
> The automobile industry demonstrated to the world with great pride its ability to produce year-round. Gone were the long inventory periods, the extended model change-over periods, and the lay-offs which characterized the end of model years in the industry before the war. Yet despite these facts the individual auto worker was still victimized by the cancerous lay-offs and dislocations which constantly ate into his ability to earn yearly wages sufficient to allow him to support his family.
>
> Short hours, short weeks, and frequently extended lay-offs were not uncommon despite record year-around production in the industry. The production hungry corporations were concerned only with the problems of rolling cars, trucks, and tractors off the assembly lines. The workers continued to absorb the brunt of dislocations, mismanagement, and material shortages through management's unrestrained use of the lay-off.[15]

In a resolution adopted by the UAW-CIO at their 14th Constitution Convention held in Atlantic City in March 1953, they say,

> We have failed to solve the problem of unemployment and part-time layoffs in the past largely because those who have the power to solve it have not had to pay the cost of failing to solve it.
>
> The annual wage attacks this problem at the root. It shifts to the employer where it belongs, the cost of unemployment. It requires the employer to pay the worker as the employer himself is paid --- by the year.
>
> Workers and families live by the year, a biological need which they share with stockholders and corporation officials. Corporations also live by the year. Interest rates, depreciation charges, taxes, executive salaries --- all these items in the cost of keeping corporations alive are computed as annual costs.
>
> The time has come to consider labor costs as annual costs also, because to the workers they are annual costs. Workers must provide for their needs every day in the year. They cannot meet these needs

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[15] Progress Report on the Guaranteed Annual Wage, UAW-CIO, Dec. 1953.

> when they are left without jobs or earnings for weeks or months at a time. But little will be done to insure that they have jobs throughout the year until employers are given a greater financial responsibility in stabilizing employment.
>
> The guaranteed annual wage is not a cure-all for our economic problems, but it can be the beginning, and the focal point, of a general attack on the basic problem of maintaining full employment in peacetime.

Commenting on the unemployment compensation benefits the CIO says,

> Unemployment insurance is woefully inadequate in spite of labor's determined efforts to improve it. The average benefit is now $25 a week. State maximums, with few exceptions, are still less than half of average wages of covered workers, even after 1955 amendments. Duration is too short, and many unemployed workers are deprived of payments by inexcusable disqualification clauses designed to save employers money.[16]

In their 1955 UAW-CIO Bargaining Program[17] the union lists examples of high seniority workers laid off during 1954 and the number of production workers in the auto industry laid off during the months from April 1953 to September 1954. Evidently, as in the Steel industry, the fear of seasonal and cyclical unemployment even in relatively good years has been a strong motivating force in the post World War II drive for the guaranteed annual wage by the UAW.

Fear of job loss due to automation is evidenced by the following story which has appeared in several forms in union publications. It is quoted here in the form of a parable:

Parable

CIO President Walter Reuther was being shown through the Ford Motor plant in Cleveland recently.

A company official proudly pointed to some new automatically

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[16] Economic Outlook, CIO Dept. of Education & Research, April 1955, p. 27.

[17] 1955 Program, pages 2A, 2B & 2C --- see Appendix.

controlled machines and asked Reuther: "How are you going to collect union dues from these guys?"

Reuther replied: "How are you going to get them to buy Fords?"[18]

This parable which introduces a booklet on automation put out by the UAW-CIO education department indicates the feelings of the union concerning the connection between wages and automation. In the text of the booklet they express their thought more formally by saying,

> The guaranteed annual wage represents the most essential element of that needed security structure. The guaranteed annual wage will serve as a regulator of the process of technological change, tending to minimize its disruptive consequences. It will affect management decisions concerning both the timing and the placement of new automation installations so that those decisions will be tempered by a degree of social consciousness.[19]

Union Motivation: International Union of Electrical Workers

Another major union, the International Union of Electrical, Radio and machine workers (CIO), which has a guaranteed wage as a bargaining objective, is also partially motivated by the coming of automation. In a Resolution of Automation Adopted by the Radio, TV and Parts Conference Board, IUE-CIO, Hotel Van Orman, Fort Wayne, Indiana on March 5, 1955, it was resolved that savings from automation should be shared by providing against layoffs through GAW and severance pay.

However, as with the United Steel Workers and the United Automobile Workers, the IUE-CIO considers the problem of GAW to be basically the problem of prospective and prevailing unemployment. In a talk before

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[18] Automation, A Report to the UAW-CIO Economic & Collective Bargaining Conference, Detroit, Michigan, Nov. 12 & 13, 1954, UAW-CIO Education Dept., p. 6.

[19] Ibid., p. 11.

the Society for Advancement of Management, David Lasser, research director of the IUE-CIO states:

> Before talking about the effect of a guaranteed employment plan upon employment stabilization, it is important to define the problem we are trying to cope with.
>
> The problem basically is that of job insecurity for workers, and economic instability for our nation.
>
> Insecurity of jobs goes back to the beginning of employment for wages. But the difference today is that we of the labor movement believe that the time has come to solve this problem. We are no more satisfied with the 'inevitability' of the disease called unemployment than we as a people are content with the inevitability of physical disease.[20]

Like spokesmen for the US of A-CIO and the UAW-CIO, Lasser maintains that unemployment is high even in good years. He says concerning the electrical industry, "In November 1954, production was the same as in November 1953. Yet 90,000 fewer workers were employed and hours for those working were one hour shorter. The net result was a 12% decline in man-hours in the space of a year."[21]

Lasser also points to inadequacies in unemployment compensation, stating,

> It is not only that payments are too low, averaging \$24 to \$25 a week, or less than one-third of factory workers' average pay; but furthermore, there is the waiting period of a week or more, the disqualifications often demanded by employers, and the fact that benefits become exhausted before workers get jobs. Two million workers exhausted their benefits in 1954 while still unemployed.[22]

It would seem from an analysis of the statements put out by these three major CIO unions who have been in the forefront in the post-World War II demand for a form of guaranteed annual wage, that this demand is an expression of the traditional desire for job security. It was occasioned at this time by a fear of mass unemployment after the war,

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[20] David Lasser, "Employment Stabilization and the Guaranteed Annual Wage," a talk presented to the Society for Advancement of Management, New York, March 10, 1955, p. 1.

[21] Ibid., p. 3. [22] Ibid., p. 6.

the return of seasonal unemployment in some industries, uneasiness about the possible effects of tremendous technological advancement, and probably by the feeling that labor was strong enough to request, and industry wealthy enough to sustain, increased job and income security.

CHAPTER IV

LABOR'S GAW PROPOSALS

Having looked at some of the better known earlier plans and at the motivation behind labor's post-war GAW demands we will now examine specific proposals of the Steelworker, the Electrical Workers, and the Automobile Workers unions.

A.D.H. Kaplan points out that bargaining in the Steel industry in 1951

> .... shifted the annual wage program from an all-out guarantee of a certain number of weeks of full-time labor, or its equivalent, to a guarantee of a larger percentage of full-time wage during unemployment than was provided under the terms of unemployment compensation laws.
>
> Such interest as is currently exhibited by the CIO, particularly in the Steelworkers, the Electrical Workers, and the Automobile Workers unions, would indicate that it is the supplementation of unemployment compensation that will constitute the practical issue of the annual wage problem for the months ahead.[1]

Some reasons for the differences between post World War II union proposals and the earlier, so-called "traditional" plans are given by the UAW-CIO in their Progress Report on the Guaranteed Annual Wage. They say,

> .... none of the existing guaranteed wage plans met the needs of workers in our industries. Either they were not applicable to the economic conditions of our industries, or they contained one or more features which were totally unacceptable to our Union. This is readily understandable when it is realized that most such

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[1]A.D.H. Kaplan, Chairman, "Guaranteed Wages: The Perennial Problem," A Round Table conference, Management Record, March 1954, p. 96.

existing plans are in soft goods consumer industries (soap, shoes, meat packing, sugar, etc.), and many were company-initiated in non-union plants.

While there is a wide variety of features in these existing plans, most of them can be summarized into several types.

> A. The flat sum guarantee. This type of plan guarantees an annual yearly amount in earnings, but is usually accompanied by a relaxing of overtime features so that the worker can be made to pay for his own guarantee out of his overtime earnings.
>
> B. The hours per year guarantee. This type of plan guarantees a total number of hours of work during the year without regard to when these hours are actually worked.
>
> It has no effect on week-to-week instability of employment and is compatible with employer planning that leads to excessive overtime during part of the year and under-employment and short work weeks in other parts of the year.
>
> C. The percentage of sales guarantee. This type is geared to production and prices, fluctuating accordingly, and is actually no guarantee at all.
>
> D. Limited high seniority guarantee. This type guarantees a given number of hours of work per year for high seniority workers, only at the expense of low seniority workers.
>
> E. Permanent work force guarantee. This type guarantees a given number of hours or weeks of work to a limited number of workers. Only by replacements through deaths, quits, etc., does a worker move into the guaranteed group.[2]

The report goes on to state that existing plans contain one or more of the above features and all are unacceptable. GAW programs must be tailor-made. Here is the plan that the UAW-CIO believes fits UAW members "like a glove."

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[2] Progress Report on the Guaranteed Annual Wage, UAW-CIO reprint from Collective Bargaining Negotiations & Contracts, The Bureau of National Affairs, Inc., Washington D.C., December 18, 1953, 15:935.

UAW-CIO Proposal[3]

1. The Guarantee

All workers available for work will be guaranteed 40 straight-time hours of work or pay at their regular straight-time wage rates for every week unless notified in advance that they are to be laid off for the entire week. The purpose of this guarantee is to end the scheduling of short work-weeks.

If advance notice of lay-off is given, seniority workers (seniority attained in 90 days) will receive payments for each full week of lay-off.

Duration of benefits received under the full-week lay-off guarantee depends upon the amount of seniority time a worker has. Those having 2 years seniority when the plan becomes effective have 52 weeks of coverage. Those workers with one year seniority at this time would have 26 weeks of coverage. Coverage is built up on a 1 for 2 ratio; that is one week of coverage for every two weeks worked after seniority is attained. Fifty-two weeks is the maximum. If a worker at this maximum used up twenty weeks on a lay-off and was called back, he would still have thirty-two weeks guaranteed. He would start to build up to fifty-two weeks again on the 1 for 2 ratio.

The amount of the guarantee is to be enough to enable workers to maintain the same living standards when laid off as they had while working.

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[3]Information on UAW-CIO proposals is taken from two booklets prepared by the UAW-CIO Education Department, entitled Preparing a Guaranteed Employment Plan ..... that Fits UAW Members Like a Glove, and Questions and Answers about the UAW-CIO Guaranteed Employment Plan.

2. Integration with Unemployment Compensation

Guaranteed wage payments will be integrated with unemployment compensation benefits. The employer's liability for guarantee payments will be reduced by the amount of the state unemployment compensation benefit that the worker receives. The laid-off worker must register with the State Employment Service. If the worker is denied unemployment compensation benefits under the state law but is eligible for guarantee payments he will receive the full amount guaranteed under the plan.

Workers must accept suitable work, but if the work is considered "suitable" under the state law but not under the guaranteed wage agreement, the worker will be able to refuse it without loss of guarantee rights or payments.

If the laid-off worker takes a suitable job with less pay than his regular job, he will be entitled to "make-up" payments to bring his wage up to its former level. If he held a suitable job for several months and was then laid off, he would be able to pick up his guarantee payments again.

3. Financing

Cost arising out of short work-weeks, or failure to notify workers in advance of a full-week lay-off will be met by the employer on a pay-as-you-go basis and will not be credited against his maximum liability.

Costs of payments for full weeks of lay-off will be met by the employer on a pay-as-you-go basis up to a specified maximum percentage of his current payroll.

A trust fund will be established and maintained by employer contributions to meet the costs of abnormally large full-week lay-offs.

The employer will be required to build the reserve trust fund up to and to maintain it at a specified percentage of his "base payroll." (The "base payroll will be the highest number of man-hours worked in the bargaining unit during any of a specified number of calendar years immediately preceding the annual review of the fund multiplied by the current average straight-time hourly wage rate.)

After the reserve reaches the required level, further contributions will be required to be made into the trust fund only

a. to replace withdrawals from the fund

b. to adjust to increases in the "base payroll" resulting from increases in employment, or wage rates, or both, and

c. to adjust to unemployment compensation law amendments, or changes in the terms of reinsurance which would have the effect of increasing the potential liabilities of the reserve fund.

Such further contributions will be made at the "contribution rate." This is the rate at which the employer will contribute to build up the reserve fund. It will preserve a steady relationship between the contribution rate and the size to which the fund is required to be built up.

4. Maximum liability

The employer's maximum liability, for current (pay-as-you-go) payments for full-week layoffs plus contributions to the trust fund, will be limited to the percentage of his current payroll specified in the agreement. Payments into the reserve fund occur only if pay-as-you-go obligations are less than the maximum specified.

5. Administration of Plan

The guarantee will be administered by a Joint Board of Administration comprised of employer and union representatives in equal numbers plus an impartial chairman to break deadlocks.

Joint plant and regional committees, comprised of employer and union representatives only, will be established in multi-plant corporations, and under pooled plans to the extent necessary.

The Joint Board of Administration will be responsible for interpreting the guaranteed wage agreements. It will decide when workers are entitled to guaranteed payments; how much they are entitled to, for how long, whether work offered is suitable, etc.

High points of the UAW-CIO plan are:

1. Its "Something for Everybody" coverage. All seniority workers obtain some wage guarantee. All workers obtain short work week provisions.

2. The combining of "pay-as-you-go" and trust fund financing. The aim of the "pay-as-you-go" aspect of the plan is to provide a monetary incentive to the employer to stabilize employment.

3. Limiting the liability of the employer to a specified percentage of current payroll. The purpose of this is to do away with the objection that the cost of guarantee is indeterminate and therefore cannot be planned for.

4. Integration with Unemployment Compensation program. The plan's implicit objections to what it considers inadequacies in Unemployment Compensation benefits both in amount and in duration, and to the disqualification system of Unemployment Compensation is as interesting and as important as the idea of integration.

Many specific points such as the amount of the trust fund, the contribution rate, the actual amount of worker guarantee, and suitable work are left to be determined in bargaining.

The Steelworkers' Proposal[4]

1. The Guarantee

Workers are covered by this plan if they have two or more years of continuous service with the employer.

The amount of the weekly benefit will be 32 times the employee's standard hourly (job class) rate, minus (1) any unemployment compensation benefit payable to the employee, and (2) any income (if in excess of $10.00) earned during the week if the employee is partly employed.

Duration of benefits is for a maximum of 52 weeks, beginning with the start of any period of total or partial unemployment. If an employee returns to work after a period of total or partial unemployment, he becomes eligible for all or part of a second 52-week period of benefits after a year has expired from the beginning of his first period of unemployment. During any 52-week period of benefits, the total benefits received, measured in hours' pay at the employee's standard hourly rate, shall not be more than three times the hours paid for by the company (and the number of hours of absence because of occupational accident or disease) during the year immediately prior to the beginning of the period of benefits.

2. Integration with Unemployment Compensation

Employee must register for work with the appropriate employment office and he must apply for and accept, if offered, suitable work when properly referred to such work. Unemployment Compensation benefits are deducted from amount of guarantee.

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[4]From "United Steelworkers of America, 1954, Guaranteed Wage Plan Proposal" --- mimeographed.

3. Financing

The company shall pay 4% of its total payroll for employees in the bargaining unit into a trust fund.

4. Maximum Liability

The company shall have no liability to pay for any benefits which cannot be provided from the funds available in the trust fund.

5. Administration of the Plan

The company shall administer the plan, subject to the grievance and arbitration machinery of the collective bargaining contract. The company shall supply full details of the operation of the plan to the union.

The Steelworkers' proposal is more moderate in its demands than is that of the UAW-CIO. This may be due to the tempering action of repeated negotiation. Calling for a benefit of 80% of weekly pay on the hourly rate and eliminating low seniority workers from the plan allows the company a fair amount of flexibility in operation before the guarantee takes effect. In addition, administration of the plan is left to the company.

David J. McDonald, president of the Steelworkers, stated that his union would not seek a guaranteed wage in 1955.[5] However, I.W. Abel, secretary-treasurer of the International Steelworkers Union, speaking in Milwaukee before the annual meeting of district 32 of the union, "suggested that the steel union might drive (in 1956) for higher wages to increase purchasing power and the guaranteed annual wage supplemented by

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[5] Wall Street Journal, "Steel Union Won't Seek Guaranteed Wage This Year Says McDonald," March 3, 1955, page 2.

a further reduction in the hours of work down to 36 or even 30 a week."[6]

The Electrical Workers' Proposal[7]

1. The Guarantee

For each employee with one year's seniority, the company guarantees 2080 hours of pay per year and this shall include not less than 48 weeks of 40 hours each at the employee's regular day work or guaranteed incentive rate of pay per hour including the shift differential. (The guaranteed rate means the old base rate plus the "payroll add", or what is paid for 100% production.) A proportionate guarantee would be made for salaried workers.

Employees with at least three months service but less than one year would receive smaller guarantees which would increase with the length of service.

Eligible employees who are laid off for 52 weeks or more and then rehired would have a renewed guarantee for the ensuing period which would be worked out in the contract.

For workers permanently separated due to abandonment of a plant, there shall be a severance pay of one week for each year of service.

2. Integration with Unemployment Compensation

In the event an employee is laid off he shall immediately apply to the United States Employment Service office for work and at the Unemployment Compensation Board for Unemployment Compensation Benefits. If suitable work, as will be defined in the agreement, is offered him, he shall be responsible for accepting such work.

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[6] The Milwaukee Journal, "Steel Union Studies Annual Wage Drive", May 15, 1955, Part 2, p. 1.

[7] From "1955 Economic and Contract Proposals Submitted by the Negotiating Committee IUE-CIO Conf. Board to Gen. Electric Co., July 19, 1955."

The guarantee payment shall be reduced by the amount of the unemployment compensation payments, other employment payments and the income from other employment received by the worker during the lay-off period.

3. Financing

A fund equal to 5% of the payroll shall be established. No payments shall be made from it until the fund has accumulated for 52 weeks and only for subsequent lay-offs.

One half of this fund is to be a Trust Fund, the other half a contingency fund. Both will be used for payments under the guarantee, but the contingency fund will be used first and money will be drawn from the Trust Fund only when the contingency fund is exhausted.

The Trust Fund shall be allocated into three parts. One part shall be used to fulfill the guarantee to employees with less than three years seniority. A second part shall be used to fulfill the guarantee of the employees with more than three years seniority, and a third part shall be used to fulfill the guarantee of those with five years or more seniority.

4. Maximum Liability

Company liability is limited to contributions of 5% of payroll. When the total fund available shall become equal to ten weeks pay for each employee, the contributions may be reduced so as to simply maintain the fund at that level.

5. Administration of the Plan

The trust Fund shall be administered by a Board of Trustees comprised of an equal number of members of union and management with a neutral chairman chosen by both.[8]

The IUE like the UAW proposal asks for broad coverage including workers with as little as three months service in the guarantee. Concerning the amount of benefit they are more specific than the UAW and more demanding than the Steelworkers. They ask for a guarantee of a little more than 90% of their yearly earnings. Dividing the Trust Fund into three parts, each part allocated for different seniority groups is, no doubt, an attempt to protect the high seniority worker. One of the criticisms that has been leveled at these plans is that they aid the new or low seniority worker at the expense of the "old-timer." Low seniority workers are, of course, laid off first and some have intimated that by the time the high seniority worker is laid off the fund may be exhausted. This provision would, it would seem, make that particular contingency impossible.

While the proposals offered by these unions differ in particulars, as has been pointed out, there is obvious similarity in pattern. The differences should not be minimized. Certainly differences such as do exist in amount of benefit demanded, breadth of coverage, and administration of the plan, to name only a few, are not minor. However, the broad pattern of limited employer liability, accumulation of a reserve fund, and integration with the unemployment compensation program is what has emerged as the "new look" in post-World War II GAW proposals.

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[8]On Aug. 11, 1955 the IUE signed a 5 year contract with General Electric, minus a GAW. G.E. agreed to a reopening of the question in 1958 but said, "From anything we can now see or anticipate, we will three years from now be just as firm in our conviction as we were last and this year that employment compensation supplementation or any other similar proposals of this nature are not in the balanced best interests of all concerned in G.E." Wall Street Journal, Aug. 12, 1955, p. 2.

CHAPTER V

RÉSUMÉ AND EVALUATION OF VIEWS

In the discussion of labor's post-war renewal of interest in guaranteed wage plans we have seen that security of income and employment are the prime goals of the current guaranteed wage drive. The unions argue that guaranteed wages will be an incentive for industrialists to stabilize their businesses and thereby bring about steadier employment. They also say that guaranteed wages will tend to maintain purchasing power during a business downturn and in so doing will act as a stabilizer for the economy. However, their central argument is humanitarian or social in nature and is concerned with the maintenance of income more than with maintenance of employment. The argument is simply that it is obviously unjust that the worker, who is least able to afford it, bears the brunt of the costs of unemployment. They propose to change this situation. They hope, as far as is feasible, to shift the cost of unemployment to the employer. Workers, the unions say, live twelve months a year; they must be paid twelve monthe a year.

Some Objections to a GAW

There are, of course, many objections to the concept of guaranteed wages. The National Association of Manufacturers declares that, "In an economy as dynamic as ours it is clear that no man can be guaranteed the indefinite continuation of his present status. If stability is achieved this way, it will be the stability of a man in a strait-jacket."[1]

In the same pamphlet[2] the Association enumerates the effects a guaranteed wage would have on various groups in the economy. They single out for analysis the employee, the employer, the consumer, and the economy as a whole. As they see it the effect on the employee would be to discourage resourcefulness, decrease the number of job opportunities, make workers less willing to switch jobs even for an advancement, and put workers not working in industries where guarantees exist, at a disadvantage.

The employer, the NAM feels, would have his flexibility of operations seriously hampered. Unions would move into management areas as a result of joint administration. Higher unit costs and higher fixed costs would make the employer less willing to assume risks and would curtail business growth.

The consumer would foot the bill. Higher labor costs due to unproductive guaranteed wage payments would be passed on through higher prices. This, the Association believes, is manifestly unfair since the greater proportion of consumers would not be covered by guarantees and therefore a large majority would be paying the guarantees of a small powerfully organized minority.

In addition, the NAM thinks that the economy as a whole would suffer, for guarantees would have the effect of discouraging risk capital and would seriously curtail expansion in the face of a steadily growing population.

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[1] The Guaranteed Annual Wage and Its Implications to a Free Economy, The National Association of Manufacturers, Feb., 1954, p. 25.

[2] Ibid., pp. 25-27.

Finally, it is felt that the effect of GAW on cyclical movement would be perverse through liquidation of reserve fund investments during the decline, while inflation would be encouraged by wage maintenance when prices were dropping.

In a similarly critical vein the Chamber of Commerce of the United States summarizes objections to guaranteed wages by admonishing,

> 'GAW' means danger ahead.
> Today many industries are facing a union demand that is called 'Guaranteed Annual Wage.'
> The fact is that this proposal seeks to combine State Unemployment Compensation benefits with private union-company agreements to continue high wage payments to laid-off workers.
> You will see how this scheme would
>
> Put a bonus on idleness
> Discourage job-seeking
> Raid our State Unemployment Compensation systems
> Force unfair tax loads on many companies by the few
> Straitjacket our economy
> Fail to keep its promise of'security.'[3]

The General Electric corporation has been consistently outspoken against the GAW concept. Commenting on an IUE-CIO guaranteed wage proposal they say,

> Thus we are forced to conclude that this latest IUE-CIO demand --- or any such privately-negotiated, selective, discriminatory, non-universal type of coverage --- is wrong in principle. It is also grievously wrong in the light of private and public experience as to the optimum amount and duration of benefits. It is completely unrealistic as to the idea of the trust fund being a limitation on liability. It threatens the sound and constructive management of the Company in the balanced best interest of all the contributors to and claimants on our output of goods and services. It even imperils the tried and proven guaranteed income plan of the state unemployment compensation systems which the public has chosen and kept up to date according to its concept of what's fair and feasible for the unemployed and at the same time equitable for all others concerned.[4]

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[3] Jobs? or Jobless Pay?, Chamber of Commerce of the U.S., 1954, p.3.

[4] The So-called 'Guaranteed Annual Wage' Demand, General Electric Employee Relations News Letter, May 5, 1954, p. 11.

Some Economic Aspects of a GAW

What will be the impact of the guaranteed annual wage on the American economy? This is a question which cannot be answered categorically. Certainly the answer would depend on the particular characteristics of the GAW plan which was in force, the number of workers under the plan, the types of industries involved, and the relative financial strengths and weaknesses of specific firms involved. However, it is both interesting and necessary to conjecture concerning possible effects, in order to evaluate present plans and proposals. Following is a brief analysis covering the effect of the guaranteed wage on employment, investment, and income.

The Employment Effect:

The most optimistic hope concerning GAW and employment is that a fairly all-encompassing guarantee will increase purchasing power to the extent that full-employment will be attained and sustained. Werner Hochwald says,

> The new approach to guaranteed wages questions the effectiveness of flexible costs and payrolls to maintain economic stability. Wage guarantees are discussed, not with the limited objective of providing minimum income security to workers when mobility between jobs and companies is accepted as a prerequisite for the efficient functioning of a free enterprise system, but with the ambitious goal of creating high total purchasing power and thus sustaining a full-employment level of income.[5]

This panacea approach is explicitly denied by the major unions seeking the GAW.

In an appendix to the Latimer Report, Alvin Hansen and Paul

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[5] Werner Hochwald, "The Economics of Guaranteed Wages," in Twentieth Century Economic Thought, Glenn Hoover, Editor, The Philosophical Library, N.Y., 1950, p. 324.

Samuelson state,

> Our tentative conclusion is that the guaranteed wage, by itself, is not likely to prove very effective either as a means of stabilizing the cycle or of lifting the level of employment over the cycle, although the guaranteed wage may be partially effective in regularizing seasonal unemployment.[6]

In their opinion the GAW would function best in a full-employment economy, ..."by stabilizing seasonal and other short rhythms in production and by equitably allocating the economic burden of the residual amount of unavoidable idleness and unemployment."[7]

Writing specifically about the UAW proposal, Fr. Joseph M. Becker says,

> The g.a.w. may moderate slightly the amplitude of cyclical unemployment swings in the auto industry. It may do it by substituting some fluctuation in price for some fluctuation in production. On the upswing, auto companies may charge higher prices than they would otherwise because of the additional cost of supporting the g.a.w. fund. This may moderate at the peak the rate of production and the size of the labor force taken on. The existence of a g.a.w. might have damped the great surge of hirings in the fall and winter of 1952-53 and lessened the layoffs in 1954.
>
> On the downswing the companies will have a greater fixed cost and hence a greater incentive to continue producing at any price that will cover variable costs. This may result in lower prices, greater production, and less unemployment. Thus higher prices on the upswing and lower prices on the downswing may both have the effect of damping the swings in production and hence in employment.[8]

Fr. Becker goes on to say that these effects are problematical and might well be offset by other forces within the business cycle. In addition he believes that while the GAW will give companies added incentive to stabilize, he is not sure that the necessary ability to stabilize is present. An adverse effect, he thinks, may be an increase in both voluntary and involuntary unemployment. Voluntary unemployment might be

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[6] Latimer Report, op. cit., Appendix F, p. 434. [7] Ibid., p. 416.

[8] Joseph M. Becker, S.J., "G.A.W. for Auto Workers," Social Order, June 1955, p. 261.

increased by women dropping out of the labor market and using up their guarantee and by separated workers becoming less willing to take on fill-in jobs. Involuntary unemployment might result from a price rise, stimulated by GAW, to such an extent that fewer cars are sold and therefore fewer productive workers would be needed. It is conceivable, also, that the high cost or potential high cost of a GAW might be a motivation toward cartelization and a limited, safe market or at least toward a propensity on the part of employers to obtain increased production by working their present employees overtime rather than hiring additional workers.[9]

Giving his opinion of the guaranteed wage as an employment stabilizer, Sumner Slichter points out,

> The view that widespread adoption of the guaranteed annual wage would stabilize employment is correct under some conditions and incorrect under other conditions. The two conditions that would need to be met for widespread adoption of the guaranteed annual wage to stabilize employment are (1) that employers accumulate reserves to meet their liabilities for wage payments under the plan of the guaranteed annual wage, and (2) that the liability of employers be limited to the amount in the reserve, or some small additional amount. If reserves were not accumulated in advance, even a small drop in employment would impair the liquidity of some employers and cause them to cut non-payroll expenditures, thus producing layoffs in other plants which, in the absence of reserves, would find their liquidity seriously reduced and would also cut their non-payroll expenditures. Furthermore, in the absence of a limit on the employer's liability, any dip in employment would seriously impair the credit of the weakest firms.[10]

However, in the case of guaranteed wage plans which accumulate reserves at a stipulated rate and which limit the employers' liability to the amount in the reserve fund, Dr. Slichter thinks,

> Widespread adoption of plans of this sort would be stabilizing. It would result in the accumulation of reserves in most enterprises during periods of expanding employment and a reduction of reserves

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[9] Ibid., p. 262.

[10] Sumner Slichter, "Guaranteed Annual Wage Plans and Supplementary Unemployment Compensation Plans," a talk before the American Management Association at Chicago, Illinois, Feb. 15, 1954.

during recessions. Personal incomes would be better sustained in periods of dropping employment and the net effect would be stabilizing.[11]

The Investment Effect:

A.D.H. Kaplan argues that the tendency for the GAW to increase the spread in prices over the cycle will have a depressing effect on expansion for the small or marginal firm. At the top of the cycle these firms may be restrained from expanding by an unwillingness to assume additional obligations of wage guarantees for new employees. At the bottom of the cycle these same firms are the ones least able financially to engage in price wars or to slow up production because of low prices. This condition will be aggravated by the carrying of an unproductive guaranteed pay roll. All of this, Mr. Kaplan feels, is not conducive to encouraging investment in new and expanding business ventures.[12]

Speaking more generally Kaplan says,

> From the standpoint of the business, the reserve for pay roll will represent a diversion of some of its funds from its own capital into more liquid form --- whether in larger cash balances or high grade bonds. This does not preclude the possibility for some industries to invest their reserves in those areas which are most likely to reinvest the fund in products of the given industry. Thus, the cement or brick industry might invest its reserves in municipal bonds issued by communities which plan to expend the proceeds on construction materials. Strong firms may, as has been done in the case of employee-savings funds, purchase a port-folio of their own securities as the reserve for pay-roll guarantees. But the net tendency would clearly be to slow up expansion of the business by the diversion to 'safer' trust-fund channels.[13]

Hochwald points out that the most obvious effect of a guaranteed annual wage is to shift labor costs from a variable cost status to a fixed cost status. This will tend to give an advantage to larger firms

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[11] Ibid. [12] A.D.H. Kaplan, op. cit., p. 162.

[13] Ibid., p. 166.

since the optimum point of operation will shift upward.[14]

This shifting of labor costs from variable to fixed constitutes, according to Wayne Leeman, an attempt to shift the risk of unemployment from the worker to the employer and will probably result in a decrease in investment. This follows since it is reasonable to assume that unless profit expectations increase, an increase in risk will make enterprisers more reluctant to invest.

> It is almost certain that investment temporarily would be reduced by institution of a guaranteed annual wage, and some of the reduction probably would be permanent. Unions admit this, of course, when they contend that a guaranteed annual wage would control the rate of introduction of automatic equipment.[15]

Speaking of GAW plans characterized by a reserve fund and limited liability, Sumner Slichter points out that insofar as these plans would increase the proportion of income saved during booms, they would "cause the financing of investment to be accomplished more out of savings and less out of credit, and thus it would tend to limit the rise of prices."[16]

The Income Effect:

Dr. Joseph M. Becker believes that the primary objective of the UAW plan seems to be to distribute more income of the industry among its unemployed. This income he believes would come from one or more of the following sources:[17]

1. From the employed. (Wages may be lowered by the amount diverted to the guaranteed wage fund.)
2. From owners and creditors. (Dividends and interest rates may be smaller.)
3. From outside the industry. (The cost of GAW may be

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[14]Bernard Hochwald, op. cit., p. 336.

[15]Wayne A. Leeman, "The Guaranteed Annual Wage, Employment and Economic Progress," Industrial and Labor Relations Review, July 1955, p. 566.

[16]Sumner Slichter, op.cit., A.M.A. talk. [17]Jos. M. Becker, op.cit., 258-59.

reflected in higher prices.)

4. From increased productivity.

In the long run Dr. Becker thinks that the third source listed (outside the industry) will assume the greatest share of the burden and that this is as it should be in a free enterprise economy. The purchaser of a product should pay the full cost of production including the "social" cost.

Wayne Leeman argues that a redistribution of income in favor of the enterpriser will be necessitated by the GAW. This is true, he thinks, because if businessmen are now earning no more than is needed to get them to assume present entrepreneurial risks, the increase in risk occasioned by a GAW will lead to a higher return on investment. He states, "However, if labor is prepared to take a smaller share of the national product in return for a more assured income, and if it feels that this and a reduced rate of economic progress are a small price to pay for greater security, then all that remains are the problems of adjustment."[18]

A different approach to the income effect of guaranteed wages is taken by Sumner Slichter when he says,

> Let me say a few words about the effect of supplementary unemployment compensation upon the size of personal incomes during periods of business recession. In the samll recession of 1949, unemployemnt insurance benefits under the state schemes and the railroad scheme were slightly more than a billion dollars higher than in 1948. In 1948, total unemployment compensation benefit payments were $822 million; in 1949, they were $1,841,000,000. The increase was only a small percentage of total wage and salary payments which at that time were about $133 billion a year. Nevertheless, an increase of $1 billion in the income of those people who were thrown out of work was important both from the humanitarian point of view and from the standpoint of stabilizing the economy.[19]

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[18] Wayne Leeman, op.cit., p. 371.

[19] Sumner Slichter, op.cit., A.M.A. talk.

Summary

In summarizing we will assume that the type of guaranteed wage plan we are dealing with is the so-called Supplementary Unemployment Benefit plan characterized by a reserve fund and limitation of company liability to the amount in the fund.

If the reserve fund is built up by company contributions of from 5¢ to 10¢ an hour until the reserve has reached a specified amount, it would seem that the amount deposited to the fund could be looked upon by the company as a wage increase. To the worker the company contribution must then seem a save-as-you-go plan not unlike the pay-as-you-go feature of their Federal income tax payments. The effect would be different from a wage increase or a straight savings plan, however, since only those who were laid-off could make withdrawals from the collective savings. This amounts to a transfer of income from high seniority workers to those who are laid-off, or an assumption on the part of those working of a share of the burden of unemployment.

If only a relatively few firms in an industry bargained for a GAW it is possible that the company would be forced to take on the entire burden of the plan. This would occur if their wage payments (excluding GAW contributions) were equal to or more than those of their competitors, and if competition in the marketing of their product restrained them from passing on the increased cost to their customers. If the guarantee were industry-wide, I think the tendency to shift the incidence of cost to the consumer would be great. In such a situation, moreover, it would be difficult to determine the actual cost bearer.

In any event, whether the cost burden falls upon the workers, the stockholders, or the consumers, there is an element of forced savings in the plan, and if the reserve fund is used in the purchase of government bonds from Federal Reserve sources, the net effect should be stabilizing.

In the long run, I believe that the consumer would, under industry-wide or economy-wide GAW coverage, take over the cost of seasonal unemployment and at least a portion of cyclical unemployment. Obviously, if government and private effort and ingenuity reduce unemployment to negligible proportions, costs will be minimal. If some industries continue to have a high seasonal lay-off rate, and if cyclical unemployment continues, I feel that the payment of labor for not working might bring on disinvestment and a resultant reduction in employment and higher prices in some industries. Such a rearrangement of factors might not be considered undesirable by some, although the connotation of reduced investment and employment is usually not a happy one. As Dr. Becker has pointed out this may be a way of having the consumer pay the full cost of production, which, perhaps, should include the social cost.

PART III

THE PLANS TAKE SHAPE

CHAPTER VI

RESULTS OF NEGOTIATION
AND
EVALUATION OF CURRENT AGREEMENTS

On June 8, 1955, the historic pact between the UAW-CIO and the Ford Motor Company was signed, in which Ford became the first company to agree to pay supplementary compensation benefits. Less than a week later on June 12, 1955, a similar agreement was reached between the UAW-CIO and General Motors. By the end of 1955 the CIO estimated that agreements had been signed with over 150 employers covering close to one million UAW-CIO members.[1]

Two months after the General Motors signing, on August 13, 1955, the United Steelworkers of America negotiated agreements with the American and the Continental Can companies. These agreements are, because of the size of the work-force involved or because of changes in the pattern of agreement, the most interesting and most important of the current SUB plans. In describing these plans the same headings will be used as were used in describing the GAW proposals in Chapter 4, in order to facilitate comparison. Since the Ford-UAW-CIO plan was the first of the Supplementary Unemployment Benefit plans it can be looked upon as having established the basic pattern. Certainly the plans, while differing in important details, are alike in their fundamental structure. We will attempt here to describe the UAW-CIO-Ford Motor Plan in some detail, and then to point out important changes or differences in subsequent plans.

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[1] Progress Toward Guaranteed Wages & Employment, Pub. #284, CIO, Dept. of Education and Research, p. 36.

The UAW-CIO-Ford Motor Co. Plan[2]

1. The Guarantee

The amount of benefit guaranteed under the 1955 agreement is 65 per cent of straight-time pay after taxes for the first four weeks and 60 per cent for the remainder of the time unemployed, up to a maximum of 26 weeks. The 65 per cent benefits are referred to as "special benefits" and the 60 per cent as "regular benefits." After the Trust Fund Position reaches 49 per cent the 65 per cent benefit is extended to a maximum of eight weeks. The benefit includes state unemployment benefits and any earnings of the worker. In any case the maximum payment by the company is limited to $25. Should the Trust Fund Position fall below 13 per cent the company payment is reduced by 20 per cent, but in no case will it be reduced to less than $5. A Trust Fund Position of less than 4 per cent would mean a cessation of company payments.

The worker's weekly after-tax straight-time Ford wage is determined by multiplying his highest hourly base rate during the last 30 days he worked by 40 and reducing this amount by all taxes normally collected by the company. The following table (TABLE 5, p. 64) illustrates how benefits would be computed.

In order to receive benefits for the maximum time of 26 weeks a worker must accrue 26 credit units. These units have no fixed value in terms of either time or money, but are the means of determining duration of benefits under varying circumstances. No employee may have to his credit more than twenty-six Credit Units at any one time, nor can an

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[2] Exhibit C, Supplemental Unemployment Benefit Plan of the UAW-CIO-Ford Motor Company, 1955 Collective Bargaining Agreement, is in the Appendix of this study.

employee earn these credit units before he has at least one year of seniority.

TABLE 5. - Benefits for Ford Employee Earning $2.25 per hour - (Hypothetical Employees in New York and Michigan) [3]

	Married, 2 children		Single, no dependents	
	Michigan	New York	Michigan	New York
Gross pay	$90.00	$90.00	$90.00	$90.00
Net after taxes withheld	81.65	81.65	74.10	74.10
SPECIAL BENEFITS				
65% of take home	53.07	53.07	48.17	48.17
State U.C.	45.00	36.00	30.00	36.00
Co. Supplement	8.07	17.07	18.17	12.17
Regular Benefits				
60% of take home	48.99	48.99	44.46	44.46
State U.C.	45.00	36.00	30.00	36.00
Co. Supplement	3.99	12.99	14.46	8.46

Beginning June 1, 1955 and until May 31, 1957, Credit Units will be attained by employees with less than 10 years seniority at the rate of one quarter of a Credit for each full work week, and by employees with ten or more years of seniority at the rate of one-half of a Credit Unit for each full work week. Benefits will not begin until June 1, 1956. This will allow the Funds to be built up and during this time workers fully employed and with the necessary seniority can accrue from 13 to 26 Credits. After June 1, 1957 each full week will be credited at one-half a Credit Unit for all eligible workers.

[3]Table taken from Harold Stieglitz, "Ford's Unemployment Compensation Supplements," Management Record, July 1955, p. 299.

The accrual of 26 Credits does not mean that an employee would have 26 weeks of benefits coming, for the duration of benefits depends on the number of Credit Units a worker has, his seniority, and the Trust Fund Position applicable to the week for which he receives his benefit. The following table shows how Credit Units are canceled according to Trust Fund Position and length of seniority.

TABLE 6. - Weekly Benefit Credit Requirements at Various Trust Fund Positions[4]

If the Trust Fund Position Applicable to the week for which such Benefit is paid is:	And if the seniority of the person to whom such Benefit is paid is: 1-5 yrs.	5-10 yrs.	10-15 yrs.	15-20 yrs.	20-25 yrs.	25 yrs. & over
	The Credit Units canceled for such Benefit shall be:					
85% or over	1.00	1.00	1.00	1.00	1.00	1.00
76-84.99%	1.11	1.00	1.00	1.00	1.00	1.00
67-75.99%	1.25	1.11	1.00	1.00	1.00	1.00
58-66.99%	1.43	1.25	1.11	1.00	1.00	1.00
49-57.99%	1.67	1.43	1.25	1.11	1.00	1.00
40-48.99%	2.00	1.67	1.43	1.25	1.11	1.00
31-39.99%	2.50	2.00	1.67	1.43	1.25	1.11
22-30.99%	3.33	2.50	2.00	1.67	1.43	1.25
13-21.99%	5.00	3.33	2.50	2.00	1.67	1.43
4-12.99%	10.00	5.00	3.33	2.50	2.00	1.67
Under 4% . . . . No Benefit Payable						

[4]Exhibit C, Ford Agreement, p. 20.

2. Integration with Unemployment Compensation:

Section 5, Article X of the Ford Supplemental Unemployment Benefit Plan states, "It is the purpose of the Plan to supplement state system unemployment benefits to the levels herein provided, and not to replace or duplicate them." State integration is essential to the continuance of the plan. Before benefit payments can start it must be established, by rulings or statutory amendments, in states in which at least two-thirds of Ford's hourly work-force are employed, that supplementation (simultaneous payment of both Plan and State benefits) is permitted. If such rulings are not forthcoming by June 1, 1957 the Plan will be terminated at that time.

If the necessary rulings are obtained in a sufficient number of states to make the plan operative but are not received from all states in which the Ford Company operates, the following special conditions will govern benefit payments in the non-integrated states. Instead of Regular or Special Benefits a "Substitute Supplemental Benefit" will become payable to eligible employees. Such an employee after being laid off and receiving State Unemployment Compensation for two weeks may apply for a Substitute Supplemental Benefit. This benefit will be three times the amount of the Weekly Supplemental Benefit to which he would be entitled. He would, of course, not receive his state benefit for this week. The employee would continue this three week rotation until his benefits were used up. If the employee desired, he could follow a four week rotation plan instead of the three week plan described. In either case a proportionate number of Credit Units are canceled with the payment of a Substitute Supplemental Benefit --- three times the number necessary for a Weekly Supplemental Benefit in the three week rotation and four times this amount in the four week rotation.

In addition to having accrued Credit Units the worker must be declared eligible before he can receive Supplemental benefits. There are many restrictions on eligibility which may be listed under two main headings, A. Conditions of layoff, and B. Position of worker.

A. Conditions of Layoff

1. Layoff must be from contract unit
2. Layoff must be because of a reduction in work force or because of a discontinuance of operation
3. Fund position must be 4% or greater
4. There is no eligibility if the layoff is the result of
    a) any strike, slowdown, work stoppage, picketing , or concerted action at a Company Plant or Plants
    b) any fault attributable to the applicant
    c) any war or hostile act of a foreign power, or sabotage, insurrection, or any act of God

B. Position of Worker

1. Laid off worker must have accumulated at least one-quarter Credit Unit.
2. His benefit must be at least two dollars.
3. He must register, report, and receive a benefit from the State Unemployment Compensation System. Company benefits may continue after State benefits are used up.
4. If he is disqualified from State benefit because of earnings he is also disqualified from Company benefit.
5. If a worker has more seniority with a company

previously worked for and is eligible to receive an unemployment benefit from that company he is ineligible to receive a Ford supplemental benefit.

6. To be eligible, a worker who has used up his seniority in his seniority unit, cannot refuse an offer by the Company of other available work in the same labor market area. However, skilled Tool and Die, Maintenance and Construction, and Power House Employees need accept work only in Tool Room Departments, Maintenance Departments, and Power House Departments, respectively.

3. Financing:

Two separate funds are to be set up under the UAW-Ford Plan. They are the General Fund covering active employees in non-defense work and the Defense Fund covering active employees in defense work. The Ford Company is to select a Trustee for each fund or one Trustee for both funds and will stipulate in the contract with the Trustee that the Funds shall be held in cash or invested only in general obligations of the United States Government.

A limitation, called "maximum funding", has been set for each Fund. Using June 1, 1955 as a base and an employment figure of 140,000 hourly workers, the sum of the Maximum Fundings of both Funds has been set as $55,000,000.[5] This figure is to be allocated between the General Fund and the Defense Fund according to the ratio arrived at by comparing the number

[5]In a letter dated Aug. 4, 1955 from James M. Osborne, of Industrial Relations Analysis Department he states that, "The maximum potential benefits per employe would be 26 weeks x $25 or $650. For the entire work force, however, neither the payment of benefits for 26 weeks nor the $25

of non-defense employees with the number of defense employees on active employment rolls at latest date for which figures are available prior to June 1, 1955.

For example, if we assume a total of 140,000 in the Ford work force in June 1955, 120,000 of which are non-defense workers and 20,000 are defense workers, then maximum funding for the General Fund would be,

$$\frac{120,000}{140,000} \times \$55,000,000 = \$47,142,858$$

which would leave $7,875,142 for the maximum funding of the Defense Fund.

After June 1955 a Maximum Funding shall be determined for each month for both the General and the Defense Funds. If the Trust Fund Position falls below 13%, Maximum Funding will be computed each pay period while this condition obtains. Both Maximum Fundings are computed in a similar fashion so we shall illustrate only in the case of the General Fund. The Maximum Funding for the General Fund shall be determined after June, 1955 by multiplying the Maximum Funding for June 1955 by a fraction. The numerator of the fraction shall be the sum of the number of Non-defense Employees on the active employment rolls and the number of laid-off Non-

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maximum benefit is very likely for most employes; even more unlikely is the possibility that the entire work-force would be laid off to receive payment of the full $650.

"We therefore concluded that approximately 60% of this maximum theoretical limit was the maximum level toward which we could expect to fund. Thus,

60% of $650 = $390
x 140,000 hourly employes
$54.6 million,
rounded off to $55 million.

"The 60% figure is admittedly arbitrary. It does not represent Ford Motor's prediction of future ecomomic conditions. Rather, it represents a business judgment on the part of Ford Management that the resultant funding figure would be adequate to meet the Company's obligations under the plan."

defense workers who have Credit Units. The denominator of the fraction shall be the number of Non-defense employees on the active employment rolls as of the latest date for which figures are available prior to June 1, 1955. Thus if we assume a hypothetical September with 115,000 employed Non-defense workers and 4000 Non-defense workers laid off, and use the same figures used in the previous example, we can arrive at Maximum Funding for this "September" by using the formula:

$$\frac{\begin{array}{l}\text{Total no. of employed Non-defense}\\ \text{Employees + Total no. on lay-off}\\ \text{with Credit Units}\end{array}}{\begin{array}{l}\text{Total no. of employed Non-defense}\\ \text{Employees in June, 1955}\end{array}} \times \begin{array}{l}\text{Maximum}\\ \text{Funding,}\\ \text{June, 1955}\end{array} = \begin{array}{l}\text{Maximum}\\ \text{Funding,}\\ \text{"September"}\end{array}$$

and substituting our assumed figures we have:

$$\frac{\begin{array}{l}\text{115,000 employed workers}\\ \text{plus 4000 on layoff}\end{array}}{\begin{array}{c}\text{140,000 employed June,}\\ \text{1955}\end{array}} \times \underset{\begin{array}{l}\text{(Max. Funding,}\\ \text{June, 1955)}\end{array}}{\$47{,}142{,}858} = \underset{\begin{array}{l}\text{(Max. Funding,}\\ \text{"September")}\end{array}}{\$40{,}070{,}632}$$

As has been pointed out the Maximum Funding of the Defense Fund is obtained by use of a similar formula. The only difference is the substitution of statistics dealing with the Defense workers and the Defense Fund for those of Non-defense workers and the General Fund.

From the examples given it is obvious that Maximum Funding can be less than the $55,000,000 associated with the UAW-Ford Plan. It is also apparent that if current employment is such that the fraction in the formula exceeds one by a sufficient amount the Maximum Funding will exceed $55,000,000.

Actually Maximum Funding serves its most important function in setting the Trust Fund Position, which is a percentage figure that indicates the relative position of the Trust Fund's assets at a given time. The Trust Fund Position for any given month is determined by dividing the current market value of the total assets in the Fund (General or Defense) as of the close of business on the Friday preceding the first Monday of the month, by the Maximum Funding of the Fund for that month. If in our hypothetical "September" current market value of assets in the General Fund totaled $14,000,000, we would divide this figure by the Maximum Funding for "September", which was $40,070,632. This would give us a Trust Fund Position of 35%.

The Trust Fund Position is an important concept in the UAW-Ford Supplemental Unemployment Benefit Plan. The Trust Fund Position determines whether or not the Company must continue to make contributions to the Fund, it determines the size of the benefit, if there is to be a benefit, and how many Credit Units an unemployed worker must give up in order to receive a benefit. Company contributions to each Fund are computed by multiplying by 5¢ the total number of hours for which the Defense and Non-defense workers receive pay for a specific pay period. The Company need contribute only so much as to keep the Trust Fund Position at 100%. If the Trust Fund Position drops below 13%, Company benefit payments are cut by 20%. Should the Trust Fund Position go below 4%, benefit payments are discontinued. The rate of Credit Unit retirement at various Trust Fund Positions is given in Table 6 (page 65).

4. Maximum Liability:

The UAW-Ford Plan has contractually limited liability to 5¢ for each hour for which covered employees receive pay. Contributions cannot exceed this amount. They may be less, however, if Maximum Funding is achieved. Article XI of Supplement C states it this way:

> No Benefit shall be payable from the General Fund or from the Defense Fund except as stated in the Plan, and the Company shall not be obligated to provide for any benefit or payment not provided for in the Plan, or to make any contribution to the General Fund or to the Defense Fund not specifically provided for in the Plan, even though the assets in the Funds, or either of them, should be insufficient to pay Benefits to which eligible people would have been entitled under the Plan were the assets of such Funds or Fund adequate to pay such benefit or payment. The Company shall not be obligated to make up, or to provide for making up, any depreciation, or loss arising from depreciation, in the value of the securities held in either Fund (other than as contributions by the Company may be required under the provisions of Article IV, when the Trust Fund Position of such Fund is less than 100%); and the Union shall not call upon the Company to make up, or to provide for making up, any such depreciation or loss.[6]

Thus it is clearly stated that the sole and maximum liability of the Ford Company are the 5¢ contributions to the Funds based on hourly pay of covered workers.

5. Administration of the Plan:

For the most part the Ford Company is charged with administering the Plan. The Company will make initial determination of worker eligibility to receive supplemental benefits and has the authority to establish reasonable rules, regulations, and procedures necessary to carry out its responsibilities. A Board of Administration comprised of three Company members, three Union members and a Board appointed impartial chairman will be formed. The Board of Administration will hear and render final decisions on appeals made by benefit claimants and will authorize benefit payments when such appeals are granted. The Board has no jurisdiction concerning eligibility for State Unemployment Compensation Benefits.

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[6]Exhibit C, Ford Agreement, p. 32.

Some Similarities and Differences

The same three basic provisions which were pointed out as characterizing the union GAW proposals (Chapter 4) form the pattern of the 1955 SUB contracts. The Ford, General Motors, American Can, and Continental Can plans all:

1. Have limited company liability
2. Are integrated with State Unemployment Compensation systems
3. Have established reserve funds from which supplemental benefits are paid

While basically alike, there are many differences between the various plans. I will point out here what seem to me to be important differences between the ground-breaking UAW-Ford Company Plan and some of its significant successors. The General Motors Plan, except for its increased Maximum Funding ($150,000,000) due to a greater number of employees, is practically a carbon copy of the Ford Plan. However, the can companies' plans differ from the UAW-Ford Plan in many respects, and also differ from each other. The American Can company's plan is closer to the Ford Plan than is Continental's.

The agreements between the United Steelworkers of America and the American and Continental Can companies were signed on August 13, 1955 to cover a period of three years through September 30, 1958. The effective date for the beginning of contributions was October 1, 1955 and benefits are possible starting on October 1, 1956. As in the case of the Ford and General Motors Plans, continuance is dependent upon rulings from the Department of Labor and the Commissioner of Internal Revenue. From the former, so that the contributions are not to be included in the employee's base rate for purposes of the Fair Labor Standards Act and from the latter that the contributions can be declared a currently deductible company expense for tax purposes. Unlike the Ford Plan the can companies' plans are not dependent to any degree upon permission of simultaneous receipt of state unemployment benefits and company benefits. If favorable state rulings are not obtained, alternate methods of payment will be used. This may take the form of payment on a multiple week basis (similar to Ford Plan if approval is forthcoming in states having 2/3 of all Ford employees), or in a lump sum upon the employee's return to work.

One of the obvious differences between the two plans negotiated by the United Steelworkers and the two auto company plans negotiated by the United Auto Workers is the potential duration of benefits. The maximum period for which benefits can be paid is 52 weeks in both can company plans, compared to 26 weeks in the auto company plans. In both can company plans employees accrue Credit Units at the rate of one unit for every 80 hours for which they receive pay after September 1954. The maximum number of Credit Units an employee can have at any one time is set at 52. In both plans employees will not start Credit Unit accrual until they have attained three years of accredited service (the Continental Plan stipulates not less than 4,500 hours).

The American Can Co. - U.S. of A. Plan

Supplemental benefits under the American Can Company plan are paid according to the following table, plus an allowance of $2.00 per week for each dependent up to and including four, minus the applicant's state benefits and other compensation.

TABLE 7. - Supplemental Benefits Under the American Can Company Plan[7]

Weekly straight time wage	Total weekly amount for an employee without dependents, including state benefits and other compensation
Under $64.00	$35.10
$64.00 - 65.99	36.14
66.00 - 67.99	37.18
68.00 - 69.99	38.29
70.00 - 71.99	39.33
72.00 - 73.99	40.43
74.00 - 75.99	41.47
76.00 - 77.99	42.51
78.00 - 79.99	43.62
80.00 - 81.99	44.66
82.00 - 83.99	45.76
84.00 - 85.99	46.80
86.00 - 87.99	47.84
88.00 - 89.99	48.95
90.00 - 91.99	49.99
92.00 - 93.99	51.09
94.00 - 95.99	52.13
96.00 - 97.99	53.17
98.00 - 99.99	54.28
100.00 - 104.99	56.16
105.00 - 119.99	58.83
110.00 - 114.99	61.49
115.00 - 119.99	64.16
120.00 and over	66.82

This benefit table was based on the Federal Income Tax Law in effect at the time of the Agreement and will be adjusted to reflect any increase or decrease in Federal income taxes which may take place. The maximum benefit payable under the plan is $25.00 for an employee without dependents (plus $2.00 for each of not more than four dependents) for each week up to the maximum duration of State system unemployment benefits, but not less than 26 weeks, or $46.80 (plus $2.00 for each of not more than four dependents) for weeks thereafter up to 52.

[7]United Steelworkers of America, Supplemental Unemployment Benefit Plans, p. 17.

Duration of benefits in this plan as in the auto plans is dependent upon an applicant's number of Credit Units and the Fund Position. Also as in the auto plans, company monthly contributions are set at and limited to 5¢ multiplied by the total number of hours for which employees received pay for the month up to Maximum Funding.

Based on average employment prior to July 1955 a Maximum Fuhding of $3,200,000 was decided on for October, 1955. For each month thereafter a new Maximum Funding will be computed by use of the formula:

$$\frac{\text{Average number of employees, 12 months prior to current month}}{\text{Average number of employees, 12 months prior to July 1, 1955}} \times \$3,200,000$$

After October 1, 1957, Maximum Funding will be adjusted according to the following table in order that it may be reflective of the average amount of the benefits paid.

TABLE 8. - Adjusted Maximum Funding Plan - American Can Company[8]

If average benefit was:	The adjusted maximum funding for the month will be the following percentage of the maximum funding for such month:
$20.00 and over	100%
16.00 to 19.99	80%
12.00 to 15.99	60%
8.00 to 11.99	40%
Less than 8.00	20%

As has been pointed out the amount and duration of weekly supplemental benefits for the American Can company plan depend upon the

[8]Ibid., p. 9.

applicant's Credit Units and the Fund Position. Beginning on October 1, 1957, or at any time prior to that date at which the Fund Position reaches 100%, the following table determining Credit Unit retirement and percentage of weekly benefit received will be operative.

TABLE 9. - Trust Fund Level Determination Of Amount and Duration of Benefit --- American Can Plan[9]

If the Fund Position Applicable to the Week for which such Benefit is paid is	And if the accredited service of the employee to whom such Benefit is paid is			
	3 years to 19.99		20 years and over	
	Credit Units	% of weekly Benefit	Credit Units	% of weekly Benefit
90% or over	1.00	100	1.00	100
80 - 89%	1.00	80	1.00	80
70 - 79%	1.00	70	1.00	70
60 - 69%	1.00	60	1.00	60
50 - 59%	1.00	50	1.00	50
40 - 49%	1.25	40	1.00	40
30 - 39%	1.67	30	1.00	30
20 - 29%	2.50	20	1.00	20
10 - 19%	5.00	10	1.00	10
Under 10%	. . . . .NO BENEFIT			

Since the Trust Fund cannot adequately be built up much before October 1, 1957, the plan stipulates that beginning on October 1, 1956 and until October 1, 1957 or until the Fund position has reached 100%, whichever is sooner, one Credit Unit shall be canceled for each weekly supplement paid. During such period benefits shall be reduced and the number of Crédit Units to be canceled increased only when total assets in the Fund

[9] Ibid., p. 19.

for particular month fall below a stated percentage of the assets of the previous month. The following percentages are used:

Month	% of assets of previous month
November, 1956	102%
December, 1956	100%
January, 1957	98%
February, 1957	98%
March, 1957	98%
April, 1957	98%
May, 1957	100%
June, 1957	102%
July, 1957	104%
August, 1957	104%
September, 1957	104%

If there is a percentage drop, but of less than five percentage points than for the succeeding two months, weekly supplemental benefits will be decreased to 85% of the benefits listed in Table 7 (page 75). There would be no increase in the number of Credit Units canceled. A drop-off or more than five percentage points would make Table 9 (page 77) applicable.

Concerning eligibility, the American Can company plan has an interesting addition to the usual requirements. The plan stipulates that an applicant will be eligible only when he has been laid off for a number of weeks equal to the amount by which the total number of hours accumulated by him in the 52 weeks preceding layoff exceeds 2,080 hours. The accumulation is the sum of total hours for which he received company pay, twenty-two hours for weeks that he received unemployment, sickness, accident, or total disability benefits, and forty hours for which he was on authorized leave of absence without pay. This seemingly gives the nod to an annual wage concept and is at least faintly reminiscent of the Hormel Plan, as discussed in CHAPTER III. Thus, if a worker, through over-time, had worked 2,160 hours in a 52 week period preceding layoff, he would have to be laid off for two weeks (the amount of his over-time) before being eligible for supplemental benefits. Presumably the worker should set up his own plan if over-time is a persistent factor.

The Continental Can Co. - U.S. of A. Plan

The relatively simple 5¢ per man hour company contribution in the Ford, General Motors, and the American Can company plans is replaced in the Continental Can company plan by a rather complex book-keeping arrangement. Starting in October 1955 and continuing for 12 months, company contributions will be 3¢ per man hour to the General Fund plus 2¢ per hour as a company obligation in a so-called "contingent contribution liability." Beginning with October 1, 1956 the entire 5¢ per man hour becomes a matter of book-keeping. Three cents per hour builds up an "accrual account" and the remaining two cents are added to the "contingent contribution liability." This "contingent contribution liability" is not increased after 1956 if the General Fund is at 100% or more and any balance in it at the termination of the agreement shall be deemed to have been liquidated. Any funds in the accrual account not used for benefit payments will, at stipulated dates, go to the General Fund. These dates are December 31, 1956, December 31, 1957, and September 30, 1958. Under this plan company liability cannot exceed 5¢ for each man hour worked by covered employees, beginning on October 1, 1956, minus two cents per hour during those months when the General Fund is at 100%.

This flexible financing approach is also carried over to the determination of the maximum General Fund level. This maximum level for

November 1956 to December 1957, inclusive, will be 5¢ multiplied by the number of contributory hours in the 12-month period ending September 30, 1956, or the sum of:

(1) the market value of the assets of the General Fund, and

(2) the balance of the Company's Accrual Account, and

(3) the balance of the 'contingent contribution liability' on the last day of the second calendar month preceding the the month to which such calculation shall apply; provided, however, such sum shall be deemed not to be less than any sum on the last day of any other previous calendar month during this period.

The larger of the alternatives shall be the Maximum General Fund level for the period mentioned. After December, 1957 the maximum level will be computed by multiplying nine cents by the number of contributory hours in 12-month period ending on September 30 of the last completed calendar year preceding the month in question.

Corresponding to the Trust Fund Position of the other plans is the General Fund level. This is considered to be 100% for October 1956, but after that date the General Fund level is determined monthly. On the last day of any calendar month the current market value of the total assets of the General Fund, the balances of the Company's Accrual Account and of their 'contingent contribution liability' are added together and called 'gross assets.' The formula for computing the General Fund level is:

$$\text{General Fund level} = \frac{\text{Gross Assets}}{\text{Maximum level of General Fund}}$$

The General Fund level like the Trust Fund Position of the other plans is used in determining the percentage of weekly supplemental benefits that applicants will receive. It is dissimilar to the other plans in that it has no explicit effect on Credit Unit retirement. The following schedule is effective:

General Fund Level	Percentage of Weekly Supplemental Benefits (Including Dependency Benefits)
75% or more	100%
50% to, but not including, 75%	75%
25% to, but not including, 50%	50%
5% to, but not including, 25%	25%
Less than 5%	None

The amount of weekly benefit for those eligible is dependent upon an assigned base earnings class. The employee's class is determined by multiplying his straight time hourly base by 2,080 hours. Gross weekly benefits will follow this schedule:

TABLE 10. - Schedule of Gross Weekly Benefits[10]

Annual Base Earnings Class	Weekly Base Benefit	Additional Benefit per Dependent	Gross Benefit Assuming 4 Dependents: Maximum Benefit
I - $2500 to $2999.99	$31	$2	$39.00
II - $3000 to $3499.99	$36	$2	$44.00
III - $3500 to $3999.99	$41	$2	$49.00
IV - $4000 to $4499.99	$46	$2	$54.00
V - $4500 and over	$51	$2	$59.00

[10]United Steelworkers of America, Supplemental Unemployment Benefit Plans, P. 41.

As in the American Can company plan the Continental plan has a provision which 'accumulates' overtime work. In order to receive company supplements the applicant must attain the status of 'unemployed'. To attain this one must first take the applicant's contributing hours received since the beginning of a benefit year (first Monday of May of current year) and add compensation from any other employment (excluding premiums for overtime) and any State supplemental benefits converted to equivalent straight time hours. This sum is then divided by the number of weeks since the commencement of the benefit year minus any periods of time off without pay since that date. The quotient must be less than 40 if the applicant is to be considered 'unemployed' and eligible.

Summary

Thus from an examination of the four major supplemental unemployment benefit plans we see a common pattern of limited company liability and determinable contribution, the establishment of reserve trust funds for benefit payments, and the desire to integrate with State systems of unemployment compensation. Also common to the plans is an insistence that there is no employee vested interest in the trust funds. The analysis of the plans indicated differences. However, it seems to me that these are more in the order of variations on a theme rather than outright differences.

These differences or variations, we have seen, were in the mechanics of the plans rather than in the goals. How significant these variations are probably can only be assessed as we watch the plans function. Certainly the flexible contribution plan of the Continental Can company agreement is advantageous to company finance. The greater protection of seniority workers by both can company plans is indicative of the seasonal aspects of their industry in contradistinction to the cyclical aspects of the auto industry. Fifty-two weeks of benefit, as in the can company plans, is obviously better than twenty-six weeks, but it is an extension of an idea, not a difference. Much the same can be said concerning the variations in the amounts of weekly supplements. The two can company plans make explicit allowances for dependents. The two auto company plans make implicit allowances by using take-home pay as a base. From the standpoint of future development, I believe that the overtime provisions in the can company plans, the flexible financing of the Continental plan, and the variations in protection for seniority workers will be the most interesting and the most important aspects to watch.

CHAPTER VII

CONCLUSION

Much of what has been concluded concerning GAW proposals must be said about the current Supplementary unemployment plans, for the basic principles of the proposals have been retained in the various agreements. These are:

1. Limited company liability
2. Trust fund formation from which benefits are paid, and
3. Integration with State systems on unemployment compensation.

Without repeating the reasoning, the conclusions set forth in CHAPTER V concerning the proposals which seem apropos to the SUB plans are:

1. The net effect on employment is stabilizing.
2. In the long run most of the cost burden (unemployment cost) will be assumed by the consumer.
3. There will probably be factor rearrangement and dis-investment in some industries due to the change of labor from a variable to a relatively fixed cost.

An indication as to the direction which will be taken in further bargaining for a guaranteed wage was indicated in the discussion of similarities and differences between the Can Company plans and the pioneering Auto Company plans. These may include more flexible finance arrangements, an extension of the duration of coverage, and a fixing of eligibility requirements according to the particular characteristics of the company or industry involved. From the beginning of its drive the UAW argued that their plan fitted them 'like a glove.' No existing plan fitted the particular conditions confronting them and they in turn pointed out that their plan was not necessarily the answer for other unions dealing with other companies.

In September 1955, the Glass Workers' union (CIO) negotiated a supplemental unemployment benefit plan with the Pittsburgh Plate Glass Company and the Libbey-Owens Ford Company which varies considerably from both the Auto and Can Company plans. Briefly the portion of the contract which deals with supplemental benefits calls for an annual increase of 5¢ an hour each year, 1955 through 1957. The first 5¢ is earmarked for a security benefit plan and the use of the other increases will be determined by bargaining. Under the Glass Companies' benefit plan a trustee will establish individual trust accounts for each covered employee. Each account will be built up by these nickel contributions for the period of a year before they can be drawn on. The worker can draw on his account if he is laid off or sick, but not if he is laid off for disciplinary reasons or if he is on strike. The radical difference from the other SUB plans discussed is that the worker has a vested interest in his account. There is no insurance feature. At some time or other, either the worker or his beneficiary will receive the money placed in his account.

An eligible worker can draw weekly up to 10% of the balance in his account or $30, whichever is smaller. The accounts can be built up to a maximum of $600. After the maximum is reached company contributions are allowed to accrue and this accrual is paid to the worker at the time of his vacation.[1]

[1] The preceding discussion is based on an article by Harold Stieglitz, "The Glass Companies' and Related Layoff Benefit Plans," Management Record, Nov. 1955, pp. 440-442.

It can be seen that this is basically a savings plan with the book-keeping handled by the company. As was mentioned, there is no insurance feature and therefore no sharing of the burden of unemployment. There is no point at which company contributions increase, cease, or diminish and therefore the plan gives the company no additional economic incentive to stabilize employment. It would seem that the plan is best suited to highly stabilized industry where it would insure an amount of regularity of income in the face of personal misfortune such as sickness. It also assures benefits for high seniority employees. At any rate the plan is decidedly different from the other SUB plans which we have discussed, and is an indication that there may be real variations as well as theme variations in future guarantee agreements.

It is difficult, indeed, to assess the probable future effects of these plans on our free enterprise society. These effects will be, not only economic, but psychological and sociological as well, for the consequences of social phenomena are as diverse as their causation.

Psychological Aspects

The augmented security given to the individual worker by the assurance of increased regularity of income must be psychologically beneficial. The elimination, or at least damping, of the individeul's periods of "boom and bust" will tend to give him the added status which goes with a greater degree of personal financial control. There has been some conjecture that a guaranteed wage plan which gives a worker a sizeable proportion of his weekly wage when he is not working will considerably reduce his motivation to work. Concerning this, I am in agreement with Sumner Slichter when he says, What substance is there in the charges that unemployment pay will make men unwilling to work and that it will be an important inflationary influence in the economy? Paying men unemployment benefits of 60 per cent or 65 per cent (or even 75 per cent) of their straight-time earnings after taxes is not likely to deter many men from working. In the first place, wives do not care to have idle husbands around the house when jobs are available, and the influence of wives is not to be overlooked.

In the second place, consumption in the United States is rather competitive, and the family with only 65 per cent of its usual income after taxes cannot live in the way that it has been accustomed to live and in the way that the neighbors are living. A drop of 35 per cent in income means postponing the buying of many things that the family would like to have, cutting down on recreation and trips, and perhaps changing plans for the education of children. People who fear that American workers will be content with \$50 or \$60 a week unemployment benefits when jobs are to be had paying \$20 or \$30 a week more are not aware of the enormous unfilled wants of most families.[2]

There is also a feeling that a guarantee will tend to do away with the motive of thrift. If income is guaranteed, why save? It seems to me that most savings by workers today are for future consumption expenditures --- a new car, house, education, and perhaps some savings are set aside to augment retirement income. It does not seem likely that these savings will be negated by a SUB plan.

Sociological Aspects

From a sociological standpoint the fact that the tradition-breaking SUB plans were negotiated without a strike indicates a climate of bettering labor-management relations. The long-term contracts will probably help develop social pressures for continuing peaceful relationships.

An interesting comparison can be made between union principles

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[2] Sumner Slichter, "Labor's New Victory," Atlantic Monthly, September 1955, p. 65.

and management principles concerning the establishment of a guaranteed wage. The following listings appeared in separate articles.

Union[3]

1. Recognition of employers' responsibility to maintain the living standards of workers laid off through no fault of their own.

2. The benefits are integrated with unemployment compensation on the basis that gives companies the incentive to work for improvements in the jobless pay law.

3. Employers are given the incentive to stabilize employment.

4. The companies contribute to a trust fund from which the supplementary payments would be made.

5. A Joint Board of Administration, headed by an impartial chairman, be established to administer the plan.

Management[4]

1. It should not shackle management's freedom to manage.

2. It should have a definite, determinable cost, with a definitely limited liability.

3. It should not offer unemployment benefits so great as to remove the incentive to work.

4. It should "provide a means of supplementing benefits paid to laid-off (Ford) employees under state unemployment compensation."

5. It should "minimize the danger of available funds being exhausted by payments to low-seniority employees to the detriment of high-seniority employees who might subsequently be laid off . . ."

The management points are quoted by Mr. Harold Stieglitz from Mr. Ernest R. Breech and Mr. John S. Bugas of the Ford Motor Company.

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[3]"Historic New Contracts," _Ammunition_, June 1955, p. 4.

[4]Harold Stieglitz, "Ford's Unemployment Compensation Supplements," _Management Record_, July 1955, p. 266.

Looking at the same plan (Ford's) these spokesmen for labor and for management maintain that the principles they set forth are essentially satisfied. The approach to the problem is from a different frame of reference but here at least, and probably in other cases as well, agreement was possible, for although the principles were not the same they were not mutually exclusive.

Another interesting sociological aspect entails what Daniel Bell, writing in Fortune, thinks will be the step beyond the annual wage. This, he feels, will be putting a stop to the practice of hiring factory workers by the hour and hiring them by the week or the month instead. As he puts it, "Reuther, the one-time Socialist, is seeking to make the American worker genuinely a middle-class individual. And that is the historic impact of the negotiations this Spring."[5]

In a similar vein, A. H. Raskin says,

> The augmented security and sense of identification with their companies brought to workers by employer-financed pension and welfare programs, and now by supplementary unemployment benefits, is a powerful spur to industrial stability. So is the increased interest of workers in becoming stockholders.
>
> The American worker has joined the middle-class --- not only in income but also in outlook. Within the framework of general pay increases, greater job security, broader social insurance, and shorter working hours, labor finds an opportunity to satisfy its urge for status.[6]

Whatever the final outcome, it would seem that at present we are moving toward an era when a broad community of interests held by both labor and management will enable them to work out their differences in ways other than by industrial strife. I believe that time will show the 1955 SUB agreements a strong factor in this development.

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[5] Daniel Bell, "Beyond the Annual Wage," Fortune, May 1955, p. 93.

[6] A.H. Raskin, "Industry and Labor: A New Era?", New York Times Magazine, August 7, 1955, p. 52.

Economic Aspects

Probable economic repercussions to the current SUB type of guaranteed wage were discussed at some length in Chapter V of this study, and the pertinent conclusions were listed in the beginning of this chapter. One aspect which has not been dwelt on, however, is the similarity between the current SUB plans and the state unemployment compensation systems with which they are integrated. As J.W. Garbarino points out, "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.'"[7]

Approximately two-thirds of all workers in the U.S. are now covered by unemployment insurance, whereas it is estimated that at present slightly over one million employees are covered by private guarantee plans. Even if the private plans would spread to the entire union membership, which is doubtful, coverage would approximate only one quarter of the nation's workers. Unions have long pointed out inadequacies and inequities in the state unemployment compensation laws. In a recent economic report President Eisenhower called for an increase in benefit payments so that most eligible workers would receive at least half of their regular earnings. Perhaps when the SUB plans begin to function the disparity between the layoff pay of those receiving supplementary benefits and those not covered will help to bring about needed unemployment compensation revision. As Sumner Slichter says,

Out of the negotiations at Detroit cannot there come, not makeshift

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[7] J.W. Garbarino, Guaranteed Wages, Institute of Industrial Relations, University of California, Berkeley, 1954, p. 51.

> attempts to patch up the unemployment compensation scheme a bit, but the beginning of a united effort by employers and unions to induce Congress and the legislatures to provide the kind of unemployment compensation scheme that will make the largest possible contribution to stability of jobs and markets? Why should industry and unions be content any longer with getting only half the contribution to stability which can reasonably be expected from unemployment compensation?[8]

The objective of guaranteed wage plans, including the supplementary unemployment plans, is the regularizing of worker's income. Obviously the more workers covered by an effective plan the more adequately will this objective be achieved. It must be remembered, however, that regular income is not a substitute for steady, productive employment, and that while guarantee plans tend toward employment as well as income stability, they complement rather than replace other public and private contra-cyclical monetary and fiscal measures.

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[8] Sumner Slichter, "Guaranteed Annual Wage - It's a Dubious Approach to a Desirable Objective," Barron's, April 11, 1955.

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