The Case for the Guaranteed Annual Wage

BY MARY T. WAGGAMAN

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BY

MARY T. WAGGAMAN

(Formerly) Associate Economist, U. S. Bureau of Labor Statistics and Associate Editor, *Monthly Labor Review.*

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I. By Way of Prologue

WARTIME production levels continued into 1947. Employment and income disbursements were maintained at a hitherto unreached volume in a peace period. Unemployment, therefore, has not seemed to constitute the same first-magnitude problem that it did before World War II.

The present burning quest of economic planners is to discover means to utilize to the nth degree the amazing productive possibilities of our marvelous America. Their optimistic mapping, however, cannot preclude the remembrance of the last bitter depression with its jobless legions. The involuntary idleness in the twelve years following 1929 has been estimated as costing the people of the United States the equivalent of 275 billion dollars of real income. This loss if it had been productively used, according to some computers, "would have been sufficient to build all the railroads in the country; to have substantially rebuilt the cities and to have permitted the replacement of all obsolete and obsolescent equipment in the entire country." This terrible experience aroused a crescendo clamor for security which included the guaranteed wage as one of its important expressions.

A recent pamphlet of the Congress of Industrial Organizations asks "are we to go back to the old way before the war?" The way which meant that steel workers "were employed only three days a week and the men in the labor force of the auto industry had opportunity for employment only six or eight months per annum. There was always a dull season and when times were bad the season was even duller. Millions of workers remained unemployed for years."

The same pamphlet gives a picture of the physical and psychological conditions of unemployed workers and their families and of the continual anxiety of those who have jobs which may fold up at any moment.

It seems only rational for workers to insist upon round-the-calendar wages which would at least tend to implement, in part, two of the objectives of that once famous document, The Atlantic Charter—freedom from fear and freedom from want. It goes without saying that discharges and lay-offs contribute heavily to both fear and want in the wage-earning world.

The subject of the guaranteed annual wage has recently been conspicuous in headlines of the press and its discussion swarms with pros and cons in labor and management literature.

Another indication of the significance of the drive for an annual wage guarantee is the Government's interest in the matter.

On February 27, 1947 the Advisory Board of the Office of War Mobilization and Reconversion transmitted to President Truman an enormous mimeographed report of the Board, embodying the findings on guaranteed wages of the Guaranteed Wage Study Staff under the direction of Murray W. Latimer. The printed report includes two auxiliary studies—one an economic study by Professors Alvin H. Hansen of Harvard University and Paul A. Samuelson of the Massachusetts Institute of Technology and the other a survey of guaranteed wage plans prepared by the United States Bureau of Labor Statistics. This series of studies was authorized by the late President Roosevelt and $200,000 was appropriated for the project. Experts wrestled with the investigation for over eighteen months.[1]

The O. W. M. R. Advisory Board states that the "Report represents a major contribution to the sum of knowledge in this field and deserves serious consideration by Government, labor, management and the public."

According to the C. I. O. Executive Board this report is "ample proof of our contention that guaranteed wage plans will

[1] The members of the Advisory Board of the O. W. M. R. which transmitted the report were: Eric Johnston, former President of the Chamber of Commerce of the United States now President, National Producers of Motion Pictures of America; Anna M. Rosenberg, Consultant on Labor Business and Personal Relations; A. S. Goss, Master of the National Grange; Philip Murray, President of the C. I. O.; James G. Patton, President of the National Farmers' Cooperative; Nathaniel Dyke, Jr., President of Cole Manufacturing Company; Edward A. O'Neal, President of the American Farm Bureau Federation; T. C. Cashen, Chairman, Railway Labor Executives Association; George H. Mead, President of the Mead Corporation; William Green, President, A. F. L.; George W. Taylor, Chairman, Professor of Economics, University of Pennsylvania.

help end the intolerable evils of unemployment and advance the welfare of the entire nation."

The ever expanding discussion of "the guaranteed annual wage" is accompanied by much nebulous thinking and even the term itself is tacked on to plans which are really not what they are labeled.

Some celebrity has said somewhere that "all argument arises from mistaken definition." As a lot of people have rather misty notions as to what a guaranteed annual wage actually is it seems well to clarify this controversial subject, in accordance with the up-to-date lines laid down by the Guaranteed Wage Study Staff of the O. W. M. R. Advisory Board. Their weighty document declares a guaranteed wage, as treated in the study, to be an employer-employee arrangement depending "upon the existence of some verbal or written statement by an employer conveying to the employees affected the knowledge that he has undertaken to provide them with a wage or employment for a period of time not less than three months." This commitment by the employer is to be distinguished from a right or privilege set up by Government intervention in favor of employees for an employer's wage guarantee and a larger guarantee than would otherwise be possible. Other advantages of Governmental action in connection with guaranteeing wages will be noted later. The plans covered by the Report of the Guaranteed Wage Study Staff are voluntary arrangements by the employers themselves or by agreement between employers and employees.

To be reported as a guarantee the scheme must be something beyond a mere smoothing out of pay irregularities through wage advances or loans. However, if an employee returns wage advances only if he continues in the service of the employer who made the advances and only from earnings which exceed the stipulated wage per week, the plan may be regarded as an actual wage guarantee.

The definition of a guaranteed wage must also include its payment "to all or a defined unit or group of employees," and such persons must continue to have an employment relationship with the employer.

Guaranteed wages are often spoken of as "guaranteed annual wages." "A guaranteed annual wage," according to the report upon which this pamphlet is largely based, "is a special case. Usually the employer undertakes a substantial guarantee but not necessarily for the calendar year." Many union agreements run for a year, and this has resulted in some instances in regarding guaranteed wages as annual.

In many cases a guarantee may be abrogated by the company's directors or suspended in the event of catastrophes.

In January, 1946, guaranteed wage plans were functioning in over 500 establishments and covered more than 60,000 workers. The experience with such plans is reported in general as "highly successful" in many concerns. More of these schemes are reported for industries closely concerned with consumer demand than in industries primarily having to do with non-consumer markets.

On the whole, these guarantees have been "remarkably impervious to depression" and the "guarantees offered under the bulk of the plans are not niggardly," a recent issue of the American Machinist reports.

While the study of wage guarantee schemes included some which could not be classified as annual wages, under approximately 90 per cent of the plans full time wages are paid for the period guaranteed and almost two-thirds of the currently functioning schemes "guarantee employment for the full year at full time hours of pay." Also over one-third of all the schemes now in operation include practically all the labor force of the establishment and three-fourths guarantee forty-eight weeks or over of full employment for twelve months.

A closer study of the findings of the Guaranteed Wage Study Staff shows that while the protection will not be complete, the establishment of some such wage guarantee plans will "mark a significant advance in security for the group affected."

II. Attempts to Promote Wage Guarantees Through Legislation

Two federal statutes—the Social Security Act of 1935 and the Fair Labor Standards Act of 1938, include provisions to stimulate directly or indirectly wage guarantees. In general, these particular provisions have been somewhat of a fiasco.

Under the Fair Labor Standards Act of 1938 a company which agrees "with a bona fide labor organization to employ specified workers on an annual basis" is exempted from premium overtime pay requirements. The National Labor Relations Board must certify the organization "as the collective bargaining agent." Moreover, "the exemption was conditioned on a limitation of the annual hours of work to not more than 2080 and premium overtime must be paid on hours in excess of twelve in one day and fifty-six in any one week." Since the Act became operative, according to the Government's guaranteed wage report, only sixty such agreements or proposed agreements have been filed with the U. S. Department of Labor's Wage and Hour Division which is charged with the administration of the Act. At the close of eight years apparently only six plans involving a waiver for overtime were functioning. Recommendation has been made that the Act be amended to allow flexibility in regard to hours of work exceeding the stipulated limits and the "recognition of guarantees in industries where the standard work week is less than forty hours."

As noted elsewhere, guaranteed wage problems are closely allied with the matter of increasing and extending unemployment compensation benefits. The late President Roosevelt in transmitting the report of his Committee on Economic Security to the Congress, January 19, 1935 stressed that—"An unemployment compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization. . . . In order to encourage the stabilization of private employment, federal legislation should not foreclose the States from establishing means to induce industries to afford even greater stabilization of employment."

Under stipulated conditions employers who guaranteed wages were to be permitted to reduce their contributions for unemployment insurance. Parallel with this proviso was the permission under the Social Security Act for States to cut the rates of their employers under certain conditions on approximately the same terms. As the reduction in rates without the wage guarantee carried no additional financial obligation for the employer, the provision concerning the wage guarantee was of no advantage to him. As a consequence, those drafting State bills were not interested at all in this matter. Of the seven States (California, Florida, Idaho, Indiana, Minnesota, Oregon and Wisconsin) which did include provisions concerning wage guarantees, all have eliminated such provisions. Since the Social Security Act became effective none of these States has allowed a lower unemployment insurance contribution rate because of the operation of a guaranteed employment scheme.

The Social Security Act and the State legislation stemming therefrom have consequently had no lasting influence on wage guarantees.

The scant accomplishment through the intended legislative stimulants indicates that effective wage guarantee schemes must be largely individualized. This fact makes legislation along the lines of encouragement a good deal of a riddle. However, it might be unraveled. Previous efforts have resulted from mistaken concepts of the particular type of stimulus required—for instance, that a wage guarantee can be a substitute for unemployment insurance. In fact, the two are reciprocal and should be combined rather than separated. Therefore, legislative encouragement for wage guarantees would accomplish more if it allowed guarantees as supplements to jobless benefits.

III. Further Discussion of Link-up of Wage Guarantees with Unemployment Insurance

It may be recalled that under the Wisconsin Unemployment Insurance Act employers who guaranteed wages were wholly exempted from contributing to unemployment insurance. However, this kind of coordination is not desirable because regardless of the generosity of the guarantee there will usually be some kind of joblessness that can be attributed to an employer who guarantees wages which will properly come under the general unemployment compensation scheme. Moreover, the general insurance scheme will undoubtedly be adversely affected as employers whose employment hazards are not so great will avail themselves of these exemptions, while employers with difficulties in the way of employment stabilization will continue contributing to the general insurance scheme.

The correlation between unemployment benefits and guaranteed wages can be made most effective by providing unemployment benefits for workers with guaranteed wages whenever (if they did not have such guarantee) they would receive unemployment compensation benefits. For example, if a company had no available productive employment the employees would be eligible for unemployment compensation under the law of the State and the remainder of the guaranteed amount would be paid by the employer.

.As things are now, a worker cannot be assured his full time wage when he is jobless unless he is guaranteed by his employer full wages for the whole unemployment period.

When unemployment benefits are increased, say, to half of an unemployed person's pay, the jobless worker would receive full pay if his employer would guarantee his wage for half of his period of idleness. Every employer would then be able to guarantee a greater percentage of full time earnings under such a supplementation scheme than he could otherwise afford.

Unhappily, the supplementing of wage guarantees by unemployment insurance is at present illegal as such guarantees are considered earnings and consequently preclude the idle worker from receiving unemployment benefits. If, however, such supplementation were made legal it might well be a shot in the arm to the wage guarantee movement as was old age and survivors insurance to voluntary retirement schemes.

In brief, from a number of angles a close link-up between wage guarantees and unemployment compensation would be exceedingly advantageous.

In the first place, the right kind of correlation would cut the costs of wage guarantees. Secondly, the facilities of employment offices in connection with unemployment insurance would be very helpful in making sure guaranteed wage plans by individual employers did not produce at times superfluous pools of unemployed and underemployed people, and, if wage guarantees and unemployment compensation were effectively correlated each would strengthen the other along constructive lines. Unemployment compensation provisions pique the imagination. The present extraordinary peacetime volume of employment, the enormous accumulation of unemployment insurance funds, and the continued acceleration of the nation's economy make the liberalization of unemployment compensation benefits both urgent and practicable. The unemployment insurance cost calculations of the mid-thirties are declared to be as outmoded as the American life insurance experience tables which have recently been undergoing revision.

Based on current resources with subnormal contribution rates, but with a permanent reinsurance fund such as was set up *pro tem* by the 1944 War Mobilization and Reconversion Act of 1944 unemployment insurance will permit greater income security. In the major industrial states benefits can be increased to "65 per cent of pay (within maximum and minimum weekly limits of $32.50 and $5.00 respectively) for as long as thirty weeks in the year to persons who qualify at present."

IV. Successful Ventures with Wage Guarantees

In the United States experiments with wage guarantees began more than a half a century ago, but only a few had been tried out previous to 1933. Plans which overcame their beginning difficulties are impressive in their survival record.

Early in 1946 the U. S. Bureau of Labor Statistics found 347 guaranteed schemes which met the requirements of the definition laid down for inclusion in its report. Of these plans 196 were operating at the time of the study. In comparatively few instances, however, was the guarantee called an "annual wage."

However, the majority of the schemes guaranteed employment for a stipulated number of weeks per annum and hours per week. As a matter of fact, these employment guarantees and also the small number of guarantees which were explicit as to wages "did guarantee wages for the total number of hours a year over which employment was guaranteed."

Of the 128 schemes guaranteeing full time employment for a whole year, thirty-nine covered all employees as soon as they were hired or within thirty days after that date. The remaining employees were subject to further requirements in connection with length of service or limitations as to coverage.

As already noted, the experience with wage guarantees is reported in general as "highly successful in many establishments." More of these schemes are reported for industries closely concerned with consumer demand than in industries primarily having to do with nonconsumer markets.

Up to the present the movement for wage guarantees supplies, as it were, an index of feasibility. The guarantee can be of advantage to both employers and employees. A considerable number of firms have been able to operate schemes for prolonged periods, the average for plans functioning in 1946 was nearly ten years. Reasons for discontinuing wage guarantees were found to lay conspicuously in particular individual situations, in legislation and war rather than in business slumps, competitive problems and other influences involving high costs.

Nearly two-thirds of the 196 plans guaranteed employment for the entire year at full time hours of pay. The great majority of the schemes guaranteed fifty-two full weeks of employment or pay in lack of employment. Eighty-five per cent of 166 plans had full time wage guarantees for forty weeks or more.

The Experiments of the "Big Three"

The so called "Big Three" with wage guarantees are namely Proctor and Gamble (manufacturers of soap and soap products), George A. Hormel and Company (a meat packing house), and the Nunn-Bush Company (makers of fine shoes).

Brief accounts of these examples of high achievement in the field under review are given below:

The Proctor and Gamble Plan

Proctor and Gamble have had an employment guarantee scheme since 1923, the terms of which have been subject to various modifications. Leaving aside the whys and wherefores back of the numerous modifications, all the changes have been instrumental in lessening the benefits in coverage provided in the original scheme. Even the changes resulting from the depression have never been abrogated.

The Revised Guarantee dated April 15, 1941, which is still effective provides that employees located in the factories specified "whose pay is computed on a hourly rate and who have had at least twenty-four (24) consecutive months of employment preceding the application of the plan to their employment, the undersigned company hereby guarantees regular employment for not less than forty-eight (48) weeks (or its equivalent) in each calendar year less only time lost by reason of holiday closing, vacation with pay, disability due to sickness or injury, voluntary absence or due to fire, floods, strikes or other emergency whether like the foregoing or not, and subject to certain provisions." Among these provisions are: that regular employment means "employment for not less than the hour week established from time to time by the company"; that the company may under the guarantee transfer an employee to a job other than the one at which he usually works at the rate of pay for the job to which he is transferred.

Whenever the Board of Directors so decides the terms of the guarantee may be changed to seventy-five per cent of the established hours week less loss of time for the reasons referred to above.

The company also reserves the right to discharge a worker at any time also the right to withdraw the guarantee or to modify or terminate the contract.

It has never been necessary to create a reserve fund. In

1945 the President of Proctor and Gamble reported to the American Management Association that the amount paid out by the Company on the financial guarantee had never exceeded three per cent of the annual payroll and that such per cent was in an unusual year.

The plan has resulted in a notable increase in employment stability as shown in production records and the decline of labor turnover.

The Hormel Scheme

The Hormel Scheme has attracted an immense amount of attention, especially because of its operation in the packing house industry which is characterized by a tremendous turnover and violent employment oscillations.

The top flight feature of the plan is that each employee included under it is guaranteed fifty-two pay checks per annum, each such check "being equal to at least the product of the number of hours in his standard work week multiplied by his hourly rate."

In general, a shift from one job to another means the same or higher pay. In accordance with the agreement of the company with the union, the Hormel wage guarantee may be modified or canceled.

Combined with its annual guaranteed wage the company also has a work budget incentive plan, a joint-earnings provision, a profit-sharing trust and various insurance features.

A study of the Company's development reveals that the annual wage gave rise to conditions which called for or at least made highly advisable production bonuses and similar devices.

Any detailed appraisal of the Hormel Annual Wage Scheme should take into consideration the other payments and credits available to the company's labor force. These provisions are analyzed in the Report on Guaranteed Wage and Employment Plans made by the U. S. Bureau of Labor Statistics and published as Appendix C of the Report on the Guaranteed Wage Study Staff. The limitations of space will permit only of this reference here to these progressive measures.

Hormel is convinced that provision must be made for assured regular employment. If this is not done no annual wage plan is practicable. If this is done, no annual wage guarantee is necessary. However, this employer acknowledges that when he first operated his business merely on a good intentions basis requisite planning and arrangements to have workers on the payroll were too frequently neglected. This neglect on the part of management eluded discipline. The upshot of this situation was to make planning an obligation and guarantee annual wages.

The Hormel Annual Wage Scheme "has provided management with a double-barrelled technique and increasing labor efficiency, first through the efforts of supervisors and second (and more effective) by the efforts of the workers themselves to police the plant against slackers and to earn group incentive payments."

In summary, in his own words, Hormel's industrial goal is: "First security of employment, second, a fair weekly rate of pay with extra pay for extra effort put forth, and, third, a fair share to each one of us if our business enjoys good fortune or if our combined efforts produce extra prosperity."

In the judgment of experts, Hormel's labor force rates higher in efficiency than do the workers in rival plants.

Possibly the greatest return on the Hormel project is the establishment's capacity because of its stable corps of workers to shift from low to high production without a jolt.

The Nunn-Bush Guarantee

The Nunn-Bush Plan was originally termed "Fifty-Two Pay Checks Each Year" but at present is referred to as "Share the Production." The scheme does not conform to what is usually considered a guaranteed wage plan as it does not guarantee any minimum amount each week or year to the workers included under the scheme. However, since the beginnings of the experiment in 1935 no worker covered has been paid less in any week than the amount paid when the plan was inaugurated, namely thirty-seven times the hourly wage which was being paid for the job classification prior to the introduction of the plan. The only guarantee in the scheme "is that a management-union agreed upon group of workers with greatest seniority (currently, 595 in the Milwaukee plant) shall have a continuous employment relation with the company, that is, that these particular workers must be employed whenever there is sufficient work available."

A notable characteristic of the scheme is its "flexible pay principle," which provides that the earnings of all members of the labor force who have had two years of service shall constitute "a predetermined proportion of the wholesale value of the output."

In brief, the plans combined considerable employment and wage security with a novel general wage determination method.

The wage determination policy supplies a basis for an *entente cordiale* and teamwork between labor and management which make for the elimination of difficulties which may arise in less prosperous times and the guarantee of the employment relation provides a continuing partnership feature to the project.

From time to time interesting modifications have been effected which cannot be taken up in detail in this report. Weekly drawings are now computed at 1/52 of the workers estimated earnings per annum, which earnings are 2080 times our existing rates per hour for the job classification. This means that the drawings are based on a forty hour week. After these weekly drawings a considerable residue has been available for monthly payments.

The Nunn-Bush employees have not only escaped lay-offs but their per annum income has never declined below the starting level. Moreover, the take-home pay per week has been much more regular than the volume of employment, shifting only upon occasions when the drawing rate was changed and in case "there was an annual disbursement of any excess" in the Group Salary Fund.

As to the cost of the Nunn-Bush Scheme, there is the possibility of a deficit in the group fund. There is also the possibility of the company's having to finance nonwage outlays connected with production for inventory, together with the hazard of loss on such inventory. However, no final loss is reported from either of these risks, the first of which is now declared negligible because of the workers' wartime pay reserves.

V. The Question of Costs

Wage guarantee experience yields no weighty evidence as to what a definite scheme might cost the employer over a considerable period. A company guaranteeing wages ordinarily agrees to pay the guarantee whether or not it has enough employment to cover such guarantee. The probable expenses of the undertaking will be the determining factor in deciding whether any or how large a guarantee is practicable. In other words, the setting up of wage guarantee schemes is dependent upon the financial obligations which employers may incur in connection with these plans. Such costs must not be too high or foresighted employers will not dare to venture on such hazardous undertakings. It seems that cost accounting in connection with institution of wage guarantees is indeed complex, and the results of various statistical struggles as presented in the appendix of the Final Report by the Guaranteed Wage Study Staff clinch this impression. The items which have to be taken into consideration call for super-bookkeeping, and, of course, costs vary with the kind of wage guarantees established. Cyclical see-saws and seasonal slumps affect certain industries more severely than others. Different factors in wage guarantee schemes influencing costs are limitations in the guarantee in the way of financial liability, coverage, and termination of liability. Competitive conditions must be reckoned with. The unpredictable behavior of the business barometer and also the intangibilities of improved industrial relations increase the tribulations of estimators.

Manifold are the pitfalls lurking in the line of march of different enterprises and different industries. There is no inflexible measuring rod for determining the reasonable amount of the gross costs of wage guarantees. Such costs, as noted above, would have to be considered in relation to the benefits accruing from more harmonious industrial relations such as declines in labor turnover or greater productivity and later on increased stabilization of employment requirements.

The gross cost of wage guarantees include primarily direct payments to the workers for whom productive employment is not available. Other costs may include those resulting from a shifting of production processes in manufacturing for stock and subsidiary products, in making changes in distribution methods, etc.

The total gross payments for idle time for the 1937-41 period under each of three guaranteed plans for forty-seven cases were tabulated. The average annual costs were found to run between zero to 0.4 per cent of the total aggregate payroll for the lowest cost case to over 30 per cent for the highest cost cases.

Through an analysis of these cases it was shown that the gross cost could be cut down, by appropriate limitations, to an average of under 6 per cent per annum even in the high cost cases.

The key cost question is "Whether or not if a guaranteed wage plan is properly set up, there are any net costs, that is, whether the gross costs are offset by savings of various kinds." Indeed, in some instances it is reported that after a more or less extensive operation of wage guarantees, credit items may approach and even cancel gross costs.

In appendix tables ratios are given which are to be regarded "as measures of the burden of net costs of a wage guarantee on prices or profits or a burden—distributed between the two." It is estimated that each 1 per cent of payroll by which a guarantee increases net cost would require in the telephone industry—

> 0.37 per cent increase in telephone rates or a reduction of profits by 1.6 to 1.7 per cent in the industry. . . . In the case of U. S. Steel or Bethlehem Steel it would result in about 0.4 per cent increase in the prices of their products, or 3.4 to 3.9 per cent reduction in their profits or some combination of lesser changes in both. In the case of General Motors it would result in less than 0.3 per cent increase in prices or about 1¾ per cent reduction in profits or various combinations. In the case of Swift and Company it would result in about 0.12 per cent increase in prices or somewhat less than 10 per cent reduction in profits or various combinations.

By and large, industrialists who venture on wage guarantees may be said to assume no little risks.

The data on costs gathered by the Wage Guarantee Study Staff indicate that the maintenance of a wage guarantee at regular rates for not less than a full time number of hours each week for fifty-two weeks in a year "may be beyond the reach of a very large group of establishments. If a guarantee goes beyond practicable limits, it may be self-defeating, something less costly must be found."

As already noted, to the degree that employers utilize the influences at their command, the cost of guaranteed wages can be considerably cut. Furthermore, under suggested legislation allowing the supplementation of wage guarantees by unemployment insurance benefits, numerous companies who could not otherwise operate full pay plans would be able to establish such schemes.

VI. Precautionary Measures

The importance of selecting the proper restrictive provisions to meet certain situations has been strongly emphasized in connection with wage guarantees. In cases where the hazard is from the wheel of the business cycle, a limitation on annual payments is the prescribed safeguard.

Furthermore, a wider sweep of the horizon reveals that the topmost economic resultant of a wage guarantee scheme is the maintenance of wage incomes and consequently of the buying-power of the labor force. This is of real significance at the start of a business decline when the upkeep of wage incomes might avert a serious slump.

If the company's risk in operating a wage guarantee plan is due to highly seasonal activities, some definite restriction on the scope of the guarantee may be necessary. A restriction on the length of time the benefits are to be paid after permannt lay-offs is also advisable and upon occasions is a "must" procedure. Unless otherwise provided, the time for which benefits are to be paid should coincide with the time the workers retain their reemployment rights. If the employer already provides dismissal compensation, the guarantee wage scheme can be correlated with that compensation.

Limitations in guaranteed wage schemes would of course reduce the workers incomes. On the whole, however, even with limitations the wage guarantees analyzed would result in a minimum income of approximately 75 per cent of full time in the most unfavorable year and an average income of more than 90 per cent with unemployment compensation at existing levels.

The figures, however, do not include the incomes of those whose jobs are finally terminated and whose guaranteed wages are of limited duration.

An analysis made by government experts of employment experience in forty-two establishments in 1937-41 showed that "where labor requirements are relatively stable, full-time earnings can obviously be guaranteed to substantially all employees at all times. Such cases may be rare, but many are by no means unique. Among the cases analyzed, there were nine establishments distributed among eight different industries that would fall within this class."

On the whole, guaranteed wage experience discloses, as already noted, that a large number of establishments have met with considerable success with these wage stabilization plans. This experience also indicated that the great majority of employers making these guarantees have not had to limit their commitments to a painful degree and that guaranteed wage or employment schemes are quite elastic, adaptable to various individual conditions, and of value for many purposes.

In general:

(1) The guarantee should be in such form as to provide complete protection during slack periods in normal years;

(2) The benefit formula should be such as to avoid any lag between the start of any cyclical down-turn in employment and the beginning of payments for non-productive time so as to afford the greatest possible degree of protection against declines in consumer income disbursements.

(3) In so far as possible limitations should operate at the end rather than at the beginning of periods of substantial payments.

VII. Employment Stabilization

An analysis of the experience of companies which have made deliberate efforts to minimize the fluctuations in mere operations in so far as these variations were not cyclical or of long term origin warrants the conclusion that there are many measures that business can use to stabilize further the ups and downs of employment. Indeed, there is convincing proof that employers not only can control to some extent the ebb and flow of their business activities but that wage guarantees will stimulate them to make greater efforts to navigate on an even keel.

The following devices are listed by the Guaranteed Wage Study Staff as of value to employers who desire to stabilize employment:

(1) Manufacture for stock;

(2) Creation of products supplementary to or having a demand dovetailing with existing products;

(3) Training employees for a variety of jobs and making transfers from one job to another as production requirements shift;

(4) Maintaining a centralized personnel department to assure that no new workers are employed unless there is genuine need for them and that there is no new employment at a time when there exists unemployment among suitable workers;

(5) Deferring maintenance and improvements for slack periods of the year;

(6) Making intensive analyses in order to make reasonable forecasts of demand of product demand and schedule production on the basis of such forecasts;

(7) Assure the coordination of various departments of the establishment;

(8) Adopting a price policy which gives workers some incentive to buy in slack periods.

It seems quite obvious from authoritative studies that successful employment stabilization schemes result in appreciably higher profits. This being the case, the querie immediately bobs up why have not these schemes been more widespread? The reply seems to be that the mere possibility of profits will not, as a general rule, serve as an adequate incentive. If, however, a wage guarantee be combined with a supplementation scheme, as suggested under a proposed amendment to unemployment insurance legislation, the impetus will be strong enough to multiply constructive efforts.

In general, it seems to be a rational assumption that whatever the stabilization inducements experience rating presents, the incentive for stabilization under a wage guarantee scheme would be very much greater. It is pointed out that under experience rating a company will regularize its employment to save unemployment insurance contributions ranging from 1½ to 4 per cent of the payroll. Under a wage guarantee scheme the savings would be much more substantial. An additional advantage is the fact that employer-employee relations are much closer under wage guarantees than under unemployment compensation.

The conclusion is reached that in the final report of the Guaranteed Wage Study Staff that employers can not only control employment stability at least to some extent but that wage guarantees would lead industrialists to take the responsibility of a larger control than would incentives based on experience rating.

To the degree that employers avail themselves of their existing opportunities, they could cut down the cost of wage guaranteed schemes.

VIII. Guaranteed Wages and Federal Tax Legislation

A business man with prudent proclivities who has set up a wage guarantee scheme which is subject to cyclical hazards will endeavor to distribute that risk over a considerable period. He will store up reserve funds in times of prosperity to offset possible expenses in less fortunate days. Present legislation, however, places some hurdles in the way of distributing this hazard over 12 months since payments into this reserve pool will not likely be permitted as a business expense. Consequently, it is thought advisable to promote the establishment of reserve funds for companies which are willing to forego entirely any interest in these funds.

Contributions properly protected to a guaranteed wage trust should be interpreted as business expenses and allowed the same exemptions as any other proper cost for carrying on business.

IX. Various Secular Viewpoints

At times the subject of the guaranteed annual wage becomes painfully polemical among certain employers. Important employers' associations have published comprehensive reports on wage guarantees in which, of course, various bogeys are conjured up which tend to impede the way to the particular objective under discussion. Yet, as reported elsewhere, a substantial number of progressive industrialists have demonstrated that wage guarantees can be made to function successfully, and Eric Johnston former President of the Chamber of Commerce of the United States, asked in 1944 "the widespread adoption of annual wage plans." He was also one of the members of the O. W. M. R. Advisory Board who signed the conclusions concerning the Report on the Guaranteed Wage, issued by the U. S. Government Printing Office May 15, 1947. However, another representative of Big Business, Paul Hoffman, who is chairman of the Committee on Economic Development takes the position that "as long as we are at the mercy of the business cycle's traditional swings, we're unable to guarantee an annual wage." Bradford B. Smith, Representative of the Carnegie Illinois Steel Corporation before the National War Labor Board, in May 1944, referred to the "economic audacity" of the demand of the steel workers for a guaranteed wage in view of the past status and the status of the steel industry at the time the demand was made.

Labor unions do not all have the same slant on the guaranteed annual wage, but Mr. William Green, the President of the American Federation of Labor and Mr. Philip Murray, the President of the Congress of Industrial Organizations have made some important statements on the subject.

In the *American Federationist* of April, 1945, Mr. Green declared that "there is no simple single formula for an annual wage plan which could be applied indiscriminately in any employment situation. An effective annual wage plan must fit the operating realities of a particular firm or a particular industry. It must not be used as a device to lower the established wage standard of workers brought under the plan."

Nor is an annual wage plan satisfactory if it provides stable income to one group of workers at the risk of decreased stability of employment and income for the rest of the employees in the same establishment. . . . To make an annual wage plan acceptable to all workers, and to justify its adoption, the plan must be an outgrowth of mutual agreement between the union representing the employees and the management, dictated by the practical experience of both.

Mr. Green also referred to the increase of the purchasing power of the workers through annual wage guarantees. The extension of the schemes, he contends, "can become a major stabilization factor in industry."

However, he voiced the belief that other means must also be taken to promote the steady increase of the workers' buying power in order to expand post war markets. The stabilization of the business cycle and of job opportunities is also required. He stressed the need of "an integrated program of economic and fiscal policies" for the purpose of giving "a continued balance to the entire economy." In brief, "if we are to march toward full employment after the war, our first and essential step must be the assurance of higher real income to the great mass of American wage earners."

Dr. Emerson Schmidt, Economic Research Director for the Chamber of Commerce of the United States, holds that depressions are the outcome of war, monetary and credit problems, and the convulsive character of capital formation and investments. This is the explanation, he thinks, of the dubious attitude of economists in regard to the purchasing-power prosperity theory and the potentialities of the guaranteed wage for working out certain industrial puzzles.

In the Foreword to a pamphlet "Guaranteed Wages the Year Round," published by the Department of Research and Education of the Congress of Industrial Organizations, Mr. Philip Murray, President of that Congress says:

"The war has destroyed a terrible enemy. Depression destroys our own people. We must now prevent a downward plunge from full wartime employment into hard times. . . .

We must develop ways of mobilizing our nation for continuing prosperity.

"The guaranteed annual wage will help to achieve this goal. If employers will agree to give labor regular work and pay, the whole community will benefit. When plants and men are idle, farm prices fall and business loses. . . . A floor under the income of wage-earners would mean a floor under the national income."

> The problem requires the best cooperative effort of all groups of citizens. It is gratifying that so many have already given their support to the guaranteed wage idea.
>
> The first responsibility for working out methods of providing steady jobs rests with management. Labor stands ready to offer suggestions and to help overcome difficulties.

Walter P. Reuther, President of the United Automobile, Air Craft and Agricultural Implement Workers, upheld in June 1944, the "soundness of a guaranteed annual wage on the effect which stabilized income would have for labor on the purchasing power of the nation."

In *Advanced Management* of September 1945, Herman Feldman, Professor of Industrial Relations in the Amos Tuck School of Business Administration, Dartmouth College, cautioned that "a concern or industry must be well on the way to finding the secrets of stabilization before it can take on substantial obligations for annual wages."

The late Wendell Willkie stated that "an annual wage to those who work in plants with long seasonal or periodic shutdowns seems fair and necessary. And our post war economy must be built on a high wage level if we hope to furnish a market for the goods of an expanding peacetime production. Our wheels can keep turning only if our workers can keep spending."

The *World-Telegram* of March 29, 1945, declared:

> We need regularity in our economic order—the expectation of regular pay for the worker, the expectation of regular business for the industrialist, the expectation of regular return for the investor.
>
> We could start with a guaranteed wage. . . .
>
> We have a hunch it's coming. Not tomorrow, maybe nor even the day after. But it's in the cards.

X. Some Catholic Attitudes

Over a decade ago the late Dr. John A. Ryan maintained that social justice demands "wages and hours which will insure continuous employment, a decent livelihood and adequate security for all workers."

The Most Reverend Bernard J. Sheil, Senior Auxiliary Bishop of Chicago, in an address before the Seventh Constitutional Convention of the C. I. O. in that city, November 20, 1944, said in part:

> Another answer that labor can give to the persistent questioning of the common man is the guaranteed annual wage. From every standpoint this seems to me a fundamental requirement for full employment; for economic stability; for peace; finally for dignified human living.
>
> * * * *
>
> I believe that the guaranteed annual wage for the working man is just, it is socially necessary; it is economically feasible; it is a democratic imperative.

According to the Most Reverend Francis J. Haas, Bishop of Grand Rapids, there can be no question as to the justice of the annual wage. "The burden of proof for uninterrupted income does not rest upon the workers. It is for opponents of this right to prove—which of course they cannot—that the worker does not have this right. Indeed the right of every able-bodied worker to a guaranteed income forms the first charge on industry, to be met before that of all other claimants."

Rev. Benjamin L. Masse, S.J., Labor Editor of *America,* suggested several years ago the possibility of the enactment by the Federal Government of a measure pledging the Government to guarantee up to 85 per cent of "any annual wage contract which labor and management, as a result of collective bargaining, might freely make" or any similar commitment of an employer to his nonunionized workers. Father Masse also stated that "every normal adult workingman whose only access to the wealth of nature is his pay envelope has a right to an annual family living wage." After pointing out that the regularizing of employment as a move in the right direction is quite widely recognized, this labor expert warns that a grave depression within the next ten years "could conceivably destroy our system of private enterprise and so could the intensification of industrial unrest. The argument for Government assistance is that it would enable industry to do now what it wants to do anyhow but has no hope of doing in the near future."

The Most Reverend Richard J. Cushing, D.D., Archbishop of Boston, has spoken words of praise for those who are attempting, through that "agreement of plans and wills" to which Pope Pius XI refers, to work out details of the guaranteed annual wage. His reference to the subject is quoted here from the text of his address to the C. I. O. Convention in Boston, October 13, 1947:

> I have read with interest some of the deliberations of both management and labor concerning the so-called Guaranteed Annual Wage. I know labor's position on this proposal. The worry of the working man has traditionally been this: jobs today—but what will happen tomorrow? Up to now many millions of Americans have been unable to answer that question for themselves. As a consequence they live in a fear which God never intended should be theirs. A wage earner must have steady work and pay this week, next week and all the year round if he is to have security. Only an annual wage is an adequate wage. So runs the labor argument and it is a hard argument to answer.
>
> There can be no doubt that some economic solution must be found so that a man may intelligently plan his future and make provision to discharge those responsibilities which have been placed on him by God Himself. It must be an intelligent and fair provision which does not make him the unnecessary beneficiary of charity or cause him to lose pride in his daily work. It may or may not be the so-called "Guaranteed Annual Wage," but it must be something close to it and I hope that a fair exchange of views on this subject between management, labor and the representatives of the public will lead to an answer consistent with the needs and decent demands of labor.

The following excerpts from Papal Encyclicals seem pertinent to the subject of guaranteed annual wages:

> It is shameful and inhuman, however, to use them (the workers) for gain and put no more value on them than what they are worth in muscle and energy.

Among the most important duties of employers the principal one is to give every worker what is justly due him. Assuredly, to establish a rule of pay in accord with justice, many factors must be taken into account, but, in general, the rich and employers should remember that no laws either human or divine, permit them for their own profit to suppress the needy and the wretched, or to seek gain from another's want. (Leo XIII, the Condition of Labor. New translation, 1942, paragraphs 31 and 32.)

First and foremost Christian morals must be reestablished, without which even the weapons of prudence which are considered especially effective, would be of no avail to secure well-being.

So far as the Church is concerned at no time and in no manner will she permit her efforts to be wanting, and she will contribute all the more in proportion as she has more freedom of action. (Leo XIII on the Conditions of Labor. New translation, 1942. Paragraphs 82 and 83.)

In determining the amount of the wage, the condition of a business and of the one carrying it on must also be taken into account; for it would be unjust to demand excessive wages which a business cannot stand without its ruin and consequent calamity to the workers. If, however, a business makes too little money, because of lack of energy or lack of iniative or because of indifference to technical and economic progress, that must not be regarded a just reason for reducing the compensation of the workers.

Let them both workers and employers strive with united strength and counsel to overcome the difficulties and obstacles and let a wise provision on the part of public authority aid them in so salutary a work. . . .

But another point, scarcely less important and especially vital in our times, must not be overlooked: namely, that the opportunity to work be provided to those who are able and willing to work. . . .

And this same social justice demands that wages and salaries be so managed, through agreement of plans and wills, in so far as can be done, as to offer the greatest possible number the opportunity of getting work and obtaining suitable means of livelihood. (Pius XI on Reconstructing the Social Order. New translation, 1942 from paragraphs 72, 73 and 74.)

It will be noted that Pope Pius XI, in the latter quotation, stresses the necessity of an "agreement of plans and wills." Taken in context this refers to the so-called Industries and Professions system, which is really the heart and soul of the Papal plan for economic reconstruction. What Pius XI is saying is that stability of wages and employment cannot be guaranteed (except under rare or exceptional circumstances) by the isolated efforts of individual businesses alone. What is called for is the establishment in each of the major industries of an Industry Council, made up of freely chosen representatives of labor and management, together with a representative of the public. To do what? To work out jointly the economic stability and prosperity of the industry. The separate industries thus organized should federate by regions and should choose a National Economic Council, likewise representing capital, labor and the public.

The function of these industry councils or occupational groups is described as follows in the 1946 Labor Day Statement of the Social Action Department of the National Catholic Welfare Conference:

> In each industry the occupational group should include all interested parties: labor as well as capital; employees as well as employers. Employers and labor and the other subdivisions of other occupations would keep their rights of separate assemblage and vote inside the occupational groups and their right of separate organization. These groups would "bind men together not according to the position which they occupy in the labor market but according to the diverse functions which they exercise in society." The occupational groups would seek to modify competition by maintaining standards of fairness with regard to wages, hours, prices and business practices; to avoid private industrial dictatorship by enabling labor to share in all industrial policies and decisions, and to exclude political or bureaucratic industrial dictatorship by keeping the immediate and day to day control in the hands of the agents of production. They would be prevented from injuring the consumer or the common good by governmental action, "directing, watching, stimulating and restraining, as circumstances suggest or necessity demands." This form of government control is very different from and very much less than that contemplated by collectivism. Moreover, the consumers

could protect themselves through some form of representation in relation to the governing bodies of the occupational groups.

In a word, the occupational group system would aim to bring into industry sufficient self-government to reduce to a minimum the conflicting interests of the various industrial classes, to place industrial direction in the hands of those most competent to exercise it and to permit only that amount of centralized political control which is necessary to safeguard the common good.

The Labor Day Statement goes on to say that "the alternative to an organized partnership for the common good is to give way, as it were by default, to a succession of legislative reforms, which cannot and will not get to the heart of the difficulty." Which means, in terms of the present discussion, that the guaranteed annual wage—again, except in rare or exceptional cases—cannot be established in the United States unless labor and management jointly come together, on a basis of equality, to work out the problem through an "agreement of plans and wills."

XI. High Lights of Summary of the O. W. M. R. Guaranteed Wage Study

The wide adoption and proper coordination of wage guarantees with unemployment compensation protected against exorbitant costs, and amply financed would advantageously affect the country's economy. These plans because they are instrumental in maintaining the workers' purchasing power will not only tend to diminish seasonal and other transient industrial ups and downs but may even have an influence on business cycles.

By regularizing buying power through steadying wage income, the market for consumers' goods tends to become more stabilized and in turn also the requirements for capital equipment by consumer goods industries. Such guarantees even have an effect on the demand for durable consumers' goods and home building.

However, it would be very dangerous to conclude that wage guarantees alone will do away with depressions. A combination of devices is called for in order to hold employment at a high level.

"Compensatory fiscal policy; public works and housing programs; social insurance; minimum wages; anti-monopoly measures; programs to expand and safeguard foreign trade; appropriate monetary and banking policies; and so on."

These various measures should be brought together and made to function efficiently. They should be reinforced by a well defined and confirmed policy of the Government for the maintenance of high employment. In an economy in which these measures function successfully wage guarantees can aid in establishing a desirable price system, can bring about conditions favoring technological progress rather than retarding it.

In the matter of industrial relations the Final Report of the Guaranteed Wage Study Staff includes a cogent brief for wage guarantees as indicated by the following excerpts:

"One of the most essential functions of the maintenance of a high-level economy is harmonious industrial relations. There are sufficient short-run differences in the interests of labor and management to make difficult the achievement of harmony without adding an additional unnecessary cleavage with respect to employment security. The danger of such a cleavage lies in the experience rating provisions of unemployment compensation laws which make it to an employer's interest to beat down the benefit claims of his employees . . . a source of trouble in the face of a serious recession."

"If guaranteed wage plans did no more than remove conflict from the one area where, among all others, it is wholly out of place, they would justify themselves abundantly."

"But the extensive multiplication of wage guarantees can accomplish more. Such schemes will help to eliminate 'fear from labor-management relations and from the economy, permitting the lifting of those restraints in production which have long been characteristic of employment insecurity.' "

* * * *

"The guaranteed wage used with care, with full recognition of its limitations and with eyes open to dangers in exceeding those limits, can become an integral part of a rounded program for greater security, for harmonious industrial relations and a more lasting prosperity."

XII. Unanimous Conclusions of the O. W. M. R. Advisory Board

Although the following conclusions of the Advisory Board of the Office of War Mobilization and Reconversion involve some repetition they are given to show to what extent that body unanimously reacted on the findings of the Report on Guaranteed Wages. These conclusions were recorded in a letter to the President of February 25, 1947 transmitting the Report:

1. The adoption of wage guarantees "should be referred to free collective bargaining" and "should not be the subject of legislative action."

2. Employment stabilization through effective wage or employment guarantees wherever practicable is a problem with which both employers and employees are concerned and for which each party has a definite responsibility because of the bearing of the problem on the nation's general economic security.

3. Advance toward economic stability through guaranteed wages is influenced by existing social insurance and minimum wage legislation, fiscal and tax policies and other legal provisions. It is, therefore, necessary to study these laws with a view to their coordination in the interest of stabilizing employment.

4. The wage guarantee is important but it is "not an all sufficient tool" for the upbuilding of the nation's economic security and stability.

5. There is urgent need here and now for nation-wide economic security and stability in the interest of world peace. Since wage guarantees tend to eliminate fluctuations in the labor market further studies should be made. Moreover, Government agencies should supply data to those interested in such guarantees.

XIII. The President's Letter of March 18, 1947, to the Chairman of the Council of Economic Advisers

In line with the O. W. M. R. Advisory Board's recommendation, the President wrote to the Chairman of the Council of Economic Advisers requesting that body "to study the implications of the guaranteed wage, particularly as a device for helping to stabilize employment, production and purchasing power."

The Secretary of Commerce and the Secretary of Labor were requested to furnish information on wage guarantees in connection with problems of stabilization in various industries.

XIV. Interest of International Labor Office in Guaranteed Wages

The International Labor Office has recently completed a report on minimum security income which includes a study of guaranteed annual wages and other wage schemes designed to provide assured earnings for the steel and other metal trades.

The subject of guaranteed wages is scheduled for discussion at the 1948 International Labor Conference.

The International Labor Organization is composed of representatives of Government, employers and labor from fifty-three countries.

XV. Epilogue

For the greater encouragement of Catholic participation in the movement for guaranteed wages and allied devices to promote the welfare of the workers, an additional eloquent excerpt from the Papal Encyclical on Reconstructing the Social Order is given below:

"Let well merited acclamations of praise be bestowed . . . upon all those both clergy and laity, who we rejoice to see, are daily participating and valiantly helping in the same great work, our beloved sons engaged in Catholic Action who with singular zeal are undertaking with us the solution of the social problems in so far as by virtue of her divine institution this is proper to and devolves upon the Church. All these we urge in the Lord again and again to spare no labors and let no difficulties conquer them, but rather to become day by day more courageous and more valiant." (Paragraph 138, new translation, 1942.)

It seems pertinent also to stress the quickening directive of Pius XII in his address of September 8, 1947 to 200,000 men gathered in St. Peter's Square: "What you can and ought to strive for is a more just distribution of wealth. This is and this remains a central point in Catholic doctrine."

N. C. W. C. STUDY OUTLINE

I.

1. Sketch briefly some of the conditions giving impetus to recent demands for a guaranteed annual wage.
2. Cite evidence of the U. S. Government's interest in such a device.
3. Give definition of a wage guarantee.

II.

1. What two Federal statutes include provisions to promote wage guarantees?
2. What recommendation has been made for the amendment of the National Fair Labor Standards Act with reference to the employment of workers on an annual basis?
3. What makes legislative efforts to encourage wage guarantees so difficult?

III.

1. Would it be desirable wholly to exempt employers with wage guarantees from contributing to unemployment insurance?
2. How can a link-up between guaranteed wages and unemployment benefits be made most effective?
3. Why is the liberalization of employment benefits so practicable at the present time?

IV.

1. How many wage guarantee schemes meeting the requirements of the definition of the government's recent report, were functioning early in 1946?
2. Has the experience with wage guarantees been successful?
3. What have been the reasons for discontinuing wage guarantees?
4. What has been the result of the Proctor and Gamble scheme?
5. What has the Hormel plan provided for management?
6. Cite some of the advantages to employees under the Nunn-Bush project.

V.

1. What is likely to be the determining consideration in launching a guaranteed wage plan?
2. What do the gross costs of wage guarantees include?
3. What is the core cost question?
4. Give figures as to how estimated costs of wage guarantees would affect profits in certain companies.
5. What would be the effect of supplementing wage guarantees by unemployment benefits?

VI.

1. What safeguard is necessary where the chief hazard in a wage guarantee arises from business cycles?
2. If the company's dominant risk in guaranteeing wages is involved in acute seasonal shifts in employment, what action is counseled?
3. Give some of the findings as to employment experience in forty-two establishments in 1937-41.

VII.

1. How can employers reduce non-cyclical employment disturbances?
2. Why are not employment stabilization schemes more widespread, as authoritative sources indicate such stabilization increases profit?
3. Compare employment stabilization inducements with those under wage guarantees.

VIII.

1. Why is it thought advisable to encourage the setting up of reserve funds for companies with wage guarantees?
2. How should the contributions to such funds be interpreted?

IX.

1. What are the reactions of some employers on the subject under discussion?
2. Quote a few statements of the President of the A. F. of L. on the guaranteed annual wage.
3. What are some of the results that the President of the C. I. O. thinks will follow from the reform proposed?

X.

1. What declaration has been made by the Most Reverend Bernard J. Sheil concerning the guaranteed annual wage? Name another outstanding bishop and a Jesuit labor editor who have expressed themselves strongly on the subject.
2. What did Leo XIII say about the wage earner's remuneration?
3. What is the principal duty of the employer, according to this same Pontiff?
4. Give statements by Pius XI on the determination of the amount of the wage and the importance of affording work opportunities.

XI.

1. Would wage guarantees be of benefit to our national economy?
2. What devices in addition to wage guarantees are necessary to avert serious depressions?
3. What is one of the most dynamic factors in maintaining a high level of employment?

XII.

1. To what should the adoption of wage guarantees be referred, according to the unanimous conclusion of the O. W. M. R. Advisory Board?
2. What further studies relative to guaranteed wages are recommended by that Board?

XIII.

1. What government agencies has the President charged with the supplying of additional information on wage guarantees.

XIV.

1. What recent report of the International Labor Office includes a study of certain guaranteed annual wage schemes?

XV.

1. Quote the Papal appeal to Catholics engaged in social action, taken from paragraph 138 of Quadragesimo Anno? (New translation 1942).

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