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THE GUARANTEED ANNUAL WAGE AND UNEMPLOYMENT COMPENSATION

BY ERNEST J. EBERLING*

The recent demands of the CIO unions for the guaranteed annual wage have aroused considerable interest in this issue among those concerned with labor-management relations. Several factors have accentuated this interest. First, during 1954 when these demands were being pressed with considerable vigor, a recession had developed, resulting in a considerable increase in unemployment levels. Second, these demands were made on mass production industries manufacturing durable goods which are subject to wide variations in demand and output during periods of cyclical change. Third, the recent proposals are taking a form quite different from the existing plans, namely, they propose an integration with the nation-wide unemployment insurance system. Fourth, the guaranteed annual wage is being offered as a significant approach to the problem of depression unemployment during a period in our history when the national government is already committed to a policy of maintaining high level employment and utilizing all means available to attain that end.¹ Finally, demands for the guaranteed annual wage come at a time when the economy is served by a nation-wide unemployment insurance system which has been in effective operation for the past 15 years.

A policy statement outlining the position of the unions with respect to this issue was made by the 1953 Convention of the United Automobile Workers Union as follows:

“(1) The primary goal of a guaranteed annual wage plan should be to stimulate management to provide steady full employment, week by week, the year round.

“(2) Guaranteed annual wage payments should be made to workers for whom management fails to provide work in amounts sufficient to insure take-home pay adequate to maintain the living standards which the worker and his family enjoyed while fully employed.

“(3) All workers should be guaranteed employment or guarantee payments from the time they acquire seniority. The guarantee should assure protection against a full year of layoff for all eligible workers and for shorter periods on a guaranteed basis for those who have not worked the minimum qualifying period.

“(4) Guarantee payments should be integrated with state unemployment compensation benefits so that employers can reduce their liabilities by

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1. See, for example, Employment Act of 1946, 60 STAT. 23 (1946), 15 U.S.C.A. §§ 1021-1024 (1948).

effectively working toward the improvement of State laws.

"(5) The plan should be administered by a Joint Board of Administration having equal representation from the union and from management, with an impartial chairman to break deadlocks. Decisions of the Joint Board with respect to eligibility and disqualification should be made independently of decisions made by State agencies with regard to unemployment compensation.

"(6) Financing should combine pay-as-you-go, to provide employers with incentives to stabilize employment, with a reserve trust fund to meet abnormal costs. Provision should be made for reinsurance to reduce the size of the required reserves and to spread the risks of abnormal unemployment over the widest possible area of the economy."²

This statement of policy was supported by the following claims:

"(1) GAW plans will help assure continuing full employment and full production in peacetime without loss of democratic freedoms.

"(2) Powerful business groups, when they find they have to pay a substantial part of the cost of unemployment, will find ways to reduce unemployment.

"(3) The cost of wage guarantees can be reduced by gearing them to unemployment insurance in a way that will help both programs.

"(4) Current CIO proposals would accordingly provide a substantial guarantee without undue cost to employers.

"(5) Guarantee annual wage plans will strengthen, not weaken, the nation's economy and business system."³

This statement of policy and supporting arguments makes it clear that what the CIO is demanding is the payment of out-of-work benefits about equal or nearly equal to a worker's full time weekly wages for a maximum of 52 consecutive weeks in any period of unemployment. The many advantages claimed for this proposal, such as the reduction of unemployment, that it can be made effective without undue cost to employers and that it will strengthen the nation's economy by maintaining purchasing power, make attractive arguments to the worker who, above all else, is job conscious and fears unemployment like a plague.

Then, too, it is hard particularly for the factory worker to understand why the white collared worker is usually paid on an annual salary basis while he is paid by the piece, hour, day or week. From the biological point of view, he has the same necessity for a regular income to satisfy his physical needs. Why should he be paid any differently? This is a simple and attractive argument which will probably be used in promoting the guaranteed annual wage.

It is to be expected that these demands of the unions will be exam-

2. *Guaranteed Annual Wages*, 14 *ECONOMIC OUTLOOK* 73, 75 (1953).

3. *Id.* at 77-80.

ined carefully by both management and students of the problem of labor relations. Demands similar to these were presented to the managements of some of the largest industries in the country during 1954. Similar demands will be made of the big automobile companies when the new contract negotiations begin in 1955. It seems certain that many controversial issues will develop as these demands are debated pro and con across the bargaining table.

Wage and employment guarantees are not new in American industry. As early as the 1890's, such guarantees were collectively bargained in the wallpaper industry. Following this, and especially during the 1920's, many such plans were adopted by employers unilaterally, for both humanitarian and economic reasons. Some noteworthy achievements were attained by management in overcoming seasonal irregularity of operations and in providing steadier jobs for employees.

In addition to such devices as diversified production, stockpiling, the development of new products and markets, and improved planning and control of production, at least three different types of guaranteed wages or employment were developed:

- (1) The guaranteed annual wage plan such as that of the Hormel Company which assures employees of a specified minimum annual wage, regardless of the amount of work available on any specific working day.
- (2) Guaranteed employment plans typified by the Procter and Gamble Plan which guarantees a minimum amount of work at specified rates.
- (3) Guaranteed purchasing power plans like that of Nunn-Bush which propose to adjust wage rates to whatever extent necessary to maintain employment and an even flow of real wages to employees.

Many of these plans fell by the wayside during the Great Depression of the 1930's. The severe unemployment of these years did, however, maintain interest in efforts to achieve some stability and regularity in employment. For example, the Fair Labor Standards Act,⁴ which became law in 1938, specifically exempted employers from paying overtime for weekly hours of work in excess of 40 under collective bargaining contracts which guaranteed annual employment.⁵

An examination of the long record of attempts to guarantee employment or wages preceding the recent union proposals for the guaranteed annual wage reveals several pertinent highlights:

- (1) Practically all of these plans were initiated by employers who did not offer a guarantee extending beyond the employment which was anticipated in any event. These plans were not expected to take care of cyclical fluctuations. They stressed employment, not unemployment benefits. Employment stabilization planning always preceded a guarantee—

4. 52 STAT. 1060 (1938), 29 U.S.C.A. §§ 201-219 (1947)

5. The Hormel Plan uses this provision to advantage.

and the guarantee was not given unless there was real promise of effective stabilization.⁶

(2) In spite of all the good will, effort, initiative and intelligence which have been applied to this problem, employment and wage guarantees are not widespread, covering substantially less than 1 per cent of the working force at the present time. As indicated previously, a number of plans which were started in good faith withered away or became a casualty of business depression.

(3) Most of the plans in effect currently are found in industries which are not subject to a significant volume of cyclical unemployment. Thus, they exist to the least extent in the durable manufacturing industries which are the most sensitive to cyclical variations. One study shows that about two-thirds of the plans are in effect in the non-manufacturing industries, such as wholesale and retail trade and service activities, while those in the manufacturing group exist to the greatest extent in those industries producing consumer's goods such as food products, textiles, the manufacture of wearing apparel, soap and similar products.⁷

(4) The existing plans do not cover all the employees in each of the firms in question nor do they all guarantee work or income the year round. Then, too, the duration of the guarantee is also reduced by "safeguarding provisions" included in the commitment by management. For example: Many plans provide for the right of suspension in case of such events as fire, flood, an Act of God, explosion, lightning, a catastrophe, emergency, war, government orders, sale liquidation, bankruptcy, etc. The guarantee may often be modified or abandoned if the volume of business "falls below a certain point," or is reduced by a certain percentage. The suspension of the guarantee, or reduction, may be made with or without the consent of the union, with or without notice. Firms also tend to reserve the right to discharge an individual employee even if he is covered by the guarantee.

It is clear that the guaranteed annual wage has succeeded primarily and almost exclusively in industries where the demand for the product is fairly stable. Such variations as do occur are mostly seasonal which can be offset by various employment stabilizing techniques which are well known to industrial management.⁸ Actually the procedure becomes largely an exercise in mathematics, it is feasible and the result profitable.

Significant demands by unions for a guaranteed wage plan were not made until World War II. Undoubtedly the difficulty in effecting wage increases during that period which led to the development of many

6. See U. S. BUREAU OF LABOR STATISTICS, DEPT OF LABOR, BULL. NO. 925, GUARANTEED WAGE PLANS IN THE UNITED STATES (1947).

7. *Ibid.*

8. The Hormel Company, for example, contracts with its workers at the first of the year for a given amount of work. They then receive uniform weekly pay checks based on this amount. The hours worked vary considerably from one week to another. If, at the end of the year, employees have worked more hours than bargained for, they are given a bonus. If they have worked less than the minimum, they must make it up the following year. This kind of plan is undoubtedly practicable in many seasonal industries.

kinds of "fringe benefits," also stimulated demands for the guaranteed annual wage. Of course there were other factors also, such as the fear of widespread unemployment in the post-war period and the probable resulting declines in the membership and strength of the unions.

The first important demand of this kind came from the United Steelworkers Union (CIO) in December 1943. It requested that each employee of the respective companies in the steel industry with which it was conducting collective bargaining negotiations should be guaranteed a minimum weekly wage for each week during the period of the contract (two years). The minimum weekly wage was to be computed on the basis of the employee's straight-time average hourly earnings for the year immediately preceding the effective date of the new contract, or such portions thereof during which the employee may have been employed by the company, plus any general wage adjustment included in the new contract, multiplied by 40 hours. Union members employed after the beginning of the new contract were to have their minimum weekly wage determined by multiplying their straight-time hourly average rate for the first three months of employment by 40 hours. For each week during the life of the contract that the individual employee, unemployed for reasons beyond his control, did not receive a sum equal to this minimum amount, the company would make up the difference.

The union based its demand upon the contention that, with the then foreseeable rate of operations in the steel industry, the guarantee would cost nothing. They pointed out that since steel companies had benefited from governmental regulations allowing rapid amortization of defense plant and equipment, carry-forward carry-back provisions concerning excess profits taxes, a contract renegotiation law, etc., workers should also have some such concessions. The union further pointed out that *farmers*, under the Steagall Amendments to the 1941 legislation continuing the Commodity Credit Corporation, were being guaranteed 90% of *parity* price supports for most commodities for two years after the war (92.5% for cotton).

During the same period several other unions made demands for guarantees of employment, incomes or wages. Thus the United Automobile Workers (CIO) requested General Motors to establish a "postwar security fund" for unemployment payments, equal to the fund the company was setting aside for post-war contingencies. (As of September 1943, General Motors had put aside \$65 million in a contingency fund for post-war expansion.) The union proposed that the fund be jointly administered by the union and the corporation. Employees on established seniority lists and former employees returning

from the armed services for whom the company could not provide a full week's employment of at least 40 hours were to be paid supplementary allowances in addition to unemployment compensation. Unemployment compensation plus the supplementary allowance was to equal 40 hours of pay. This appears to be the beginning of proposals for private supplementation of unemployment compensation benefits.

Somewhat similar demands were made by the union in collective bargaining negotiations with the aluminum companies and by the United Electrical, Radio and Machine Workers of America Union in negotiations with the General Electric Company. The latter demand in substance, was as follows:

For the duration of the contract employees were to be guaranteed a *weekly wage for each week*. The guaranteed weekly wage was to consist of average weekly earnings of the last complete calendar quarter year of their employment and include any general wage adjustment which was negotiated or ordered during the life of the contract. Any payments which employees received as a result of the application of unemployment compensation laws were to be *offset against such guaranteed weekly earnings*.

Here again is the proposal that the guaranteed annual wage be integrated with unemployment insurance. None of these plans was accepted by management. The resulting dispute in the case of the United Steelworkers was certified to the War Labor Board in February 1944. It denied the request of the union for the guaranteed annual wage but recommended that the President appoint a commission to study the problem.⁹

Subsequent to this, the Office of War Mobilization and Re-employment created a technical committee to study the issue and make recommendations. The committee pointed out in its report that none of the existing plans provided coverage for all employees in the firms having such plans, that some groups, usually those with the least stable employment were excluded, that employees became eligible only after a specified period of employment and that employment was not guaranteed on an annual full-time basis in many of the plans. The report concluded that reasonable wage guarantees could be provided by many industries although it suggested their integration with unemployment compensation.¹⁰

Numerous individuals and organizations conducted studies during the immediate post-war period to examine the experience to date

9. *In re Carnegie-Illinois Steel Corp. and United Steelworkers (CIO)*, 19 WAR LAB. REP. 568, 571 (1945).

10. See REPORT TO THE PRESIDENT BY THE ADVISORY BOARD, OFFICE OF WAR MOBILIZATION AND RECONVERSION, OFFICE OF TEMPORARY CONTROLS (1947).

and to determine the feasibility of further expansion to additional firms and industries.¹¹

The high levels of employment and payrolls which developed in the post-war period instead of the widespread unemployment which had been feared by many, resulted in a waning of interest in these proposals for several years. In 1951, however, the issue was given renewed emphasis by further demands made on the steel companies by the United Steelworkers Union which called for a minimum guarantee of 32 hours pay per week, based upon the employee's average hourly earnings, for any period of unemployment up to one year (52 weeks) following the employee's layoff or termination of employment by the employer. The employee's average hourly earnings were to be his average hourly earnings in a 26 weeks base period. Any payments received from unemployment compensation were to be deducted from this guarantee. Only employees with three or more years of continuous service with the company were to be eligible.

This proposal was later modified and redefined as follows: the minimum guarantee of hours was reduced to 30 per week, with payments limited to \$50-60 per week for 52 weeks of unemployment for employees with three or more years of continuous service. Employees laid off would be required to register with the United States Employment Service and unemployment compensation payments would be offset against the guarantee. Unemployment payments by the steel companies would be made from a trust fund financed by a cents per hour contributions by the company. The company's liability would be limited to the resources of the trust fund which was to be administered by a joint union-management policy committee. This demand was turned down by management, whereupon the dispute was brought before the Wage Stabilization Board. It refused to recommend to the companies that they put the proposal into effect. Despite the lack of progress made by the steelworkers, other unions soon joined in making similar demands. For example, the United Packing House Workers (CIO) in negotiations with meat packing concerns, demanded a guaranteed annual wage of at least \$3,000. In 1953 came the proposal of the United Automobile Workers Union for the guaranteed annual wage, although their contracts with the companies do not open for negotiation until the summer of 1955. Demands for the guaranteed annual wage were made in 1954 by the unions on the Westinghouse Electric and Manufacturing Company, the General

11. See, for example, KAPLAN, *THE GUARANTEE OF ANNUAL WAGES* (1947); SNIDER, *THE GUARANTEE OF WORK AND WAGES* (1947); U. S. CHAMBER OF COMMERCE, *THE ECONOMICS OF THE GUARANTEED WAGE* (1948); U.S. BUREAU OF LABOR STATISTICS, *op. cit. supra*, note 6; U.S. BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, BULL. No. 907, *ECONOMIC ANALYSIS OF GUARANTEED WAGES* (1947).

Electric Company and the United States Steel Company.

In the case of the Westinghouse Company, the International Union of Electrical Workers—CIO asked for the guaranteed wage to be financed solely by the company by a payment into a fund of 5 percent of payroll. Each employee of one year seniority or more would be given a guarantee of 52 weeks of 40 hours work or 2,080 hours of pay per year. No payments would be made from the fund until after 52 weeks of accumulation of payments and then only for layoffs beginning after that time. The company would not be liable for payments beyond the 5 percent of payroll. The trust fund would be administered jointly by a labor management board.

The same union made similar demands upon the General Electric Company. In both cases the guaranteed wage would be reduced by state unemployment compensation checks.

It can be seen from this brief review that the recent proposals for the guaranteed annual wage differ substantially from the guaranteed wage and employment plans of the past and those currently in effect. One of the most important of these differences is the proposal to coordinate the guaranteed annual wage with the unemployment insurance system on the assumption that the worker guaranteed, say, \$60.00 a week under the guaranteed wage and who is also entitled to receive \$30.00 a week from the unemployment insurance system, would actually receive the \$30.00 as unemployment insurance and \$30.00 a week from the employer under the guaranteed wage. By thus offsetting the unemployment insurance payment against the wage guarantee, the employer would be saved considerable costs according to the argument for this proposal. Moreover, the more liberal the insurance payment, the less would be the obligation of the employer under the wage guaranty. Hence, perhaps the reason why the unions claim the guaranteed annual wage would strengthen the unemployment insurance systems—by way of liberalization of benefits.

The steelworkers demand for the guaranteed annual wage was the first important effort of this kind in the post-war period. Undoubtedly their proposal to use the guaranteed wage as a supplement to unemployment insurance was influenced greatly by the preceding proposals for such supplementation made during World War II and by the Latimer Report of 1947 which recommended that wage guarantees ought to take the form of supplements to unemployment insurance.

There were also some other precedents for such a proposal. Thus in 1946, the International Ladies Garment Workers Union and the Philadelphia Waist and Dress Manufacturer's Association entered into an agreement covering about 12,000 employees in 275 shops, establishing a "Fair Income Fund." Employers contributed about 3½ per cent

of their gross weekly payroll into a fund which was jointly administered by the union and the employers' association. Unemployed workers could draw benefits not to exceed \$40.00 a week nor more than \$200.00 a year. *Workers receiving such payments were not excluded from receiving unemployment benefits.* The plan was terminated in 1952 mainly because employers would not contribute to both this plan and an old age pension scheme. However, while it was in operation, many employees received benefits both from the "Fair Income" fund and from unemployment compensation.

It should be noted, too, that the Bureau of Internal Revenue ruled in 1946 that employer payments to such a fund were ordinary and necessary business expenses, deductible under the provisions of Section 23(a) of the Internal Revenue Code; further, that such contributions did not constitute wages subject to withholding at the source, although payments to employees from the fund constituted gross income to the employee in the year received. Section 302(c)(5)(A) of the Taft-Hartley Act¹² appears to give Congressional approval for employer contributions to trust funds for the purpose of paying unemployment benefits.

Finally, the Social Security Act of 1935¹³ permits State unemployment compensation laws to grant a lower rate of contribution to employers who maintain guaranteed employment accounts under which all employees are guaranteed 30 hours of wages for each of 40 weeks in 12 months, with one weekly hour deducted for each added week guaranteed. Subsequently, a few States included similar provisions in their laws. All states have now repealed them however; provisions for experience rating under unemployment compensation having taken their place.

All of the demands for the guaranteed annual wage made since 1951 have proposed them as a supplementation to unemployment insurance. According to its announcements, the United Automobile Workers will make similar demands of the major motor companies this year.

This emphasis upon supplementation causes one to wonder whether the current drive for the guaranteed annual wage should be characterized as such or whether it is essentially a device to secure a more liberal unemployment insurance system. In fact, the UAW-CIO in its 1953 convention recommended that "guarantee payments should be integrated with State unemployment compensation laws so that employers can reduce their liabilities by effectively working toward the improvement of State laws."

12. STAT. 157 (1947), 29 U.S.C.A. § 186(c)(5)(A) (Supp. 1954).

13. 49 STAT. 644 (1935); INT. REV. CODE OF 1954 § 3303(c)(4)(A).

It is quite evident that the unions have borrowed from the private pension program, the idea of supplementation of business payments by government funds, thus providing employers with an incentive to liberalize Federal and State laws. The analogy is not very good, however. The coordination, for example, of private pensions with Old Age and Survivors' Insurance appears to be quite different from the coordination of the guaranteed annual wage with unemployment insurance.

In respect to the former, payment of benefits are made on the assumption that the worker has retired. No incentive to seek work is involved. Hence, there is no inconsistency in paying him both a private and a public benefit. But in the latter case, the basis of the unemployment insurance system is that the individual claimant must remain in the labor market and actively seek work. Therefore, it is a uniform condition in all States that benefits under unemployment insurance necessarily result in some wage loss so that the unemployed worker will have an incentive to seek work and not take a "free ride."¹⁴ If, however, a worker received full pay, or nearly that, while idle for a 52-week period, it is assumed that he would not have much incentive to seek a job elsewhere and the whole system of unemployment insurance might well break down. Indeed, it is quite possible that benefits this generous would develop the urge to make a career out of collecting them. In fact, under such conditions workers with the most seniority might consider it a privilege to be laid off first.

There are other serious problems involved in coordinating the guaranteed wage with unemployment insurance. One is that it could not be put into effect unless the present State unemployment insurance laws were amended. This is because of the effect of the guaranteed payment in a given week upon the unemployment insurance payment for the same week. Wages are generally defined in the state unemployment insurance laws as including all remuneration for services from whatever source—vacation pay, dismissal pay, bonuses, commissions and wages in lieu of notice.¹⁵

In the states where this question has risen, guarantee payments have been regarded generally as wages and an unemployed worker who received a guarantee payment equal to, or in excess of, his weekly benefit amount has been declared ineligible for an unemployment insurance payment for that week. Those receiving a weekly guarantee less than their respective weekly benefit amounts under unemployment

14. Generally workers receive weekly benefits equal to about 50 percent of their full-time weekly wages, except for those receiving the maximum benefit amount which is frequently too low in terms of their weekly earnings to give them the same proportion.

15. *E.g.*, TENN. CODE SUPP. § 6901.2 L (1950).

insurance were usually paid the difference. Thus it would appear that if guarantee payments are construed as disqualifying income, the states would have to amend their laws in order to make integration possible from a legal standpoint.

The issue, however, is even broader than this; should, for example, guaranteed wages be considered as insured payroll for tax purposes and, further, as a basis for acquiring future benefit rights? If such is the case, then employers would have to pay unemployment insurance taxes on the guaranteed wages paid during periods of unemployment; further, such wages would constitute wage credits for another round of benefits.

Then, too, there is the problem of disqualification. Who is going to make determinations of disqualifications? The unions are on record as taking the position that they will not accept the determinations made by the unemployment insurance agencies as to whether or not a claimant is eligible to receive benefits, but will demand an independent grievance—appeal machinery of their own. Hence, under most guaranteed annual wage proposals, an independent decision-making and appeals procedure would be established. Obviously, many controversies would arise under such an arrangement. Certainly the determination of eligibility for benefits is a basic function of the unemployment insurance agencies under the law. They cannot transfer this authority to an independent board, nor could they accept the decisions of such a board unless they were compatible with the law and precedent governing the administration of unemployment insurance.

The questions which will come before such boards involve such issues as: should a worker who voluntarily quits his job be entitled to unemployment benefits? Suppose he is discharged for misconduct; or he refuses to accept a job which is offered him on the grounds that it does not constitute suitable work; or perhaps he has made no effort on his own account to find work. Likewise, the issue might be one involving the question whether he has retired from the labor market by making himself unavailable for work.

These issues constitute the most difficult area of administration in the unemployment insurance program. Since its early beginnings, the unemployment insurance agencies have built up a body of precedents based upon the statute law which governs the decisions in these cases. Thus, public policy as developed in innumerable discussions and meetings with representatives of the public, employees, and employers concerning these issues and expressed in the law, is made effective by the administrative determinations of the agency. Any worker who thinks the decision unfair in his case may appeal it to a higher tribunal without cost to him.

It is important to note that the State law and precedents governing these decisions are based upon the principle of providing *uniform* treatment for claimants based upon broad economic and social considerations. On the other hand, the employment relationship in a given industry involves a special jurisprudence and code peculiar to that industry and its employees.

As an example, consider the problem of seniority. Seniority rights have been built up for years by members of the union in individual plants. The man with the greatest seniority is the last to be laid off and the first to be hired. Now how do the State UI agencies view this? Actually, for the most part they ignore seniority in placing unemployed workers in jobs. They operate on the basis of two principles: (1) the best qualified man should be referred to a job; and (2) they test willingness to work by the work test in order to avoid improper benefit payments. Thus, as a public agency, the UI office deals with a *pool* of workers and it is inherent in UI policy that a claimant be available for suitable work which is offered him by an employer.

It might be proposed, of course, that in cases where a worker under State rules could not draw State benefits, for example, because he refused certain kinds of work, quit voluntarily or was ruled unavailable for work, he could nevertheless receive GAW because the union contract recognized his eligibility rights, and the board therefore would rule him eligible. But consider what this would mean. The board would first have to ascertain whether the worker was entitled to State benefits and if not, to company benefits. If the general criteria for eligibility as expressed in State laws were followed by the board, as proposed, the facts in each case would have to be investigated to determine whether the claimant was "available for work," "has refused suitable employment," etc. Would the board operating under the GAW seek information from other employers concerning the question whether the claimant had refused or accepted a job offer, whether prevailing wages were offered him, whether he had good cause for refusing a job offer from another plant? Or one might ask, would the board attempt to refer the claimant to jobs?

Another issue involved in the integration of the guaranteed annual wage with unemployment insurance focuses on the question whether it is wise either from the point of view of maintaining a sound unemployment insurance program or from the standpoint of social welfare to set up two classes of recipients of unemployment benefits: one receiving a combined weekly payment from insurance and guaranteed wage approximately equal to the full time weekly wage and, the other, receiving only the weekly benefit amount under unemployment insurance—about 50 percent of the full-time weekly wage?

Many inequities can develop from this situation. Suppose, for ex-

ample, a certain state has a \$30.00 weekly maximum insurance benefit amount and that it has amended its unemployment insurance law to except guaranteed wage payments from the definition of wages in the determination of "unemployed" status. Let us assume that employee A and B each receive \$60.00 weekly entitling them to a \$30.00 weekly benefit amount under unemployment insurance.

Employee A is under a 100 percent benefit supplementation plan, while employee B is not so covered. Both of them are laid off, serve the required waiting period and then claim benefits at the local employment office. Employee A reports that he is to receive \$30.00 from his employer covering the past week of unemployment. Nevertheless he is considered totally unemployed and receives \$30.00 state benefit giving him a total of \$60. Employee B reports that he had two days work in the past week and earned \$30.00. No benefits are allowed him since he had wages equal to benefits. His total income for the week is \$30. In a later week he reports that he had one day's work and earned \$15. He then receives \$15.00 in insurance benefits bringing his income for the week up to \$30.

The result then of integrating the guaranteed annual wage with unemployment insurance would be set up two classes of claimants: (1) a small minority who would be entitled to receive full pay while unemployed up to a year, and (2) the vast majority who would only be entitled to about one-half their weekly pay up to a limit of 20-26 weeks while unemployed.

Sumner Slichter in commenting on this aspect of the proposals said recently "The principal objection to the union proposals for supplementary unemployment compensation is that it makes quite uneven provisions for the unemployed. The supplementary unemployment compensation is not available to unorganized workers. Since pooling of reserves and liabilities is probably not feasible in the case of privately negotiated plans, the union plans are likely to result in the most adequate provision where the need is least and the least adequate provision where the need is greatest."¹⁶

Finally, an argument which is frequently used to support the integration of the GAW with the UI system, is that the employer's costs under the GAW will be minimized. This is difficult to follow since the employer who finds himself under the GAW will also *continue to pay his UI taxes*. If the proportion of the GAW which is paid by the UI system should be increased, it is likely that his tax rate under this system would be increased. In fact, it is quite possible that under the GAW the general level of UI tax rates would rise. The economy of a number of States, the New England section and Tennessee, for example, is such that a third to a half of the insured unem-

16. DAILY LABOR REPORT No. 31, Feb. 15, 1954.

ployment comes from such industries as textiles, the manufacture of wearing apparel, trade and services. These industries have large unemployment costs year after year, most of which is frictional in character. Firms in these industries are characteristically small units. Many of them are already paying a high unemployment tax rate to the UI system. If the general level of tax rates under the UI system should rise as a result of the impact of the GAW in the heavy mass production industries, "small business" as represented by these industries would be placed in the position of subsidizing the large mass-production industries.

Another major difference between these proposals and existing plans for the guaranteed annual wage is that the current demands for guaranteed wages are being made in the case of industries having sharp cyclical variations in demand and consequently, in production. As already noted, the plans now in existence are found almost exclusively in industries having a fairly stable demand for their products—mostly those in the non-manufacturing group. Industries now affected by these demands include automobiles, steel, aluminum and electrical equipment producers.

The steel industry, which negotiated with the union concerning this issue in 1954, was operating at that time at about 65 percent of the production level of the previous year. A leading authority on business cycles has stated, "The steel industry cannot do much to stabilize itself because it cannot by itself stabilize the demand for steel. This has to be done, if at all, by industries that consume steel . . . whether this degree of organization can be brought about without going so far as to make the system of private enterprise impossible is a question that can only be answered by the process of experiment. At the least, the change would be an evolutionary movement going a long way toward a system decidedly different from private enterprise as we now understand it."¹⁷

A noteworthy study was made of fluctuations in the case of the automobile industry by Professor Edwin S. Smith as early as 1931.^{17a} This industry is affected by both wide seasonal and cyclical variations, the latter intensifying the former. He discussed the efforts which the automobile companies had made; even by this early date, to stabilize their production and iron out seasonal changes in production and employment, such as, advancing the time of new model showings, which as he indicates "does not appear to have exercised a marked effect in leveling the sales curve as a whole." He pointed out that, for many reasons, the production of automobiles must conform to sales. Some of these reasons are: the impracticability of manufacturing in the dull

17. CLARK, *STRATEGIC FACTORS IN BUSINESS CYCLES 196-97* (1934).

17a. SMITH, *Reducing Seasonal Unemployment* c. xiv (1931).

season and storing the cars because of risk of fire and other damage, uncertainty as to what changes will be incorporated in new models, the need to take advantage of new inventories as soon as they appear and the ability to meet price reductions as they occur.

Further, he indicated that automobile manufacture had become such a specialized process that any attempt to achieve greater stability in production by undertaking the manufacture of other products in the same plants and with the same workers appeared to be utterly impracticable.

With respect to cyclical variation, Smith concluded that "the fear of a business recession is necessarily, and rightly, present in the mind of the automobile manufacturer who might be contemplating a program of advance production."

It seems inherent in the union proposals that industries like steel can effect the necessary stabilization of demand which usually precedes the offer of a guaranteed wage. It is asserted, for example, that these proposals "would accordingly provide a substantial guarantee without undue cost to employers" and that "powerful business groups, when they find they have to pay a substantial part of the cost of unemployment, will find ways to reduce unemployment."¹⁸

As already noted, these statements may have validity when applied to industries with relatively stable demand or to some of those subject primarily to seasonal fluctuations. Experience has shown, as indicated previously, that many firms in this latter group of industries can provide guaranteed wage plans without much difficulty. As Hansen and Samuelson have pointed out, "By undertaking guaranteed wage programs and stabilization planning, individual firms can do much to iron out their seasonal and other irregular rhythms of employment and thus minimize the costly wastes of unemployment."¹⁹ But it is a different matter to assume, that employment stabilization can likewise be affected in such industries as steel and others manufacturing durable goods. Here the weight of evidence appears to be opposed to the idea that a financial stake for instance, can result in significant stabilization of production. Hence, any employer in these industries who makes his wage bill a fixed cost for a year in advance, assumes a considerable risk, the extent of which increases with the cyclical variability of demand and the proportion which wages comprise of total cost. Indeed one wonders how the actuaries would compute the costs. Of course, the company liability could be limited by a provision requiring that a fixed percentage of the payroll be paid into reserves

18. *Guaranteed Annual Wages*, 14 *ECONOMIC OUTLOOK* 73, 77 (1953).

19. Hansen and Samuelson, *Making the Annual Wage Work*, New York Times Magazine, July 13, 1947, pp. 12, 35.

each year. What assurance is there, however, that a limit of this kind would provide an adequate reserve? And what would be the results if reserves proved inadequate and a number of workers were laid off for whom no benefits were available?

The truth of the matter is, depression unemployment is an all-pervasive risk arising out of forces over which the individual employer has little or no control. That is one reason why Congress saw fit to make provision for a nation-wide unemployment insurance system and further to enact the Employment Act of 1946. In view of stated national policy, it may be expected that the Government would move in quickly with a whole battery of measures to offset the effects of sharply rising and widespread depression unemployment. It may be said, therefore, that the problem of the level of economic activity is far beyond the scope of labor-management relations. It also seems equally clear that the causes and cure of the business cycle lie outside the labor-management relationship.

A third major difference between the current guaranteed annual wage proposals and existing plans is that the former do not include the various "safety" measures which are included in the latter.²⁰ Thus, for example, the provision that the employer may cancel the plan if sales decline by a certain percentage is not envisioned in the current proposals. Yet it is obvious that such a provision would be of great importance to an employer in a durable goods manufacturing industry who is suddenly caught in the downswirl of a business slump with a resulting decline of 30-40 percent of production as occurred in the case of the steel industry in 1953-54.

In support of the current proposals the unions have resorted to the purchasing power argument, namely, that the guaranteed annual wage will help maintain purchasing power and thus check the development of a depression. The guaranteed wage is thus held to be one of the answers to the business cycle. One of the leading spokesmen for these proposals has described them "as a matter of economic necessity in order to maintain full production and full employment and to avoid a disastrous depression." Another has called the guaranteed annual wage "insurance against depressions."

It is obvious that these arguments will constitute a strong appeal both to union members and the public. The memories of the Great Depression are still vivid in the minds of many, and a proposal which promises this result should be scrutinized carefully.

The term "purchasing power" is often used very loosely and incor-

20. For a description of these, see AMERICAN MANAGEMENT ASSOCIATION, ANNUAL WAGE AND EMPLOYMENT STABILIZATION TECHNIQUES, Research Report No. 8, p. 22 (1945).

rectly. Thus it is often regarded as the total money income in the economy. In a more limited sense, it is considered as the money income of workers. Neither view is correct. Rather, purchasing power should be considered as the quantity of goods and services which can be bought with the money income received by *all* individuals in the economy. It is, therefore, a measure of the relationship between *aggregate personal income* and the *price level*. The aggregate personal income includes all forms of income—rent, interest and profits as well as wage and salary income. The view rather widely held, therefore, that underwriting private consumption especially on the small scale envisaged by the GAW would necessarily ensure high levels of employment is not correct. It fails to recognize the dynamic role of investment and savings. Wage and salary income, furthermore, depend on the volume of employment as well as the level of wage rates.

Thus, there are several determinants of purchasing power: (1) money wage rates, (2) the volume of employment, (3) the size of non-wage incomes, and (4) the level of retail prices. Another might be added, namely, the desire and willingness of individuals to spend rather than to save. A change in any one may result in offsetting changes in one or more of the other factors.

Would the current proposals then contribute significantly to checking a depression by maintaining purchasing power?

Obviously, the GAW would constitute additional wage costs in the nature of a fixed overhead expense. Further, to the extent that unemployment occurred under this plan, the management would be required to pay for idle time. The extent of the risk would be governed by the proportion of the work force covered by the guarantee, the duration of the guarantee, the amount of income guaranteed to the worker and the amount of unemployment experienced under the plan. The risk could be considerable and the costs heavy.

In answering the question as to the effects of the GAW upon purchasing power it is important to emphasize, first, that benefits under this plan would constitute such a small segment of the total consumption income as to be relatively insignificant so far as purchasing power throughout the economy is concerned. Secondly, if benefits were financed by reserves withdrawn from distribution during periods of high level employment, they could reduce consumption at such times, thus exerting a strong influence toward deflation and hence toward unemployment. If such reserve accumulation materially reduced profits, a similar result might develop from lessened investment and capital expansion or replacement.

Somewhat similar effects could be expected, as Slichter has pointed out, from "pay-as-you-go" plans. In this case managements would likely strive to maintain a high liquidity of assets, which in turn, would

tend to restrict the financing of expenditures for replacement, product research and the introduction of new ventures.

Investment expenditures constitute an important and the most dynamic component of money income and if they shrink because of the risk involved in making new ventures, then national income will shrink with resulting unemployment. It is, in other words, quite possible that the adverse effects upon the average level of net investment over the period of a complete business cycle would be far greater in reducing purchasing power than gains to be achieved by an increase in consumption resulting from the GAW.

When we add to this argument the considerations involved in reference to the psychological aspects of the cycle such as the tendency of persons to save rather than to spend in periods of incipient price declines, it would seem highly questionable that the current proposals for the GAW could have any significant effect in checking the course of a cyclical decline.

One possible development if management assumed the risk of making its payroll a fixed overhead expense as involved in the GAW might be that it would decide to reduce its payroll to a level which it considered "safe," thus laying off a number of employees. Work would then be stabilized for a smaller proportion of the work force. It is, therefore, possible that a number of workers would find that they were stabilized in a condition of unemployment. Such shrinkage of payrolls would have also an adverse effect upon "supplier" plants and upon the economy as a whole.

Finally, the probable effects of the GAW upon the price level should be noted. If the costs of production are materially increased as they undoubtedly would be by the GAW, then product prices would tend to rise, which in turn could cause the demand to shrink with resulting reduction in production and increased unemployment.

Of course, if the Government footed the bill there would be less doubt that the guaranteed annual wage would add to total spending power; but neither management nor labor has made this proposal. It is the mass shrinkage of expenditures which constitutes the main problem of the business cycle.

Another aspect of this argument relates to the question—how many workers will have their incomes augmented by the guaranteed annual wage? It is questionable as pointed out previously that any considerable segment of consumer purchasing power could be directly sustained by guaranteed wages.

To effect a wide enough coverage to materially influence purchasing power, it would necessarily be assumed that it is not individual firm stabilization that is conceived, but presumably industry-wide stabiliza-

tion. Such an application of these plans might entail, as one authority puts it, "Collusive action or a degree of cooperation among competitors beyond the limits permitted by present public policy."²¹ It would necessarily involve considerable government intervention, which, it has been suggested, might better be directed in other directions which would contribute far more to stabilizing employment.

Two leading economists have said this of the guaranteed annual wage: "Unequivocally, therefore, we reply 'No' to the question as to whether the guaranteed wage is a panacea for the business cycle or even a major weapon in the battle for sustained employment."²² They have stated further that it cannot be relied upon to cure the unemployment experienced by our free enterprise system and that it cannot be regarded as a substitute for our social security system or the full employment program as outlined in the Employment Act of 1946.

There would appear also to be serious problems for the unions involved in these proposals. One relates to seniority. Apparently the greatest amount of protection would be given to workers with long seniority. Yet they are the ones who need it the least. How much protection can be given to workers with low seniority?

It may be expected that the unions among the mass production workers will press for coverage of most low seniority workers. They could hardly afford to do otherwise. In this event the long seniority workers will wonder what they are going to get out of this proposal. In many instances they will very likely get the amount of employment guaranteed regardless of the plan. However, if the plan should prove to be costly, as it probably would, they might well have to forego wage increases because of it. The accumulation of a trust fund might intensify their resentment as they realized that they might never receive any payments from it. Their status here would be quite different from that in respect to the accumulation of pension funds where workers who stay on can look forward to future benefits.

In conclusion, it should be recognized that the worker's desire for job security is fundamental and that management has a real obligation to develop stabilization techniques wherever possible. Such efforts where successful represent a gain to the worker, management and the community. Management already has abundant incentive to stabilize production. In addition to possible gains in worker morale, reduced turnover of personnel, and higher worker productivity, it stands to gain from considerable reductions in tax rates under the unemployment insurance system. Thus, industries which are highly

21. U.S. BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, BULL. No. 907, *ECONOMICS ANALYSIS OF GUARANTEED WAGES* 56 (1947).

22. Hansen and Samuelson, *supra* note 15, at 35.

unstable in production operations are already paying a high cost for this condition in the case of their unemployment insurance taxes. Success in the immediate future in stabilizing production would seem to lie mainly in that area where demand for the products of individual firms fluctuates within a relatively narrow range. Thus, manufacturing plants producing stable consumer goods, and the marketing and service industries would appear to afford the greatest opportunities in this direction.

Cyclical variations constitute a great obstacle to the spread of annual wage plans. The adoption of such plans might well cause not only grave difficulties for those firms affected by considerable unemployment risk arising out of such variations, but also lead to drastic changes in our economic institutions, which even the supporters of the guaranteed annual wage might not desire.

Finally, the proposal to coordinate the guaranteed wage with our federal-state unemployment insurance system involves many serious issues, one of which could be a significant weakening of the whole system. There are formidable obstacles—both legal and administrative—to such coordination. Furthermore, certain basic principles of unemployment insurance are involved in this proposal, not the least of which concerns the incentive to work. Where this system is in need of strengthening and liberalization, would it not be a more effective approach to the problem of unemployment to make direct efforts to that end? Mass unemployment resulting from cyclical declines in industrial and business activity can be effectively coped with only on the basis of a broad front of activity, not by a firm-by-firm approach. It was in recognition of this fact that the nation-wide unemployment insurance system was established. It already provides substantial wage guarantees against unemployment to some 40 million insured workers. With the exception of two states the costs of this program are financed solely by taxes on employers. With current reserves of over \$8 billion, it is helping greatly to alleviate privation caused by the recent increase in unemployment.

But this system can only lighten the first shock of a cyclical downturn. Beyond this a whole battery of measures may be needed which promise help to all workers, not to a small minority.