The Social Philosophy Of The Guaranteed Annual Wage

Hans Langen
Carroll College

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THE SOCIAL PHILOSOPHY
OF THE
GUARANTEED ANNUAL WAGE

A THESIS
PRESENTED TO THE FACULTY OF CARROLL COLLEGE

IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE
BACHELOR OF ARTS

By
HANS HERBERT LANGEN
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ACKNOWLEDGMENTS

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Statement of the Problem

The main object of this study is to find out how the Guaranteed Annual Wage (hereafter to be shortened to GAW) fits into the Catholic concept of Social Philosophy. To this purpose the Thesis is organized under five subheadings, each of which constitutes one chapter.

Chapter II: An Inquiry into the Basic Principles of Social Philosophy Stressing Human Rights, their Exercise and Protection.

Chapter III: A Short History of GAW up to the Present Time.

Chapter IV: Arguments For and Against GAW.

Chapter V: The Basic Principles of Social Philosophy Applied to GAW.

Chapter VI: Summary and Conclusion.

Need and Timeliness of the Study

There is a definite need to consider the socio-philosophical aspect of GAW. Labor Unions, Employers and Economists - each of these groups have made important contributions to the discussion on GAW. The unions succeeded in achieving a guaranteed semi-annual wage in the auto industry in 1955. All the major producers in this field - General Motors Corporation, Ford Motor Company and Chrysler Corporation - accepted the principle of GAW. For 1956
the labor unions announced as their goal the winning of GAW in the steel industry.

With the unions thus pushing the GAW issue, big business in general reacted unfavorably to GAW demands. Management succeeded frequently in avert­ing GAW demands by generous pay raises, profit sharing plans and ownership sharing plans.

Stimulated by these controversies, the attention of the general public and of the interested parties has been focused on the economics of GAW. Thus there was a real danger that the socio-philosophical aspect of GAW might be overshadowed by purely economic considerations. To remedy this situation is one objective of the present study.

Definition of Terms

In order to avoid misunderstanding the author found it necessary to define certain terms:

Social Philosophy - The study of man in his relations to other men from the point of view of his ultimate end.

Guaranteed Annual Wage - A plan guaranteeing to workers a specified minimum wage for the time of one year, to be paid by the employer.

Terms of minor importance will be defined where they first occur.

A bibliography is to be found at the end of the Thesis.
CHAPTER II
AN INQUIRY INTO THE BASIC PRINCIPLES OF SOCIAL PHILOSOPHY
STRESSING HUMAN RIGHTS, THEIR EXERCISE AND PROTECTION

The basic principles of Social Philosophy are stated very clearly in the "Code of Social Principles" by the Catholic Social Guild of Oxford. These are:

1. "Man is immortal - not human society, but each individual man is created in the image and likeness of God.

2. "It is not true that man is sufficient unto himself. No one, however gifted, can maintain his existence or perfect his mind and heart save in the society in which he is called to live.

3. "Man has a personal destiny, society is for him the necessary means that helps him to attain his proper end. His rights flow from his nature, but they are subject, on the part of society, to certain limitations which community life imposes."

Without diminishing the importance of Points 1 and 2, it must be said in the present paper that Point 3 has a central position. If society is an absolutely necessary means for man's perfection, it follows that society must be conducive to such perfection or at least does not offer obstacles to perfection.

In looking at economic society specifically, we will observe that it does not conform to these criteria. How can this situation be changed? Economic activity is governed by laws and patterns of organization. As economic laws possess some stability, the best chances for improvement lie with a reform of economic institutions.

This was clearly seen by Pope Pius XI who stressed again and again the need for reform of the institutions of economic society. Fr. Cronin summarizes the Pope's attitude very aptly:

"Social legislation and other improvements, while welcome, are basically palliatives so long as the institutions of economic society are in themselves deeply infected with injustice."
Consequently, justice must become the basis upon which economic institutions should be founded. What is justice? St. Augustine defines it as "the virtue which gives to everybody his due." St. Thomas says, "Justice is a habit whereby a man renders to everybody his due by a constant and perpetual will."

From these definitions, it is clear that justice is a virtue which regards others. What does justice regard in others? It regards the fundamental rights which flow from the nature and essence of each human being. Bishop Haas defines natural rights as "those which a person possesses by the fact that he or she is a person. They are of two main classes:

1. Those rights which protect a person against sudden or violent death by an unjust aggressor, and
2. Those which protect his title to normal growth and development."

Bishop Haas continues:

"The first (class of rights) protects against death inflicted instantaneously or within a few hours; the second, against death induced before the normally expected time. Inasmuch as the latter type of death is death no less than the former, it represents an attack on the person's right to live."

This right to normal growth and development of a human personality embraces both the title to spiritual and physical development. The protection of these rights is the primary objective of the state and of economic institutions within the state. Fr. Cronin sets forth a twofold purpose of economic life. It should

1. provide man with the necessities for survival and the foundations for cultural and spiritual life. It will achieve this when every willing and able worker can earn at least a stable, decent wage for himself and his family, and
2. it should furnish, insofar as possible, opportunity for individuals to develop and utilize their personal talents."
Fr. Cronin calls for a "stable, decent wage". A stable wage is one on which the worker can rely for a considerable amount of time - a stable wage is a secure income. A secure income has a significance far beyond the assurance of the daily bread. This security is a condition for man's spiritual and cultural development. The author agrees, therefore, fully with Professor Dougherty in saying,

"Security and income - these are the outstanding economic problems of human beings today."  

Professor Dougherty distinguishes five aspects of security:

"(1) Continuance of life
(2) Continuance of a place in the esteem and affections of others
(3) Continuance and assurance of a means of livelihood
(4) Self expression
(5) Enjoyment of leisure"

In this light security assumes a new, a central importance. It becomes one of the most important means to the perfection of our humanity. Man must be able to count on certain aspects of his life as remaining unchanged. Even if changes should be desirable, he prefers to prepare for these changes and thereby to control them. It can be said safely that the desire for security is deeply imbedded in human nature and, consequently, security is a natural right of man. The restless searching of the human mind for truth is an expression of the intellect's desire for security. The strong attraction of young people of different sexes to each other is not love, but a natural desire for emotional security. This security is found in marriage.

What faith is for man's intellect, what marriage means for his emotions, that is done by the daily job for man's material needs. To quote again from Professor Dougherty,

"The daily job is man's chief concern because in it, more than in any other thing, he finds security or insecurity. Through the daily
job he receives income which permits him to satisfy his material wants. In it and through it he finds or fails to find social recognition and self-expression. Small wonder that security of job tenure is one of man's greatest needs and problems."

There is, however, a still more obvious moral aspect of security. "Insecurity brings about an unhealthy preoccupation with material goods," says Fr. Cronin. Economic order must always be essentially subordinate to the spiritual order. Since the worker offers his daily work as the only normal means he has for a human, i.e. physical and moral existence, the permanence of this means must be protected.

Having established the central rule of security, the question arises as to how security is to be achieved. Fr. Becker approaches this problem by dividing economic security into three distinct layers. The first layer is the floor below which society will permit no one to fall. It is the duty of the highest temporal society, the state, to provide for this security. This security is a minimum protection consisting of assistance programs based on a needs test and of unemployment insurance. The second layer of security serves to protect an existent standard of living, which enables man to live a reasonable life. This standard must be maintained, not by the state, but by private group action. Examples for this type of security in our economic system are strike benefits, dismissal wages, seniority provisions and GAW plans. The third layer is provided by each individual for himself and consists of savings and help from friends.

Only few individuals still contend the worker's right to income security. There is, however, considerable disagreement as to who takes over the responsibility. It is, therefore, necessary to elaborate on this point. The big problem is whether the state or private groups should provide income security. In solving this problem the social encyclicals of Leo XIII and
Pius XI are of great help. Pius XI writes,

"Just as it is wrong to withdraw from the individual and to commit to the community at large what private enterprise and industry can accomplish, so, too, it is an injustice, a grave evil and a disturbance of right order for larger and higher organizations to arrogate to itself functions which can be efficiently performed by smaller and lower bodies." 12

This precise authoritative statement reduces our problem to the question:

Can private group action efficiently provide for income security? The author will attempt to answer this question in Chapters V and VI of this Thesis.

Before concluding this chapter, it is necessary to deal briefly with the organization of economic society. Since the end of the 19th century there has been a definite trend toward concentration of economic power in the hands of a few. The great danger of this development was already clearly perceived by Pope Pius XI.

"This accumulation of power, the characteristic note of the modern economic order, is a natural result of limitless free competition which permits the survival of those only who are the strongest, which often means those who fight most relentlessly, who pay least heed to the dictates of conscience." 13

Since 1931, when these words were written, the situation has become worse. Centralization of economic power and its domination by a few is an even greater problem today. It must be the objective of every economic reform to decentralize this power and to remedy the evils which led up to such an accumulation. The need for such a reform has been repeatedly stressed by our present pontiff. Fr. J. F. Cronin maintains that centralization of economic power today is the most important problem confronting the papacy as the guardian of moral order.

"Pius XII is preoccupied with the need of decentralizing (economic) power. He favors wide distribution of property ownership and promotion of small business as means of keeping effective control close to individuals." 14
In summary, the following moral needs for economic reform have
been established:

1. The need for income security.
2. The need for decentralization of economic power.

These two needs will serve as guiding principles in the discussion of GAW
in Chapters V and VI.

Footnotes Chapter II

1 Catholic Social Guild, "Code of Social Principles"
   Cited as semi-authoritative by Cronin in "Catholic Social Principles"
2 J. F. Cronin, S.S. "Catholic Social Principles" pg. 21
3 St. Augustine of Hippo "The City of God" Book XIX Chapter 21
4 F. J. Haas "Man and Society" pg. 101 and 102
5 ibid. pg. 102
6 J. F. Cronin, S.J. "Catholic Social Principles" pg. 88 and 89
7 Carroll R. Dougherty "Labor Problems in American Industry"
8 ibid. pg. 70
9 ibid. pg. 59
10 Cronin "Catholic Social Principles" pg. 46
11 J. M. Becker, S.J "Guaranteed Annual Wage"
   Social Order, November 1955
12 Pius XI "Quadragesimo Anno" NOVC 1931 pg. 26
13 ibid. pg. 33
14 J. F. Cronin "Message to Quadragesimo Anno"
   Social Order, January 1956 pg. 4
CHAPTER III
A SHORT HISTORY OF GAW UP TO THE PRESENT TIME

The basis of all GAW demands is the need for economic security. This need became most pressing after the industrial revolution had finally overthrown the medieval economic order which was based on the guild system. Nevertheless, it took almost a hundred years from the beginning of the industrial Revolution in England around 1825 up to the establishment of the earliest practicable and still existing GAW plans in the United States during the 1920's. A small number of GAW plans existed already prior to this date. Noteworthy among these is the plan of the National Wallpaper Company of 1894. It provided for an eleven months employment guarantee which was extended to twelve months in 1896. This plan survived until 1930. Between 1900 and 1920 only eight GAW plans were established, none of these survived until today. Thus we are justified in setting the birthday of GAW in the 1920's, when the Proctor and Gamble Plan and the Hormel Plan were established. These two plans will be discussed in some detail together with the Hurnn-Bush Plan.

THE PROCTOR AND GAMBLE PLAN

Proctor and Gamble works in the soap and cooking fats industry. An employment guarantee plan was put into operation by management in 1923. Up to the present time the plan remained outside the area of collective bargaining. The guarantee covers employees with two or more years of service and assures the worker of forty-eight weeks of work per year at whatever pay rates apply to the worker's job. The company reserves the right to use the workers at any job and to reduce the amount of guaranteed employment by twenty-five per cent. The latter right has never been used. The company may terminate the agreement at any time.
THE HORMEL PLAN

The Hormel Company is in the meat packing industry characterized by extreme seasonal fluctuations but secular stability. The plan was instituted by management in 1927, has been subject to revisions and was incorporated in a collective bargaining contract with CIO's packinghouse workers in 1940.

The guarantee extends over fifty-two weeks with an average of thirty-eight hours work per week. Overtime worked in busy periods is not paid for immediately but during periods when less work is available. The plan is coupled with an earned hours incentive program. Under this program workers are paid, in addition to their guarantee, for the number of hours they save in performing scheduled work. "Both measures together resulted in a work force which is fifty percent more efficient than others in the packing industry." The cost of the plan in 1954, Hormel's worst year over a twenty year period, amounted to less than one and one-half percent of the total wages.

THE NUNN-BUSH PLAN

The Nunn-Bush Company produces shoes. In 1935 management introduced an employment guarantee. Later this plan was incorporated into a union contract. The guarantee calls for fifty-two pay checks per year with an unspecified amount. Total wage payments were fixed at twenty percent of the annual value of the company's product. The amount of the weekly pay checks varies with quarterly sales estimates which are readjusted at the end of each quarter. The guarantee is limited to a fixed number of most seniority workers. Experience under the Nunn-Bush plan showed a significant stabilization of employment, but only little improvement in production stability.

These three plans are frequently regarded as pace setters in the
history of GAW. Though they differ substantially, there are some common features worth noting.

1. The guaranteeing firms operate in consumer goods fields characterized by inelastic demand. (Demand is considered inelastic when demand remains constant in spite of major price changes.)

2. These companies were subject to seasonal swings but relatively independent from cyclical swings.

3. All plans were established by management interested in employment and production stabilization.

4. None of these plans provides for the establishment of a fund from which payments are to be made. The costs of these plans have been insignificant, even during the years of the great depression. 17

A new chapter in the history of GAW began when the unions started to take up the issue. This happened first in the sugar refining industry in the fall of 1951 and one year later in the case of the AFL Teamsters Local 688 in St. Louis. Union interest in GAW was greatly stimulated by the Latimer Report.

The Latimer Report is the result of an investigation carried out by the "Presidential Advisory Board on Guaranteed Wages". This board was created by President Franklin D. Roosevelt in March 1945 under the War Mobilization and Reconversion Act of 1944. Murray W. Latimer was the Research Director and the resulting study is often referred to informally under his name. J. Weston Walsh observes that this report was very guarded in its recommendations, but as a whole tended to favor GAW. 18
The general tendency of this report was instrumental in intensifying union demands for GAW. The first union success was achieved in the sugar refining industry in the fall of 1951. Under the various plans negotiated with individual producers two thousand hours of work or the pay equivalent thereof were guaranteed for the year. Management has the right to assign varying jobs to the individual worker when necessary. A certain leeway for the firms is warranted — firstly, by management's right to credit a limited amount of overtime worked towards the guarantee and, secondly, by an eighty hour non-guaranteed margin. (The difference of fifty-two weeks with forty working hours each, or two thousand eighty hours, and the guaranteed two thousand hours.) An analysis of the cost of the guarantee showed that the companies profited by the introduction of the plan due to the merit rating provisions of unemployment compensation and a marked reduction in labor turnover. Management is exempted from the guarantee when sugar is not available for reasons beyond company control. Disputes over exemptions are to be arbitrated.

A quotation from a report to stockholders by the National Sugar Refining Company indicates the success attributed to the plan by management:

"It appears reasonable to assume that this assurance of security has contributed to the improvement of day to day relations between employees and company, which have been excellent during the past year."

Another instance of a successful union move resulting in GAW are the "St. Louis Plans" negotiated in the fall of 1952. Covered are approximately ten thousand members of the AFL Teamsters Local 688 in St. Louis. The participating firms operate in warehousing, distribution, food processing and manufacturing. Guaranteed are two thousand straight time hours per contract year to a certain percentage of a company's total working force ranging from sixty percent to one hundred percent at the Brown Shoe Company.
The special significance of the St. Louis Plans lies in the fact that annual employment is guaranteed by more than a hundred small firms some of which have as few as two employees. This proves that not only big business but also small firms can guarantee annual employment. The cost of the plan has been practically zero. Companies are deeply concerned, however, about union efforts to raise the percentage of workers guaranteed two thousand hours pay. What the effects of GAW will be under these conditions remains to be seen. 21

The sugar refinery plans and the St. Louis plans served as a pattern for a number of similar plans negotiated between 1951 and 1955. Most recently the plans of Ford Motor Company, General Motors Corporation and the Ruttenberg Plan have been the center of discussion and, therefore, deserve special attention.

The Ford-GM Plan is not a GAW plan strictly speaking. Firstly, the guarantee covers only twenty-six weeks, and, secondly, it features a supplementation of state unemployment benefits rather than the payment of a guaranteed wage. In principle, however, this plan satisfies the need for a stable income and acknowledges management responsibility for such payments.

The Ford plan guarantees in times of lay-off sixty percent of the regular take home pay for a maximum period of twenty-six weeks. The laid off worker collects first his unemployment compensation and then from a company trust fund the difference between unemployment compensation and sixty percent of his regular take home pay.

This plan has two major weaknesses:

(1) The fact that a payment is made by the firm makes workers ineligible for unemployment compensation in some states.

(2) During a period of a prolonged depression the fund of one
particular firm might quickly be exhausted. As newer workers are usually laid off first, this would mean that high seniority workers are left without compensation when they become unemployed.

Concerning the first weakness, the plan to supplement increased state unemployment benefits by payments from the employer was put to a popular referendum in Ohio on November 10, 1955, and was defeated by a vote of 1,436,000 to 857,000. 22

In nine other states, however, the plan to integrate GAW with unemployment compensation has been legalized. These states are: Michigan, Massachusetts, Connecticut, Delaware, New York, New Jersey, Pennsylvania, Florida and California. 23

Consequently, the first weakness can be regarded as eliminated through appropriate legislative action.

The second weakness can be remedied by the establishment of an industry wide fund for GAW payments which was strongly advocated by Professor S. E. Harris from Harvard University. This question will be discussed in more detail in the next chapter under "cost considerations".

The essential features of the Ford-GM plan have been adopted by the following firms:

Automobile industry - Chrysler Corporation, American Motors Company, White Motors Company.


Can industry - American Can Company, Continental Can Company

The last plan to be discussed here is the Ruttenberg GAW Plan. Mr. Ruttenberg, onetime director of the CIO committee on economic policy, is now president of a drilling machinery company. He thus knows both sides of the bargaining table from personal experience. Here is his plan (condensed):

1. **Guarantee**: Each employee with five or more years of service is guaranteed at least 2,080 hours of pay at his straight time average hourly rate during the preceding year. Over a period of five years the seniority requirement will gradually be lowered to six months.

2. **Paid holidays and vacations** shall be credited against the guarantee. Also overtime, paid at the rate of one and one-half normal time, shall be applied to the guarantee.

3. **Unemployment compensation** shall be subtracted from the guaranteed pay.

4. **Absence of just cause** results in the forfeiture of one week's guaranteed pay.

5. Every worker shall be required to do such other work as shall be assigned to him in case there is no work for him in his regular department.

6. The annual employment contract makes business partners out of employees. Hence, union management cooperation is a criterion for success or failure of the plan.

The author is of the opinion that this plan has good prospects of being used as a model for future GAW negotiations.
Footnotes Chapter III

15 The factual information concerning early plans was taken from Bureau of National Affairs, Inc. "GAW"; and from
   Allan Weisenfeld "An Alternative to GAW" Social Order, Oct. 1955
16 Fred H. Blum "Guaranteed Wages and Work Satisfaction"
18 J. W. Walsh "Complete Handbook GAW" pg 20
19 BNA Operations Manual "GAW" pg 36-37
20 ibid. pg 37
21 ibid. pg 41
22 J. W. Walsh "Supplement on the GAW" pg 1
23 Time Magazine March 5, 1956, pg 100
24 J. W. Walsh "Supplement on the GAW" pg 3
25 H. J. Ruttenberg "Pay by the Year, Can the Unions Afford It?" Harper's Magazine, December 1955, pg 30-31
CHAPTER IV
ARGUMENTS FOR AND AGAINST GAW

This chapter is devoted to a discussion of GAW in economic terms. Generally GAW has been discussed under these four headings:

I Impact of GAW on the workforce.
II Impact of GAW on the individual firm.
III Impact of GAW on the general economy.
IV Cost considerations.

I Impact of GAW on the Workforce.

The advocates of GAW think that this plan will have two major economic effects on the workforce:

(a) It will cut down unemployment.
(b) It will improve productivity and plant morale.

GAW will undoubtedly serve as a stimulus to employers to provide for full time steady jobs. Its beneficial effects on seasonal unemployment are undisputed.

There is, however, sharp disagreement as to the influence of GAW on cyclical unemployment. Professor Slichter says:

"It is a mistake to assume that management in this day of highly developed industrial research can do little or nothing about cyclical unemployment." 26

GAW would induce management to exhaust all possibilities of fighting cyclical unemployment. Other economists maintain that management cannot be held responsible for cyclical unemployment. GAW would tend to make things worse by a reduction in the general level of employment. This possibility is voiced by Professors Hansen and Samuelson in the Latimer Report. "If ever GAW should be widely adopted, . . . . the problem of maintaining high employment might be made more difficult." 27
James Brindle, acting director of UAW - CIO's Social Security Department, admits this possibility even more openly:

"We are reconciled to the fact that the operation of GAW will result in a slight reduction in the total number of steadily employed in any one industry." 

It must be noted, however, that this effect of GAW can be predicted only in the short run. No economist or representative of management and unions can make any long run predictions about the influence of GAW on unemployment.

The second contention was that GAW would improve productivity and employer morale. Experience under existing plans seems to substantiate this contention. Fred H. Blum found in an investigation "At Hormel & Company work performance over and above the standard work requirements averaged sixty percent in 1950. In some departments it averaged well over one hundred percent." A similar observation was made by Henry A. McFarland of the Institute of Management and Labor Relations at Rutgers University. Making a survey of a Philadelphia sugar refining plant with a GAW plan he found "- - workers who were relaxed, who were not afraid to produce for fear they would produce themselves out of a job. Workers were experienced in their work and knew that because of the guarantee there would not be a great labor turnover." There is, however, a possibility that GAW will diminish man hour productivity. The backers of this argument point to war experiences where job security led to careless work. Similar effects might appear under GAW where dismissal of workers is possible only under extreme circumstances.

II Impact of GAW on the Individual Firm.

It has been argued that GAW would benefit the individual firm by increased productivity and a reduction in labor turnover. The first assertion has been discussed in the previous section.
A reduced labor turnover is a source of substantial savings for the individual firm. By keeping all its important workers on the payroll, a company would almost automatically save most of the cost of breaking in new employees. These savings could be used to pay for part of the cost of GAW.

Management generally admits this effect of GAW, but it holds that these benefits are more than offset by the tremendous cost of GAW and by the dominating role of the unions which would be a result of GAW. The problem of cost will be discussed extensively in Section IV of this chapter.

Executives fear that under GAW an employer might be forced to pay for a strike against himself. His workers simply shut him down with a strike in the plant of a small supplier and then draw themselves guaranteed wages. Conflicts of this kind, however, could be made subject to arbitration.

Another management argument is that GAW would drive much needed investment capital into government bonds and safe deposit boxes. This investment capital is needed most urgently to provide jobs for the rapidly increasing working force of this country. According to a report from the Economic Research Department of the Chamber of Commerce of the United States, the total labor force in this country will increase from sixty-eight millions in 1955 to eighty-eight millions by 1975. 31

It is, however, questionable whether the capital needed for a GAW fund would really be invested. Moreover, part of the capital accumulated in the GAW might be reinvested in the firm.

III Impact of GAW on the General Economy.

The impact of GAW on the general economy would be most visible in production and distribution. Father Becker lists the following effects of GAW on production:
(A) Desirable effects:

(1) Increase in production through more effective work of employees caused by a feeling of security.

(2) Increase in production through continuity of production. The greater fixed cost serves as an incentive to produce at any price that will cover variable cost.

(3) Decrease in seasonal and technical unemployment, possible decrease in cyclical unemployment.

(B) Undesirable effects:

(1) May diminish man hour productivity through careless work, as dismissal is possible only in extreme cases.

(2) May increase the number of voluntary and involuntary unemployed. An increase in the number of voluntary unemployed must be considered as certain because claimants have no incentive to look for fill-in jobs. Who decides whether any job offered to the claimant is suitable?

(3) Will tend to lessen competition and divide up safe markets because only such quantities are produced as can be sold profitably. This might be a severe threat to full employment.

It is noteworthy that the number of predictable effects of GAW is greater in the category of desirable effects. Nevertheless, most possible undesirable effects are taken into account.

Father Becker makes a similar list showing GAW's effects on distribution:

(A) Desirable effects:

(1) Distributes more income of the industry among its unemployed. Helps those who depend upon industry for their living but do not at the moment receive income from it.

(2) Distributes income among those who depend indirectly on the industry such as retailers, consumer good and service enterprises. In cities like Detroit and Flint, where forty-seven percent and ninety percent of all manufacturing workers are employed in the auto industry, the introduction of GAW in this industry would be a major support for local business.

(B) Undesirable effects:
May create unrest in plants, because high seniority workers will demand to be laid off first. Lay-offs must be determined by the conditions of production.

May finance strikes against the guaranteeing company by means of a strike in the plant of a small supplier. In Father Becker's opinion, government regulation is necessary here.

Will probably increase the price of the final product. It is obvious that GAW will increase the total cost of labor to the firm. This increased cost can be financed in four ways:

1. By the worker, which would mean lower wages.
2. By owners and creditors, which would result in lower profits and dividends.
3. By those outside the industry by means of higher prices.
4. By an increase in productivity.

There is a hope that an increase in productivity will cover the cost of GAW to a large extent, but, as owners, creditors and workers are not very likely to diminish their share, the customer will most probably bear the bulk of the cost of GAW in the form of higher prices.

IV Cost Considerations.

All employer objections to GAW culminate in cost considerations. They argue that companies would be faced with the unbusiness-like necessity of operating with a large cost factor which is completely unbudgetable. Up to now experience in making cost estimates of GAW plans is extremely limited. The only companies where GAW has been in operation over a longer period of time, Hormel and Munn-Bush, are not representative - firstly, because their plans differ substantially from those demanded by the unions today and, secondly, because these particular firms are largely exempt from cyclical forces. Another great obstacle to GAW is the different percentage of seniority workers
in competing firms. A survey conducted in Toledo, Ohio, covering the seniority patterns in twenty-seven Toledo companies showed that the proportion of the workforce whose wages were guaranteed would range from twenty-eight to ninety-eight percent if three years seniority were required for coverage.

In addition to these disadvantages GAW would strongly tend towards eliminating small and medium size business, because these could least afford to pay GAW. In some industries the vast majority of firms will be unable to pay GAW. Professor Seymour E. Harris states on this subject, "Who would seriously contend that all industries - for example, textiles - could finance GAW?"

The unions, on the other hand, offer some arguments to show that industry can afford GAW. They point out that lacking cost experience of GAW plans cannot be overcome except by a fair trial. Moreover, such experiences as are available speak for GAW. Its cost has been financed largely through savings of unemployment compensation contributions under the merit rating system and through decreased costs in training new employees. Hormel and Munn-Bush may not be fully representative of the entire American industry, but in a limited degree their experiences are still useful. These two firms report cash payments under GAW ranging from one and one-half to three percent of the total payroll during their worst years. More than fifty percent of these payments were offset by savings in unemployment compensation.

The sugar refining companies experienced even over-all saving under GAW. Their cash payments were substantially below their savings in unemployment compensation.

Of course, these results cannot be expected universally. Professor S. E. Harris suggests, in the conclusion of his "Economics of the GAW", the
formation of an industry wide pool into which each firm pays an amount equal to six percent of its total payroll. (An industry wide pool is a fund into which all firms of a certain industry make their payments.) Such a reserve, Professor Harris feels, should be an adequate financial basis for GAW. 36

In this context, an analysis contained in the Latimer Report is of special interest. A survey of forty-two plants gave an average guarantee cost of less than six percent of the payroll. In the most stable plants, the cost was zero. 37

The formation of an industry wide pool would furnish the answer to most of managements cost objections. An amount equal to six percent of the total payroll is budgetable and as a sum not larger than the pay raises won by unions in collective bargaining. The different seniority patterns in the twenty-seven Toledo companies would not lead to discrimination among competing firms because every firm pays a fixed percentage of its total payroll.

The objection that GAW would tend to eliminate small and medium business can be countered with a reference to the St. Louis plans which cover only small and medium businesses. (See pages 13 and 14.)

Some firms might resent the idea to pay contributions into an industry wide pool because in that way they would indirectly help their competitors. This practice, however, is already being followed under the present Unemployment Compensation Plan. Under GAW this fund would be administered by the industry as a private group instead of the state.

Footnotes Chapter IV

26 S. H. Slichter "GAW and Supplementary Unemployment Compensation Plans" February 1951
27 M. W. Latimer "Guaranteed Wages", pg 45
28 James Brindie in Minnesota Labor, February 26, 1954
29 Fred H. Blum "Toward a Democratic Progress", Harper & Brothers, 1953, pg 158
30 Henry A. McFarland, "The Guaranteed Wage", pg 65
31 U. S. Chamber of Commerce, Research Department, "Investment for Jobs, 1954", pg 1
32 J. M. Becker, S.J., "GAW", Social Order, November 1955
33 Northwestern Ohio Industrial Council, Report 1953
34 S. E. Harris, "A Guaranteed Wage", Atlantic Monthly, May 1955
35 Butalus cit. pg 36
36 S. E. Harris, "Economics of the GAW"
37 James Carr, "Is GAW Desirable?" Forum III: #170, March 1949
CHAPTER V
THE BASIC PRINCIPLES OF SOCIAL PHILOSOPHY
APPLIED TO GAW

Throughout the preceding two chapters, GAW was discussed from a purely economic point of view. This chapter will deal with the moral implications of GAW, taking into due account the concrete facts and circumstances discussed in the previous chapters.

It was shown in Chapter I that two basic needs for economic reform flow from man's right to normal growth and development. These were:

1. The need for security.
2. The need for decentralization of economic power.

Security, as defined by Professor Daugherty, had five major aspects:

(a) Continuance of life
(b) Continuance of a place in the esteem and affections of others
(c) Continuance and assurance of a means of livelihood
(d) Self-expression
(e) Enjoyment of leisure

The need for decentralization of economic power included the change of conditions which led up to such a centralization, especially of limitless free competition that permitted the survival of only the most reckless and unethical businessmen. The reform should aim at wide distribution of property ownership.

In how far does GAW satisfy these needs? This question will be discussed in showing the influence of GAW on

I The worker as an individual and as a class

II The individual firm

III The general economy
The influence of GAW on the worker as an individual and as a class.

The most obvious effect of GAW on the worker would be the assurance of a stable and dependable income. This stable income would create the material conditions for a reasonable standard of living for the worker himself and his family. This, in turn, would strengthen the man's place in the esteem and affections of the other members of the family. "Many family problems are results of faults in economic life," observes Father Cronin. Excessive concern about material needs must destroy the spiritual basis on which the family is founded. Income security would create conditions for the perfection of the individual in his family. But true perfection of man can be achieved only in society as a whole. Reversely, the well-being and perfection of the individual and of families will contribute to the well-being of society as a whole and of all people who live in this society.

Economic security would lead to an increase in knowledge and love and thus accomplish what Father Dempsey calls the major objective of economic society.

"In the economic order, therefore, the common good is promoted when the institutions of the division of labor and the division of resources are so designed and administered as to increase knowledge and love." 39

Through GAW the worker would be assured of his job and thus take a keener interest in his firm. This interest, in turn, would lead to a better understanding of his function in the firm and make him love his work. It would set free his creative faculties and tend to increase his productivity.

But GAW may have some morally undesirable effects on the worker, too. While GAW would assure a portion of the working force of a steady income, it may tend to cut down the number of existing jobs and to curb industry expansion. This opinion is voiced by Father Becker. 40
If it could be conclusively proven that OAW, over a long range, would reduce job opportunities, it must be opposed on moral grounds. The common good of society must take precedence over the individual good, for it would be immoral to give security to some and by that very action to exclude a substantial portion of the present working force from this security. OAW would be equally objectionable if it would substantially curb industry expansion which is urgently needed to provide jobs for America's fast increasing population.

However, no economist has made any long range predictions about the effects of OAW on employment. The mere possibility of such a development should not be an obstacle to giving the plan a fair trial, but it should caution us in the choice of the steps to be taken in that direction.

II OAW and the individual firm.

Every employer is under the obligation to achieve by proper organization a level of production which does permit decent wages, secure employment and good working conditions. This obligation affects the individual firm immediately, "to the extent that conditions are under their control", says Father Cronin. Then he continues:

"But when they are unable to fulfill their obligations under existing circumstances, they are not thereby released from all responsibility. The question remains - Can the conditions be changed which led to a result undesirable from a moral viewpoint? If they can, through appropriate group action or social adjustments, the individuals have the duty to participate, as conditions permit, in organizing such changes." 41

Insecurity and concentration of economic power are conditions which led to morally undesirable results. Consequently, every individual employer is under the obligation to change these conditions as circumstances permit. OAW is one possible way of effecting this change and deserves, therefore, serious consideration by all employers. Among possible alternative plans OAW has one
definite advantage. It would replace employer-employee strife with the
spirit of cooperation. The author refers here especially to point six of
Mr. Rutenberg's GAW plan which was discussed before:

"The annual employment contract makes business partners out of
employees. Hence, union-management cooperation is a criterion
for success or failure of the plan." 42

All modern popes have stressed the futility and immorality of
class struggle and proclaimed the moral necessity for cooperation. Pope
Leo XIII says in "Rerum Novarum":

"It is a capital evil to take for granted that one class of society
is of itself hostile to the other. . . Each needs the other com-
pletely - neither capital can do without labor, nor labor without
capital. Concord begets beauty and order in things. Conversely,
from perpetual strife there must arise disorder." 43

Pius XII repeats the same basic idea with special reference to the problems
of our day:

"Mistaken and disastrous in its consequences is the prejudice,
alas! too widely held which sees in these problems (industrial
production) an irreducible clash of rival interests. The op-
position is only apparent. In the economic domain management
and labor are linked in a community of action and interest.
Employers and workers are not implacable adversaries. They are
cooporators in a common task. . . . Both parties are interested
in seeing to it that the costs of national production are in
proportion to its output. But, since the interest is common,
why should it not manifest itself in a common outward expression?
Why should it not be allowable to assign to the workers a just
share of responsibility in the establishment and development of
the national economy?" 44

Under GAW employers and workers are forced to cooperate. A labor
group which works together with an employer on a common problem can hardly
forget these interests when they meet at the bargaining table. This resulting
cooperation would effectively attack the centralization of economic power in
the hands of a few. Msgr. Ryan says that "Labor should share with capital in
all those activities which affect labor." 45
This would mean participation of the worker in many functions which were regarded as exclusively managerial in the past, i.e., a wider distribution of economic power. One of the most obvious effects of such a distribution would be to prevent the arbitrary use of stockholders money by one single executive or an extremely small group of executives. Pope Pius XI condemned the latter situation in the strongest terms:

"It is obvious that not only wealth is concentrated in our times but an immense power and despotic economic dictatorship is consolidated in the hands of a few, who are often not owners but only the trustees and managing directors of invested funds which they administer according to their own arbitrary will and pleasure." 

Production planning is an "activity which affects labor". If only in this single instance the rule of a single person or an executive group could be supplanted by a mixed commission of management and workers' representatives, a definite step toward decentralizing economic power has been taken.

III C.A.W and the general economy.

It is a fundamental moral principle that economic society must always remain a means to man's perfection and may never become an end in itself. Material things exist to aid the perfection of human personality. A second principle is that economic society must serve first the common good and then the particular good of its members. Let us apply these principles to our present economic system and to the changes which we expect from C.A.W.

Under the existing organization of economic society, the principles mentioned before are threatened by three great dangers:

(a) The threat of depression
(b) The unplanned introduction of automation
(c) The practice that the cost of unemployment is to be born by the employees alone.

Would C.A.W eliminate these dangers? To the author it seems convenient to discuss each of these dangers separately.
(a) GAW's influence on depressions.

Just in how far GAW can prevent or mitigate depressions is a disputed question among economists. According to prevalent theory, a depression starts with increased inventory. Goods begin to pile up in retail stores, retailers cut their orders to wholesalers and manufacturers, decreasing demand at the plant level leads to restricted production and lay-offs. Unemployed workers, in turn, have less spending money and must limit their purchases. Thus, more goods pile up, more workers are laid off and the depression has arrived.

GAW would serve as a strong cushion against depression by putting a floor under consumer purchases. It provides purchasing power when it is most needed.

This is the unions approach to the influence of GAW on depressions, but even unions admit that "The Guaranteed Employment Plan in itself will not eliminate boom and bust cycles, but it will serve in a major way to cushion the shock of recessions and depressions." 47

Professional economists are uncommitted. Professor Sumner H. Slichter of Harvard University stated:

"Supplementary unemployment compensation for ten million workers would make a fairly important contribution toward mitigating the severity of depressions and thereby stabilize the economy." 48

On a later occasion, however, Slichter pointed out that the stabilizing effects would be only "moderate". 49 This latter opinion is also held by Slichter's colleague at Harvard University, Professor Seymour E. Harris who concludes in his "Economics of the GAW":

"In itself, certainly in the early years and possibly even with large coverage, GAW is not likely to contribute importantly to stabilization." 50

Let us apply our moral principles to these practical
circumstances. A stable economy is necessary for the common good and must consequently take precedence over the particular good of individual firms. The economic system considered as a means and not as an end in itself must always strive to fulfill this function better and, consequently, must experiment as long as such an experimentation is not accompanied by definite harmful effects. While it would not be convincing to demand a GAW solely because of its stabilizing effects on the economy, there is, on the other hand, no evidence GAW would tend to produce instability. We can conclude, therefore, that GAW would probably mitigate the effects of depressions to a greater or lesser degree and will certainly not cause a depression.

(b) GAW and automation.

Automation is morally desirable, as long as it serves the common good. The common good is seriously threatened when the introduction of automation leads to the dismissal from work of willing and able employees as long as they cannot find other jobs. GAW would prevent such actions on the part of management. "GAW will compel management to exercise a degree of social responsibility in introducing automation, by having to bear a large part of the social costs of irresponsibility." 51

In practice the introduction of automation would be geared to periods of expanding production when workers can be shifted to other jobs. In the spirit of cooperation, management and unions will both find ways and means to introduce automation when it burdens neither employers nor employees.

This result of GAW is morally very desirable directly, because it prevents unemployment without losing the benefits of automation, namely, greater productivity, and, indirectly, because it necessitates cooperation and common planning of management and workers.
GAW and a just distribution of the cost of unemployment.

In the present economic system, the cost of unemployment is borne by the employee alone. But the employee is definitely not responsible for unemployment.

"The worker has the same right to continued maintenance of his living standard as have bondholders, landlords, executives and others who live free from the constant threat that their family's income may be shut off every hour." 52

Labor costs should be considered as fixed costs on an annual basis just as rent, interest and executive's salaries.

Professor Harris found in an investigation that factory workers suffer far more under employment instability than executives and white collar workers. This situation is further accentuated by the fact that workers depend more heavily on their wages for the necessities of life than executives and white collar workers.

It would be wrong to blame the employer with all responsibility of unemployment. Many influences are beyond the control of management. This was admitted by the unions in the suspension clauses of the sugar refinery plans. Under these clauses, a GAW plan can be withdrawn for the following reasons: Acts of God, unavailability of raw material, and strikes against purchasers, producers and suppliers.

It is, however, obvious that management can do much to prevent unemployment, or at least to lessen it, if it is reminded of its social responsibility in a financial way.

A just distribution of the costs of unemployment between workers and management is, therefore, a requirement of the common good.
Footnotes Chapter V

38 J. F. Cronin, S.S., "Catholic Social Principles", pg 28


40 J. M. Becker, S.J., "GAW", Social Order, November 1955

41 J. F. Cronin, S.S., "Catholic Social Principles", pg 53

42 H. J. Ruttenberg, "Pay by the Year, Can the Unions Afford It?" Harper's Magazine, December 1955, pg 30-31

43 Leo XIII, "Rerum Novarum", NWC, Paragraph 28

44 Pius XII, "Address to Catholic Employers", May 7, 1949

45 Ryan, "A Better Economic Order", pg 181

46 Pius XI, "Quadragesimo Anno", NWC, pg 105

47 CIO - UAW, "Questions and Answers About the CIO-UAW Unemployment Plan", November 1954

48 S. H. Slichter, "Coming Development in Labor Relations", April 1953

49 S. H. Slichter, "GAW and Supplementary Unemployment Compensation Plans", February 1954

50 S. E. Harris, "Economics of the GAW", December 1954

51 CIO-UAW op.cit.

52 CIO-UAW "Progress Report on GAW", December 1953
CHAPTER VI
SUMMARY AND CONCLUSION

It was the objective of this study to look at GAW from a moral point of view based upon Catholic social principles. For this reason, the author started with an inquiry into the basic principles of Social Philosophy and derived therefrom the individual's right to normal growth and development.

This right includes the title to a stable, decent wage, to income security. It was shown subsequently that man's right to security is a natural right. Economic security specifically was divided into three layers. These layers served three distinct purposes:

(a) The assurance of a minimum protection necessary for the continuance of life.

(b) The protection of an existing standard of living.

(c) Such security as the individual may desire for himself.

The protection of the second layer of security must be provided by private group action and not by the state. As a second corollary of Catholic social principles, the need for decentralization of economic power was established.

The history of GAW presented in Chapter III served as an introduction to the discussion of arguments for and against GAW in Chapter IV. The facts of Chapter III and the arguments of Chapter IV provided then the concrete circumstances to which the social principles and postulates derived previously could be applied.

It was shown that GAW would be morally desirable for the individual worker because it would create the material conditions for the spiritual perfection of man by giving him income security. GAW would be morally undesirable for the worker as a class if it should increase unemployment and curb industry expansion in the long run.
With regard to the individual firm, it was pointed out that GAW would help to fulfill the employer’s moral obligation to give income security to his employees. It was shown that GAW would, by necessity, diminish the centralization of economic power and distribute this power among a larger number of individuals chosen by management and labor.

Finally, it was determined that GAW has no morally objectionable influence on the general economy. It might, however, mitigate the severity of depressions and definitely will help to regulate the introduction of automation and a just distribution of the cost of unemployment. These two influences on the general economy were termed morally desirable.

As a whole, GAW seems very desirable since it fulfills the needs for income security and decentralization of economic power. It must, however, be kept in mind that GAW is not the only answer to these needs. The need for income security could be answered by an extension of existing unemployment compensation plans, the need for decentralization of economic power by government intervention. Many authorities think that a GAW administered by private groups would be highly impracticable since it lacks the power to check on individuals drawing GAW and working on another job at the same time.

The answer to this is that every human institution can and will be abused by certain individuals. The author does not think, however, that this defect might prove important enough to prevent the proper functioning of the plan.

The alternative proposal, however, is highly objectionable on moral grounds because it runs counter to the principle of subsidiarity. Pius XI condemned in strong terms any infraction on this principle.

"... so, too, it is an injustice, a grave evil and a disturbance of right order for a larger and higher organization to arrogate to itself
functions which can be efficiently performed by smaller and lower bodies." Pius XI, "Quadragesimo Anno", NCWC, pg 26

It has been shown that GAW can be efficiently administered by private group action. Industry can meet the cost of GAW and can make payments in such a way as to minimize the possibility of abuses.

But GAW would not only satisfy the needs for income stability and distribution of economic power, it would not only be morally unobjectionable, on the contrary, it would be desirable because of the resulting spirit of cooperation, knowledge and love. A genuine spirit of cooperation in economic life would lay the foundations for that material order which is the best condition for the perfection of our humanity.

Footnotes Chapter VI
53 Pius XI, "Quadragesimo Anno", NCWC, pg 26

Approved.

J. J. O'Brien

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