Industrial Relations and Social Security

WAGE ADJUSTMENTS ACCORDING TO LIVING COSTS

By JOHN W. RIEGEL*

RECENT reports of the Industrial Relations Section of Queens University indicate that a number of Canadian industries have adopted a policy of adjusting wage rates to changes in the cost of living. In view of this development, it seems appropriate to review the correlation of changes in wage rates and in living costs since 1913.

Such a review shows that wage rates definitely lagged behind living costs in their rise during the World War. At the close of that War, the purchasing power of an hour's work in Canada was about fifteen per cent less than it was in 1913. By the end of the post-War boom, however, this purchasing power, or, in other words, the "*real*" hourly wage, had risen ten per cent above its 1913 level. This gain was not lost in subsequent years; in fact, it was increased.

Toward the end of the first post-War depression, with its readjustment of values, the real hourly wage was approximately fifteen per cent greater than it was in 1913. Throughout the remainder of the '20's, the index of hourly wage rates increased from 180 to 196, while the cost of living fluctuated between 156 and 160; both series being based upon the 1913 figures. Thus, in Canada, at the end of the prosperous '20's, an hour's wages purchased twenty-two per cent more of the necessaries of life than earnings for a similar period did in 1913.

The serious depression of the early '30's did not prevent an even further rise in the purchasing power of an hour's work. Indeed, in 1933, this purchasing power was thirty-seven per cent greater than it was in 1913. During the recovery following that year, the rise continued until, in 1938, the purchasing power of an hour's labor in Canada was fifty-three per cent more than it had been just before the World War.

This historical review shows that in Canada, during the past quarter century, money wages declined less in depression periods and advanced more in recovery and prosperity periods than did living costs. Generally speaking, the two series moved together, whether upward or downward, although, during the long period of prosperity following 1922 the cost of living remained constant, while hourly wage rates definitely increased. In view of this evidence the observer might approve of the use of a cost-of-living index to regulate wage changes over a short period, but he would question any long-term application of the procedures since it would tend to limit the purchasing power of an hour's work, notwithstanding improvements in national productivity.

In Canada at present there are arguments in favor of the temporary use of the cost-of-living index to regulate changes in wage rates. The policy, it is said, will prevent disputes over wage rates while the country is at war and while price levels may rise quite sharply. Thus it will open a way to adjust the terms of collective agreements and prevent unwarranted decreases in the purchasing power of the workers in the event that living costs rise sharply. There is weight to the argument. The prevention of labor unrest and industrial disputes in a country at war is an aim of such importance that a temporary expedient can readily be accepted even though its use over a long period would be questionable on the basis of economic history.

Another argument in favor of the temporary use of cost-of-living adjustments in wage rates is that thus basic wages can be kept at "normal" levels. Presumably, when the war is over, living costs will fall, and the supplements to the normal wages will be reduced in proportion. With this idea in mind, some ex-

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ecutives urge that the cost of living bonus be paid separately, or shown separately on each paycheck. Thus they intend that the workers will be reminded of the temporary and fluctuating nature of the bonus, and they hope that the workers will accept reductions of the bonus after the war, in the event that the cost of living then declines. There is real point to the desire of executives to have wages more variable than they were after 1918. In a nation under a system of private enterprise, high hourly wage rates, maintained in the face of declining commodity prices after this war, will prevent profitable industrial operations, and thus restrict the productive functions of that nation. This maladjustment will persist until a profitable ratio between unit costs and unit prices will be restored by wage and price movements and by technological progress.

It should not be assumed that a cost-of-living bonus will result in a constant real income for the workers. During a war period, extra hours of employment will doubtless yield some increase in the real annual incomes of employees, even though their real hourly wages are kept constant. Furthermore, during any recession following a war, under-employment will result in a reduction in the real annual incomes of workers, even though their real hourly wages are kept at a constant level. Thus the independent variation of hours of work will condition the real income of employees notwithstanding an attempt to adjust their hourly wages in accord with changes in the cost of living.

As a consistent policy in peace time, the adjustment of money wages to changes in the cost of living would not be acceptable to employees, since it would deny them the advantages of technological improvements which constantly tend to lower prices, provided that the forces of competition are active.

II

The objective of a "living wage" is somewhat related to the objective of a cost of living bonus, in that both regard the "needs" of employees as the standards to be used in measuring the adequacy of wages. An essential difference is that the cost-of-living bonus leaves the basic wage undisturbed, whatever its adequacy, and then adjusts that basic amount in ratio to changes in living costs. The "living wage" standard, on the other hand, is a test of the adequacy of any basic wage or any adjustment thereof.

The advocates of the "living wage" urge that the rate of hourly pay should be sufficient to maintain employees in health and decency. The advocates calculate the cost per week, month, or year of selected "necessaries of life" which are listed as a budget for a "typical" wage earner's family.

It will be seen at once that any living wage conceived as a hourly rate is a misnomer, since no hourly rate affords a living unless a sufficient number of hours of work can be sold at that rate in each year to yield an adequate annual income. Because this obvious truth has been disregarded, efforts have been concentrated too narrowly upon raising hourly wage rates, whereas attention should have been given also to the volume of employment obtainable at those rates.

The living wage is usually advocated by the representatives of unskilled workers in the lowest-paid brackets. These representatives assert that only small amounts would be needed to raise the low wages to desired levels. Because workers in the higher brackets insist that customary wage differentials be maintained, however, the employer cannot expect to raise minimum wage rates without raising all higher wage rates in somewhat similar proportions.

There is small likelihood, moreover, that any typical wage earner's budget would be used over an extended period to regulate minimum wages. There would be demands that the budget be liberalized. Employers or the state would then be in the unenviable position of denying that workers needed this or that commodity or service which is included in the proposed budgets. The denial of such specific demands would embitter wage controversies and certainly would have a damaging effect upon industrial relations.

The "living wage," which is demanded primarily on ethical grounds, would not be graduated by the employer according to the needs of each family. That aim could be accomplished, however, by a family allowance system, provided by the state. An employer who attempted to pay men according to their families' needs would violate the principle of "equal pay for equal work."

In an economy marked by private enterprise, by freedom of labor, and by freedom of consumer choice, the employer obtains gross income by selling products and services provided by the efforts of himself, his staff, and his employees. He obtains this gross income in competition with other employers in the same industry and in other industries who, like himself, are seeking to attract consumer patronage. The consumers do not guarantee any employer or the members of his organization a "living income." Until the consumers do this, it would be a crushing burden upon an employer to require him to guarantee his employees a minimum annual income, and anything less than that would not provide a minimum standard of living.

III

We conclude then that the regulation of wage rates according to changes in the cost of living may be a helpful expedient to maintain the real hourly income of workers during a war, when price levels of many commodities are likely to rise sharply because of the increase in government demands for goods and the difficulty of increasing the productivity of the nation in proportion to those demands. Furthermore, a cost-of-living bonus might serve to facilitate the readjustment of labor cost during any post-war depression. It appears, however, that in the post-war depression of 1921, hourly wage rates were not reduced to the extent that living costs were reduced. Doubtless, this caused some of the unemployment during that depression. As a regular policy in peace time, it is not to be expected that workers would continue to accept wage adjustments based solely on changes in the cost of living.

With reference to the establishment of minimum wages equal at least to the aggregate cost of items in a "typical wage-earner's budget," it is to be noted that such a program, under a system of private enterprise, would have very serious effects upon employment, because it would fix hourly wages. If the program were to satisfy the ethical demand for a "living wage," it would require employers to guarantee an annual income to each worker. This could hardly be expected while consumers have the right to bestow their patronage as they see fit. Another comment on this program is that it would not graduate compensation according to family need. For that purpose, there would have to be family allowances provided by the government. Far from affecting only the wages of the workers in the low income groups, the "living wage" proposal, if adopted, would affect the wages of all workers, because of the persistence of customary differentials in pay.

Recent Maritime Labour Legislation

THE Maritime legislatures have in their last sessions, in spite of their preoccupation with war issues, not neglected the social problems with which the Maritimes are faced; but, as might be expected, the changes which have been introduced have not been very important. In Nova Scotia the Workmen's Compensation Act has been amended so as to recognize Silicosis as an industrial disease. It is a disease of the lungs mainly found among miners and quarrymen and is caused by the inhalation of stone dust containing silica. Fortunately the disease which is a plague among the miners of Pennsylvania and of certain mining districts in Great Britain, is very rare in Nova Scotia. Compensation under the new provisions can only be claimed by workmen who have been residents of the province for at least five years and have been exposed to silica dust in the coal mining industry of the province for at least five years preceding their disablement. Quarrymen who in the United States come under the act, are so far not protected in Nova Scotia.

The Nova Scotia Labour Act is again continued in force for another year to May 1, 1941. The Act forbids any persons or corporations employing 25 or more workers to hire a person who has not been a resident of the province for at least a year. Exemptions are only permissable if it is certified by the employment agency or the municipal clerk that there are no unemployed residents in the community capable of and willing to do the work.

Also unchanged is the provision in the Municipal Act which allows municipal councils to make by-laws for the closing of shops or certain groups of shops during certain hours.

The Nova Scotia Credit Union Societies' Act has been amended. No credit union may in future change its own name except by resolution passed by two-thirds of its members present at a general meeting called for that purpose and with the approval of the Governor-in-Council.

Maritime Conference on Industrial Relations

Under the auspices of the Institute of Public Affairs at Dalhousie University, the third Maritime Conference on Industrial Relations was held in Halifax on April 23 and 24, with sixty representatives of the major maritime industries in attendance. Similar conferences had been held in the fall of 1937 and 1938, but owing to the war situation the conference due in September of 1939 had to be postponed.

The question whether the Conference should be held during the present war had been carefully examined by members of the Maritime Committee on Industrial Relations. They had come to the conclusion that the maintenance of harmonious relations between employers and employees was at the present time even more important than in peace-times and that the many new problems brought about by the war, especially the determination of wages, would provide ample material for discussion.

It was moreover felt that a meeting of this type would also give an excellent opportunity of surveying as far as it is possible at the present time the effects of the war on the Canadian and especially the Maritime economy. It was therefore decided to devote to these problems a full session of the Conference while another was given to the subject of "War Finance" and "War Taxation".

The session was opened by an address of Floyd S. Chalmers, Editor of the *Financial Post* in Toronto, who spoke on the effects of the war on Canadian Industry. He dealt with the subject under national aspects, while war conditions in the major maritime industries were dealt with by four speakers from Nova Scotia and New Brunswick. Agriculture was treated by Hon. J. A. MacDonald, Nova Scotia Minister of Agriculture, the Fishing Industry by C. J. Morrow, President of Lunenburg Sea Products, Lumbering by R. S. Cumming, Secretary-Manager, Maritime Lumber Bureau, Amherst, and the Coal industry by T. S. McColl, Chief Mining Engineer of the Dominion Steel and Coal Corporation in Sydney.

In another session R. B. Bryce of the Department of Finance in Ottawa, spoke on the subject "How Canada Finances the War". He gave a comprehensive picture of the whole financial situation of the Dominion. He emphasized the magnitude of the task which could only be successfully served if all classes cooperated. W. F. Lougheed of the Institute of Public Affairs of Dalhousie University spoke on "The War Excess Profits Tax", tracing its history in Canada and the United States and discussing its main economic and social features.

At a luncheon meeting presided over by Hon. Angus L. Macdonald, Premier of Nova Scotia, the speaker was Dr. Carleton Stanley, President of Dalhousie University. His subject was "The University and the Community".

In the last session the effects of the war on industrial relations and social security was discussed. H. W. Macdonnell, of the Canadian Manufacturers' Association in Toronto, reviewed Canada's social legislation as it is affected by the war. He dealt with the wage problem in its relation to cost of living, with labor disputes and with conciliation and expressed the opinion that the existing legislation of Dominion and provinces was sufficient to cope with the present situation.

R. P. Bell, president of Pickford and Black, spoke on "Collective-Bargaining". He discussed his subject under economic as well as social aspects and stressed the need for better understanding between the two parties.

The last paper was given by Professor L. Richter of Dalhousie University. He examined the Federal government's plan of introducing unemployment insurance with special reference to its adequacy for overcoming the difficulties of a post war depression. He stated that unemployment insurance was meant to tide the worker over short periods of enforced idleness but would not remove the long term unemployed from the relief rolls. It would have to be supplemented by other relief measures if used as an instrument for assisting the victims of a post war depression.

A lively discussion in which members of the Provincial Government participated, took place following most of the addresses. Wage problems, conciliation and arbitration were in the foreground. It was also stated that collective bargaining is well on its way in the Maritimes.

At the end of the Conference new members of the Maritime Committee on Industrial Relations were elected. The Chairman, D. R. Turnbull, General Manager of the Acadia Sugar Refining Company, and the Secretary, Professor L. Richter, Dalhousie University, were reelected. Other members of the Committee include R. P. Bell, Pickford and Black, Halifax, F. M. Blois, Stanfields Ltd., Truro, J. A. Ford, Swift Canadian Co., Moncton, J. H. L. Jones, Mersey Paper Co., Liverpool, T. S. McColl, Dominion Coal and Steel Corporation, Sydney, F. G. Macnabb, Canadian Pacific Railway, Saint John; C. J. Morrow, Lunenburg Sea Products Ltd., Lunenburg.

Unemployment Insurance

Shortly before this issue went to press the Dominion Parliament has passed the long expected Unemployment Insurance Act. It is a far reaching step towards social security in Canada, perhaps the most important piece of social legislation ever passed by the Dominion Parliament.

The benefits of the scheme will apply to all persons who are employed under a contract of service or apprenticeship, with certain exceptions of which the most important are agriculture and forestry, fishing, lumbering and logging, water transportation and domestic services. Workers earning more than $2,000 are also excluded.

It is estimated that by 1941 the scheme will cover 2,100,000 wage earners, including their dependents 4,660,000 persons.

In one of the next issues of PUBLIC AFFAIRS the main features of the new act will be discussed, while another article will compare it with the social security legislation in the United States.