Industrial Relations and Social Security

Maintenance of Earnings in the Post War

By W. S. Woods

THE rather unexpected collapse of Japan brought World War II to an abrupt end. For this, every reasonable person will be thankful. That is one of the few matters of more or less current concern on which there is complete agreement. But the implications for the world economy of this collapse are of profound importance. Many vexatious questions ranging from relatively minor ones to others of great magnitude now demand answers. Since human relations are involved, and group and individual interests are vitally concerned, attempts at solutions cannot be delayed. For the same reasons areas of agreement are narrowed by the disappearance of the cohesive singleness of purpose which was at least temporarily present during the war. Since the economic readjustments necessitated by the conversion from war industry to peace-time production involve possible alterations in wage rates, hours of work, and other elements in the employer-employee equation a period of strained industrial relations is inevitable. The problem of maintenance of the workers' earnings is not the least of those which are now of great public concern. It is proposed to examine this particular problem and to consider it in relation to the more general question of reconversion to and re-establishment of a peace-time economy.

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Labour in the War Economy

Canada, like other western nations at the outbreak of war in 1939, had substantial unemployed productive factors, including both labor and plant capacity. The rapid increase in production of war materials brought full utilization of plant capacity and considerable investment in enlarged plant facilities and new war plant construction. Three-quarters of a million members of the working force were withdrawn from the labor market for service with the armed forces. They were replaced in several ways. The unemployed were absorbed, school attendance declined, much larger numbers of women were drawn into industry, and retiring dates were postponed. In addition, the demand for extra labor was met by increasing machines and by a fairly general increase in the standard hours worked per week.

It is important to note that the total national income increased from a pre-war figure in the vicinity of five billion dollars to something around nine billions. Even if a generous allowance be made for inflationary price rises the total national income has shown a marked increase in spite of the short labor supply.

The stimulus which has generated this increased economic activity has been government demand for materials of war both for the armed forces of Canada and for mutual aid to allied powers. It has taken the form of demand for weapons, food, clothing, and other consumption goods, and for investment plant capital equipment in war and associated industries. It has been effected with funds provided through heavy taxation and by borrowing. Heavy government deficits have been involved.

The tightening of the labor market is reflected in the figures for the gainfully employed and in the armed services. An estimated 3,585,000 persons were in the armed forces or gainfully occupied at April 1, 1939, representing 43.3% of all persons 14 years of age and over. By April 1, 1945, this estimate had risen to 5,058,000, representing 56.5% of the population 14 years of age and over. This represents an increase of 1,473,000. If the 762,000 persons in the armed forces are subtracted, it leaves a net increase in the gainfully occupied of 711,000. These are accounted for by net increase in the population over 14 years of age of 677,000 many of whom went into industry or the armed forces, by the addition of 150,000 housewives of 1940 into paid employment by 1945 and by the entrance of at least 160,000 formerly unemployed into paid occupations.[1]

Government policy has been designed to meet this upward pressure in the labor market by directing the workers to the most important employments through the medium of National Selective Service, and by wage and job freezing. Complementary to the latter has been price control and rationing of consumer goods. Price control has been only partially successful in meeting the problem of the shortage of consumer goods. Full employment at higher money wages along with the elimination of underemployment and the marked increase in the effective labor supply has produced a greatly enlarged total annual wages bill. This swelling of workers' earnings has had an inflationary effect on the price of consumer goods and living costs have tended to increase faster than wages. Price control, rationing and wage freezing have failed to restore an equilibrium. Some concessions to labor have been necessitated in the form of cost of living bonuses.

It is important to remember these basic economic facts when considering the post-war possibilities. The war economy has been marked by an almost unlimited government demand, the complete subsidization of those in the armed forces, directed investment, rationing, controls, and centralized planning, and a reduction in per unit overhead costs because of more continuous and complete use of capital equipment.

Reconversion

The end of the war has brought a reversal in trend in many of the factors which bear directly on the labor market. Any attempt to deal with a specific labor problem which does not consider these wider implications is highly unrealistic. Questions of government demand, investment, the size of the post-war labor force, international trade, the prospects for full employment, productivity of labor and others are directly involved.

Extraordinary government demand for investment goods has stopped. No new war plants, airports, shipping yards or military camps are to be constructed. The daily requirements of maintaining the armed services is declining because of the cessation of hostilities and the rapid demobilization of the troops. On the other hand, new long term loans to certain members of the United Nations will at least partly replace mutual aid fronts of the war years. In other words, the great stimulus to economic activity provided by expanded production for government order is being gradually withdrawn, or at least reduced. This trend will continue at least until the armed services have been demobilized. From this point of view the derived demand for labor is declining and may be expected to decline further.

The demand for consumers' goods will probably be maintained for some considerable time as tax reductions, mustering out pay, war services gratuities and accumulated savings bring pressure to bear on the market. Therefore the derived demand for labor in the industries producing consumers' goods and services should be maintained. It will expand as materials are removed from priority

1. Figures used here are derived from information presented to the Dominion-Provincial Conference 1945.

lists and made available for industry. The housing shortage in many cities has reached almost calamitous proportions. The building and construction industries and associated trades, for example, should therefore expand, and demand for labor therein increase accordingly.

The effect on the volume of private fnvestment and indirectly on the demand for labor, will depend upon the outlets for capital and the degree of confidence of the investors. The imponderables involved are so significant as to make prophesy very risky. Much economic literature has been produced in the last few years to suggest that private investment in the long run will not be adequate to meet the public desire for same, with serious consequences for employment and wages.

Undoubtedly there has been an increase in productivity per worker; and this will increase with reconversion as overtime strain is reduced and more efficient personnel from the armed services replace marginal workers drawn into industry and retained during the war. An additional influence in this connection will be the application of new techniques developed during the war but denied to all but priority industries. A general increase in efficiency of production is indicated. This should provide some possibility of increase of wage rates. It will be partly offset as reconversion develops by resort to more marginal resources and industries.

In the coming months the labor force will have added to it the many thousands now returning from the armed forces. This will tend to depress wages. Some workers will be withdrawn from the labor force, particularly married women and persons beyond the normal retiring age. School attendance will increase and be extended in time. But full employment in Canada will require several hundred thousand jobs in excess of the number available in 1939.

The reduction in hours of work is a means of spreading employment, reducing fatigue, and increasing productivity per hour of work. However, the desire on the part of labor to increase wage rates so as to guarantee equivalent earnings to that received during the war proves serious questions.

Wages and Earnings

The problem may be illustrated b reference to actual wage rates and hours of work. Thus, for example, male card tenders in war-time textile mills received an average of \$0.444 per hour and averaged 55.2 hours per week.[2] This gives a weekly income of \$24.50. If hours of work are reduced to 40 per week, weekly earnings would be maintained by raising wage rates or piece work rates to equal an average of \$0.61 per hour. This 50⅞ increase would be very serious unless the shorter work week brought compensation in the form of increased productivity per hour. If increased productivity does result, the take home pay could be maintained with a correspondingly lower increase in piece work rates. Similarly, Quebec pulp mill grinder men in 1943 received an average of \$0.55 per hour for a 48 hour week, or a weekly earning of \$26.40. To maintain this on a 40 hour week would require an hourly rate of \$0.60. In this latter case the calculation is based on a 48 hour standard week. Overtime would involve overtime rates and produce a larger spread between war-time weekly income and that for a 40 hour week. However, overtime would probably mean a lowered average hourly productivity.

The examples given above are fairly typical. They serve to demonstrate the magnitude of the problem of maintaining earnings and at the same time reducing hours of work. In industries where the standard work week remained at or near the 40 hour limit the problem may or may not be more severe, depending on the amount of overtime work performed. If overtime has been extensive, the wage income will have increased

1. Figures taken from—Wage Rates and Hours of Labour in Canada, 1945,—Department of Labour, King's Printer, 1945.

considerably because of the higher rate paid for overtime work. Further, it is not to be expected that productivity per hour will increase greatly when overtime is eliminated unless there has been a large volume of overtime actually performed during the war years.

Employment in the next few years will be affected by business activity and social policy. It is possible that a large volume of unemployment might occur as an incident of a general depression. Indications suggest a relatively short period of considerable unemployment during the earlier stages of the transition from a war to a peace economy, to be followed by a period of high employment or even an inflationary boom. What happens after that will depend upon world trading conditions, full employment programs, and the like.

The reduction of the work week is therefore not exclusively a matter of productivity of labor. Behind the bargaining between employers and employees there are always present the basic economic data. These factors will, during the next few years, be in a rather volatile state related to transition and reconversion problems. It is possible that at some period in the near future a tight labor market might provide labor with the bargaining power to increase wage rates sufficient to compensate for the reduction in earnings due to a reduced work week or even more. On the other hand an easy labor market, by placing labor in a weak bargaining position, would probably mean lower wage rates regardless of productivity of labor. The former possibility could mean passing through full employment to inflation and ultimate crisis. The latter would spell gradual deflation and spreading of unemployment, thereby increasing the origin of cause.

At the present time labor is demanding pay rate increases to compensate for anticipated work hour reductions, and are supporting the claim with the full employment argument. Management's attitude varies from the oft repeated contention that the "unnatural" wages of war-time must, of course, now be reduced, to a concession of labor's contention provided price increases are also permitted. Labor is inclined to overlook the fact that wages come out of production and that full employment involves more than simply purchasing power. In other words labor is inclined to be excessive in its requests. Management tends to support a program which would underpay labor and stimulate unemployment, or at the other extreme, to wish to set up the conditions of potential inflation. The consumer is more or less ignored by both parties. The answer is not definite because at any given time the wage level will depend upon the variables which have been outlined as impinging on the labor market. It would be helpful if government policies regarding full employment programs were clarified in major countries.

Health Insurance in New Zealand

At a time when President Truman's nation-wide comprehensive health insurance scheme[1] is being discussed in the United States and the Dominion government is committed to similar legislation, the pioneer work in health care done in the Antipodes is receiving much attention. New Zealand, which has experimented with so many new social devices, introduced shortly before the war a progressive system of medical care. The government has courageously tackled some of the knotty problems which have caused so much friction between the interested groups on this continent and the experience gained in the experiment deserves careful study.

It is the aim of the New Zealand program to ensure that every individual when sick gets the treatment which he needs irrespective of his ability to pay for it. Everybody is entitled to benefits under this scheme regardless of his income. There is, however, no "state medicine." All the scheme does is to provide for the

1. See article "Health Insurance Plans for the United States" in this issue.

payment of the professional services of doctors, nurses, pharmacists, physiotherapists and hospitals. So far, eight classes of benefits have been established: medical care, hospital in-patients and out-patients benefit, maternity and pharmaceutical benefit, X-ray, physiotherapy and district nursing.

Medical benefits include all the necessary services of general practitioners for which no provision is made under other benefits, ranging from the treatment of venereal disease and the extraction of teeth to the administration of anaesthetics. In 1942 an amendment to the Act provided for the reimbursement of specialists' services.

There are alternative methods for payment for medical benefits—capitation and fee-for-service. Sparsely settled areas are served by salaried physicians, under a third system, but this is not a general practice.

Under the capitation system, which is similar to the present British panel system, a doctor undertakes for an annual fee to give to a patient all treatment needed. The fee is payable regardless of the services rendered.

Under the fee-for-service plan, payment may be made in three ways. The doctor may bill the Health Department monthly for services rendered, submitting affidavits from the patient and accepting settlement at government-established rates. By the second method, the doctor charges the patient over and above the standard government fee—which is to say that a doctor is not forced to accept government regulated fees in full payment of his services, but ordinarily he cannot institute legal proceedings to recover any excess.

The third system, that of direct claims made on the Social Security Fund, is the most popular because of the simplicity of collection. The doctor bills the patient monthly, at either his own or the government rate; the patient then pays the doctor directly and forwards the receipt to the Post Office for a government-rate refund. Although the government rate is roughtly one-third less than that charged previously, doctors' incomes have shown a substantial increase under the medical benefits system, when the factors of regular payment and variety of services are taken into consideration.

Hospital care is free for patients in public hospitals, while partial payment for treatment in private hospitals is made by the Social Security Fund. All types of treatment in all types of hospitals are admitted and there is no time limit for treatment. Special provisions are made for hospital out-patients, for X-ray services and for physiotherapy treatment.

New Zealand's maternity benefits provide for care in public or private hospitals, for physicians' services, and for post-natal care by an obstetrical nurse. The patient may choose the type of service desired,. Benefits are payable for fifteen days after confinement, hospital care also before and after that period when needed.

Patients are also entitled to medicines and drugs prescribed by doctors or by hospital out-patient departments, as far as these drugs are included in the Drug Tariff issued by the Department of Health, and at rates issued by a Pharmacy Plan Industrial Committee.

The most recently established health benefit in New Zealand is district nursing. Public hospitals, recognized voluntary agencies, and the Health Department are repaid for their services by the Social Security Fund. Eligibility for reimbursement is partially dependent upon the Department's approval of conditions and areas of work of district nurses.

The medical benefits program has made necessary far-reaching changes from the existing order. To facilitate the transition and also in view of some opposition experienced from the Medical Association, new benefits have been introduced in a piecemeal way. Naturally the first benefits to be instituted were those permitting of the easiest change-over. These included care in mental hospitals, maternity benefits and hospital in-patient benefits, all of which were established during 1939. Owing to discord between physicians and the government, the remaining benefits were not instituted until the years between 1941 and 1944.

The New Zealand government was also faced with a certain hostility on the part of the National Branch of the British Medical Association, which particularly disapproved of the "contract basis of service." The government amended the Act to provide a fee-for-service procedure and since that time more and more New Zealand doctors have undertaken to render services on this basis, obtaining payment directly from the fund.

It is still impossible to determine satisfactorily to what extent the health program has achieved its objective of eliminating ability to pay as a factor in medical care distribution. Information is available only for certain items. It seems certain however, that the majority of births fall within the maternity benefits program and reliable estimates seem to indicate that the Social Security Fund covers about seventy per cent of the cost of the general practitioner's service rendered under the health program. But the opinion prevails that the experiment undertaken by New Zealand has, on the whole, been successful.

Co-operatives Going into Life Insurance

By a number of surveys undertaken in Great Britain shortly before the war it was revealed that low income groups in that country had to pay unreasonably high premiums for small life insurance policies.[1] To remedy this defect co-operatives in Britain have entered that field. Their example has now been followed by one of the oldest co-operatives in Canada—the British-Canadian Co-operative Society operating in Cape Breton. Its insurance scheme has the purpose of making available to the members' funds to meet the expenses of burial.

The plan provides death benefits for husbands and wives of all purchasing members of the co-operative regardless of age. No medical examination is required and death from all causes is covered. Payment is made by the Society on behalf of its members at the rate of one cent on the dollar of each member's purchases as accounted in the last balance sheet. The amount payable upon the death of any member, or of the husband or wife of any member, covered by the plan, will be based upon the individual's average purchases over the preceding three years, providing it does not exceed \$375.00. If an individual's membership is of less than three years' duration, the amount will be based upon a consideration of the payments made over the four fiscal quarters preceding his or her death, with the same limitation of \$375.00.

1. Sir Arnold Wilson and Prof. Herman Levy, *Industrial Insurance in Great Britain.*

The Outlook For India—(*Continued from page 44*)

also that, in the meanwhile, until Indians reach a solution and a government, or governments, acceptable to those whom they are going to govern, can be formed, to take over authority from British hands, ultimate authority should remain where it is to-day. Both British and Indians earnestly desire that this process should be as short as possible, which in itself should provide a stimulus to progress.

We may sum up the matter somewhat like this: India has both economic and political problems. The economic problems are, in themselves, more important and more difficult to solve, but a political setting for India, suited to the genius of the Indian people and accepted by them, is an essential preliminary to their solution. Therefore the political problem must be tackled first. There is no longer any difference of opinion about principles; Indians demand self-government and the British agree. The difference is over how to bring about this self-government and it is a difference between Indians and Indians, which only Indians can decide.