

## Comment on "Criteria for Wage Determination" (See Issue 3) with Reply from Rev. J.F. Orford

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## COMMENT ON "CRITERIA FOR WAGE DETERMINATION"\*

O. S. Hoebreckx\*\*

While we are here dealing with an age-old problem for which there is no pat solution, I am pleased to make some small contribution toward constructive thinking on this timeless question. Before proceeding to comment on a few of the many interesting questions raised in the article, I think we should first understand what we are talking about when we refer to "wages" or "wage rates." If we speak of "wage rates," we are limiting our discussion to the direct rate per hour or per piece that the employee receives for his labor. During periods of peak employment when there is considerable overtime work, union leaders generally emphasize the "wage rate" approach in wage negotiations. However, during periods when overtime is practically non-existent and employees may be working on a short work week due to a lessened demand for the employer's products, the emphasis is on *wages*, and more specifically on take-home pay. From an employer's point of view, the "wage rate" approach is satisfactory, provided that in considering wage rates, it is recognized that the wage rate is only part of the total labor cost, and that such things as paid vacations, paid holidays, employer-paid pensions, life insurance, sickness, hospital, and surgical benefits, paid rest periods, overtime premium compensation, paid sick leave, unemployment compensation, workmen's compensation, social security payments, and a myriad of other so-called "fringe benefits" all are part of labor cost and thus come within the broad term "wages." Thus, for the purpose of this comment, this writer assumes that when we speak of "wages," we include all of the monetary benefits, current and deferred, which an employee re-

\*The article "Criteria For Wage Determination" by Rev. J. F. Orford, S.J., was published in the Winter Issue of the Marquette Law Review. Mr. O. S. Hoebreckx, an attorney with considerable experience representing employers in labor relations, was asked to comment on Father Orford's article. A comment by a labor union official, together with Father Orford's reply, will appear in the next issue.

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ceives for the service he performs for his employer. This is proper, since not only are these so-called "fringe benefits" labor costs to the employer, but if such benefits were not provided without cost to the employee, the employee would have to do without such benefits or pay for them himself out of the direct wages he receives from the employer. It is rather common knowledge that the so-called "fringe benefits" being paid today average between 30 cents and 60 cents per hour.

The following premises are made in Father Orford's article:

- (1) Wages should be determined on the basis of moral justice;
- (2) Since employees are rational human beings, they have certain natural rights which must be respected, presumably by their employer;
- (3) One of these inviolable rights is the right to a fair wage;
- (4) A fair wage is one which enables the employee to provide a decent living for himself and his family.

Proceeding upon this series of premises, the article concludes that the following wage criteria are consistent with moral justice:

- (1) That there be a determination as to the amount of wages necessary to provide an employee with a decent living at a particular time. (This might be called the "minimum real wage level.");
- (2) That once the base level is established, wages will be raised (and presumably reduced) in direct relation to the increase or decrease in the cost of living;
- (3) That employees engaged in jobs requiring greater experience, training, skill, ability, hazard, and presumably effort, would receive correspondingly more than the minimum real wage level.

The article implies that the minimum wage level in Milwaukee would be something in excess of \$4,000 a year, which figure does not include fringe benefits received by the employee, not reflected in his direct money income. This is the minimum level. Thus, the skilled employee should receive from 30 per cent to 60 per cent above that level, or roughly \$6,000 to \$7,500 per year.

While Milwaukee is one of the highest wage areas in the United States, it is generally conceded that the average unskilled employee receives less than \$4,000 a year, and the average skilled employee receives less than \$6,000 a year. Assuming that the article's thesis is correct, then we arrive at the inescapable conclusion that the general level of wage rates in Milwaukee does not permit the average employee to enjoy a decent living standard. But we also know and concede that the average factory employee in Milwaukee enjoys a living standard comparable to that enjoyed in other metropolitan areas in

the United States, and that the living standards in the United States are the envy of the rest of the world.

Since moral justice should be applied uniformly and universally to all human beings, it would appear manifest that employers the world over are immorally denying their employees their natural right to a decent living. Employers in the United States, however, are somewhat less immoral than employers in India, the Russian Government, and employers, public and private, throughout the world.

Unfortunately, as the foregoing observation rather closely demonstrates, it is unrealistic to attempt to establish wages, or more properly, living standards, by a slide rule method without taking into consideration the inescapable economic facts of life. High living standards cannot be accomplished by government fiat or rule of thumb. They are the result of an economic system which encourages efficient and expanding production of the things that go into a high standard of living. If the economic system cannot or will not produce the homes, the clothing, the food, and the other things which provide the material pleasures and comforts of life, they simply are not there to enjoy; and while the factory wage earner may be paid in millions of yen, his yen will buy nothing because there is nothing to buy.

To enjoy a decent living in a highly industrialized society as exists in the United States, we use and consume the products of the labor and savings of others, who in turn have an equal right to expect a "fair" return for their labor or their investment. Thus, the determination of what is a fair wage is not a matter that can be considered in isolation with respect to a particular employee in a particular plant, but must be considered in the sense that that fair wage must be paid by somebody else, and that somebody else generally is another employee who purchases the article produced by the first employee. It would appear rather obvious, as a result of the experiences with prices during the post-war years, that when wage rates increase faster than science is able to provide the better tools, methods, and materials necessary to produce more goods with the same or less effort, the price of the article the wage earner buys also goes up, thus offsetting his wage increase. Unions may force increases in wage rates and employee benefits which are of advantage to the union members, but which are paid for by the whole consuming public, and may actually result in a reduction of living standards for some. It is, however, the individual or employer who spends less than he earns and invests his savings or profits in research, new equipment, improved facilities and better materials, who makes the real contribution to higher living standards.

What is a fair return on the entrepreneur's investment and what is a fair wage to the employee are actually not susceptible of scientific determination. Judgments on these questions are invariably subject to ideological influence. The federal government has attempted in time of war to control the prices of commodities and the wage rates of employees. These economic controls were abandoned by rather common consent after the war when production facilities were again available to meet the ordinary needs of a peace-time economy. If the wage formula proposed in the article is justified on a moral basis, then it should be applied at least throughout the United States; and in order to have it so applied, it would have to be implemented by federal legislation. I doubt that the American people, and even the average union leader, would want the federal government to control wage rates which, of course, would ultimately necessitate control of all phases of the economy.

Proceeding on the basis that the formula proposed in the article is a goal to shoot at rather than one which shall be imposed by force, let it be said that almost everyone recognizes the desirability of providing better living standards. The free, private, competitive, economic system ordained for this country by the Founding Fathers has, and will continue, if let alone, to provide in an ever-increasing degree the material comforts of living. Just as it is recognized that what was accepted as a decent living for a wage earner a hundred years ago is not accepted as a decent living for a wage earner today, it can be assumed that today's standards will not be acceptable 25, 50, or 100 years from now.

While a wage earner may have an inviolable claim to a fair wage, this claim does him little good unless he can find someone who will pay what he considers a fair wage. What is a fair wage? Is it one which an employer can afford to pay and still sell his product in a competitive market and make a reasonable profit, or is it one which will enable an unskilled laborer to carry a \$50,000 insurance policy, drive a 1954 Cadillac, live in a luxurious house with servants, belong to expensive clubs, etc.? There are some factory employees who do drive Cadillacs, presumably having elected, as is their right, to spend their money that way rather than some other way. Your formula assumes that here in Milwaukee, something like \$4,000 is a fair wage for an unskilled employee. Why should not the cotton picker in Georgia, the peasant on a collective farm in Russia, the coolie in China, or the employee of the government-owned railroad in Britain enjoy the same good life?

If such a minimum were put into effect in this community only, it would not be long before we were paying exorbitant prices for our laundry service, restaurant meals, gasoline, auto repairs, and

what not. At the same time, numerous manufacturing plants would be compelled to move out of the city because the American consumer elected to buy products produced elsewhere and sold more cheaply because of lower labor costs. If the \$4,000 minimum were established throughout the United States, prices would go up generally, our export markets would be affected, and thus, probably rather than improving our standard of living, it would be adversely affected. It is efficient and full production—not high money wages—that makes for good material living. Arbitrary wage minimums do not increase production. Sometimes, production is actually reduced because the product cannot be sold to others not enjoying the guaranteed wage.

This writer simply cannot escape the conclusion that one's concept of moral justice, insofar as the employer-employee relationship is concerned, is unavoidably influenced by the economic facts of life. The fact is that the Bible and teachings of Christ recognize that life on earth is not to be Utopian, and that man, in this life, according to the deliberate design of God, is exposed to discomfort, disease, and disappointment. Thus, is it questionable whether the premise contained in the article to the effect that the rational human being has a *natural* right to a job which pays him a fair wage so that he and his family can enjoy a decent living is basically sound. That, however, is a matter for discussion by the philosophers and theologians.

In the meantime, American employers and employees and their union representatives go about, in a haphazard way, determining what wages shall be paid, generally without any formula to follow. In some situations, the principal consideration is how much the employer will pay in order to keep his plant operating, the alternative presented being a strike of indefinite duration. When an overly militant and short-sighted union leadership overwhelms a weak and short-sighted employer, the net result usually is that in time, the employees have no jobs to go with the unreasonable wage rates and other wage costs that were forced on their employer. However, in most situations, the union leadership recognizes the inadvisability of pricing their members' labor out of the market. Similarly, the employer recognizes that in order to attract and retain desirable employees, he must provide wage rates and other benefits that compare reasonably well with other similar employers in the same labor market. Other basic economic factors influence the position of both the employer and the union.

Some union leaders, and even some so-called economists, seem to forget that the employer is not the ultimate boss of the economic

situation in which he and his employees must exist. The consumer, in the final analysis, determines the maximum level of wage costs a particular employer or industry shall undertake. Consumer resistance to high home building costs and home repair costs will probably result in a further development of the prefabricated building industry, and has already resulted in an "I'll fix it myself" philosophy among home owners. Those coal miners, who are working, enjoy high hourly rates and a promise of benefits upon retirement or in case of illness, but many coal miners are not working at all and others are working two or three days a week. Coal consumers simply decided that coal prices were such that it became more desirable, if not more economical, to utilize other fuels.

It goes without saying that one who claims a right which he cannot enjoy has an empty claim indeed. Personal and property rights are meaningless in the absence of courts and law enforcement agencies. Likewise, if there be such a thing as a "moral" or "natural" right to a job at a wage which guarantees a decent living, the right has little value unless there exists some person or agency who will underwrite the cost of fulfilling that right. Such a person or agency can exist only under an economic system which not only makes it possible, but encourages individuals, employers, and employees alike to produce ever-increasing quantities of quality goods more efficiently so that they can be sold at a price which permits more and more people to buy them.

From the foregoing, it would appear that it is the opinion of this writer that your "wage criteria" formula fails to consider all-important economic factors, that it is not practical from a broad economic approach, and that if enforced, it would have serious economic consequences.

In dealing with problems involving human relations, nothing is accomplished by assuming a set of circumstances that does not exist. If the employer-employee relationship were to be determined solely on a moral basis, then each employee would contribute according to his ability and receive in return according to his needs. We would then have an anthill society. The Russians tried that approach and discovered that a proletarian worker working for a proletarian boss at a wage determined to be fair by a proletarian government produced less than when the same proletarian worker worked for and was paid a wage rate determined by a cousin of the Czar. In a free, private, and competitive economic system, a fair wage is what the employee's services are worth in the process of producing an article or a service which will be sold to someone wholly unconcerned with the details of the employment contract. The tool and die maker who spends a four year apprenticeship and

has \$400 or \$500 invested in tools, though a bachelor with no dependents, rightfully expects to receive a higher wage than that paid to the sweeper with six or seven dependents. However, if it were legally required that the sweeper be paid \$4,000 a year in terms of today's dollar value, it is unlikely that the tool and die maker would be paid \$7,500 a year. This is not just an empty observation. It is a trend that has actually taken place. In the early '40's, the average skilled mechanic received approximately twice as much per hour as the unskilled laborer. Today, in many instances the spread is closer to 30 percent, with the result that fewer employees have trained themselves for the skilled trades, thus creating a shortage of skilled labor today.

As a practical matter, there are so many variables in the employer-employee relationship that affect and contribute to a determination of the wage the employer will pay that the establishment of a minimum wage above anything more than the subsistence level will more often hurt more employees than it helps. You cannot accomplish a good material or spiritual life by passing a law. In the long run, we will receive for the services we perform what those who purchase those services consider they are worth, and it is all of us—that is, the consumer—who makes the basic decision.

#### Reply by Father Orford

To preclude any misunderstanding, let it be stated at the outset that the term "wages," as used in the original article, was intended to mean all monetary benefits, present or future, paid by the employer to the worker. That matter is not in dispute here. However, Mr. Hoebreckx mistakenly assumes the original article implied that the minimum wage level in Milwaukee, in terms of direct wages only and excluding "fringe benefits," would be something in excess of \$4,000 per year. Actually the fundamental position taken was this; an adult, full-time worker has a moral right to an income, whether by way of direct and immediate wage payments or deferred payments, which will enable him and his family to live a decent life. The consumers' price index, which was suggested as a point of departure, deals with the amount of food, clothing, etc. which a family of four needs to live decently at the current prices of these items. It must be remembered that even when unemployed or sick a man still must eat in order to live and that he is a being of the same intrinsic value and dignity whether employed or unemployed, sick or well. Enlightened employers realize these facts and accept the philosophy behind unemployment compensation, workmen's compensation, and social security.

Mr. Hoebreckx states that what constitutes a fair profit and a

fair wage are "invariably subject to ideological influence." I take that to mean that they are subject to the principles and philosophy of justice which a person holds. With that statement I agree, and it is perfectly patent that he and I differ radically on our basic philosophy. He manifests an obvious lack of knowledge of the meaning of natural law, moral right, and justice. His philosophy, if it can be properly called such, is that of a believer in extreme "laissez faire." Everything must be left to determination by the operations of the free market—wages, prices and everything else. He clearly holds, with Robbins, that ethics and morality have no place in the economic world. He is a social Darwinian even though he may not be aware of it. For him life is simply a matter of the survival of the fittest, and the fittest in this case being the strongest in economic power. I, on the contrary, maintain that the principles of justice and morality should be operative in every field, including the economic. His position against the worker has an old and familiar ring; it reminds one of a statement made by the president of the National Association of Manufacturers some 35 years ago. Expressing his opposition to the five day week this individual asserted: "Six days shalt thou labor and do all thy work. So reads the fifth of the great commandments, and for sixty centuries it has been accepted as the divinely prescribed standard of economic effort. . . . These constant attempts to amend the decalogue and to adapt by alterations the moral law . . . constitute the outstanding peril of our unprecedented prosperity." Mr. Hoebreckx likewise appeals to the Bible and the teaching of Christ to show that a worker does not have a right to a just wage simply because they taught that this world will never be a Utopia but that life here below is one of trial and disappointment. Mr. Hoebreckx seems to have overlooked a really good quotation, namely the statement of Christ that "the poor you will have always with you." He should have used that text to prove that Christ gave his benediction to employers who, by paying low wages, keep their workers at a subsistence level. As a matter of fact, the teaching of the Bible and Christ was simply that this life is one of trial and probation and that man's real life was to be in another world. Neither of those two sources exonerated injustice. On the contrary, "Blessed are those who hunger and thirst after justice" was the beatitude which Christ pronounced.

Having made it clear that there is a great and fundamental difference in the philosophical principles of Mr. Hoebreckx and myself it remains only to comment on some of his statements. He asserts that "it is efficient and full production that makes for good material living." This is only one-half of the story. Of what advantage is

full production if there are no buyers with sufficient income to purchase that which is produced? Surely Mr. Hoebreckx must be aware of the fact that many producers have deliberately curtailed production in order to keep their prices high. Purchasing power is quite as important in the maintenance of a living standard as is production. For example, a farm implement company may efficiently produce many thousands of tractors, but if the farmer does not have the necessary purchasing power to buy them who benefits from such full and efficient production?

It is further stated that "one who claims a right which he cannot enjoy has an empty claim. Personal and property rights are meaningless in the absence of courts and law enforcement agencies." Here Mr. Hoebreckx is confusing right with might. He is repeating the philosophy of legal positivism which fails to recognize that long before there existed courts and legal agencies there were natural rights, such as the right to life, liberty, and freedom of conscience, given to man by his very nature. Perhaps Mr. Hoebreckx should re-read the Declaration of Independence wherein it is stated that "all men are created equal and endowed by their Creator with certain inalienable rights." The function of governments is not to create but to protect these rights. Although Mr. Hoebreckx appears not to perceive the difference, legal rights and moral rights are two entirely different things. But if there is concern over the method of implementing the moral right to a living wage, our present federal minimum wage law furnishes one obvious approach.

It is asserted that the suggested wage criteria are not practical from a broad economic approach and that, if enforced, they would have serious economic consequences. This is precisely the argument given by the president of the National Association of Manufacturers many years ago when repudiating the five day week. Strangely enough the dire predictions of the president were not fulfilled, and even with the five day week or standard of living has greatly increased and the level of business profits has risen tremendously. I see no reason for conceding to Mr. Hoebreckx any greater powers as a seer and a prophet than the facts demonstrated the president of the National Association of Manufacturers to possess.

One sentence in the next to the last paragraph of Mr. Hoebreckx's comments should be noted. He states: "If the employer-employee relationship were to be determined solely on a moral basis then each employee could contribute according to his ability and receive in return according to his needs. . . . The Russians tried that approach. . . ." Is Mr. Hoebreckx willing to offer any evidence

that the Soviets ever tried to do anything on a moral basis? As a matter of fact, the Soviets used precisely the same principle that Mr. Hoebreckx is espousing, namely the principle of power. The only difference is that the Soviets advocate and used physical power as a determinant of wage rates while Mr. Hoebreckx advocates the use of economic power. Also, according to Marxian theory, the present status of Russia is a transitory one and is styled "socialism." At this stage the principle of production and distribution is not "from each according to his ability, to each according to his needs."

In the closing paragraph of Mr. Hoebreckx's comments he finally makes perfectly clear what he stands for, namely a subsistence wage. He says: "The establishment of a minimum wage above anything more than a subsistence level will more often hurt more employees than it will help." He here repeats what was called by Lassale the "iron law of wages." David Ricardo is the father of this theory of wages, which has long since been discarded by all who possess a social conscience. It is based on the fundamental premise that labor is a commodity whose price is controlled by the same market conditions as other commodities. The price of labor is determined by the mechanical forces of supply and demand and is ultimately founded on the cost of production. "The natural price of labor is that price which is necessary to enable the labourers to subsist and to perpetuate their race." So stated Ricardo and so states Mr. Hoebreckx. The latter's thesis being: Give the worker any more than the bare essentials for survival and you will harm more workers than you help. The "iron law of wages" which Mr. Hoebreckx defends was declared by Marx to be the cause of the exploitation of the worker by the employer and one of the reasons why Marx considered capitalism as containing within itself the seeds of its own destruction. Happily for American workers, and for the cause of morality, there remain but very few theorists who equate the worker with the inanimate commodities of the market place. Enlightened employers know and understand that the worker is a human person, a rational being, with a nature and a destiny transcending the market mechanism.

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