

## Economic Capacity and Determining of Wages

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[Aller au sommaire du numéro](#)

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## ECONOMIC CAPACITY AND DETERMINING OF WAGES

In a previous article<sup>1</sup> we discussed the nature of a new formula: the "Economic Capacity" and the position adopted by Labour and Capital regarding that formula. Indeed, that survey of the question allowed us to consider this principle as a remarkable improvement in wage determination methods and an important modification in the structure of modern industry. Let us now see how this principle is characterized by these two features.

### A notable improvement

In order to understand how the "economic capacity" formula constitutes such a progress, we must first establish what should be the characteristics of the ideal regulating principle of wage determination. Obviously, such a principle would give the worker a suitable wage to support himself and his family and would also be sufficiently coercive upon the employer to compel him to pay his employees such a wage and yet, not prove harmful to the economic stability of the undertaking concerned.

Now, if one considers the four main factors by which fair wages may be determined, to wit, in their order of usual importance:

- 1) the needs of the worker and of his family;
- 2) the worker's skill;
- 3) the employer's ability to pay;
- 4) the requirements of the commonweal,

one will notice that neither the two first nor the last of these factors embody the technical formula which through its equalizing features, would enable a fair wage scale to be established by means of one or several of the above determining factors.

So far no practical method has been found by which the first of these factors may be applied; indeed, the principle of the application of such a factor (the needs of the worker and of his family) is to be found only in the very heart of the employer who understands the nature of his duties towards his employees. Moral coercion is thus the principle of such a factor; unfortunately, as regards moral coercion, the Encyclicals have proven to be "a voice preaching in the desert".

The second factor, "the worker's skill", which is used to establish the rate paid for work of a given nature and quality with respect to some other kind of work, plays an important part in the fixing of wages on the labour market, and would therefore seem to be the ideal wage regulator, but the disastrous experiments of economic liberalism have proven that the very wages which

are based on such a principle are but minimum wages and favour only a small number of workers.

Finally, the fourth factor, "the requirements of the commonweal", merely plays a secondary part in wage determination, and its coercive power can be brought to bear upon the employer in certain particular circumstances only.

Therefore, a careful study of the third factor reveals that the latter is the one which bears the most resemblance to the ideal regulating principle. Indeed, the third factor comprises such a principle's three essential elements, i.e.: a) the basic wage, b) coercion upon the employer, and c) the required allowance for the economic stability of the undertaking. (Cf. our previous article on this subject)

Thus, the "economic capacity" formula constitutes a remarkable technical improvement in wage determination.

### An important modification

The need for new formulas in modern industry has never been so keenly felt as during the present postwar period of transition. As stated by Mr. Eric A. Johnston, Past-President of the American Manufacturers' Association, "the two systems of capitalism and socialism will compete throughout the world for the minds of men. The two systems are on trial. In the final analysis that system which provides the greatest benefit to the greatest number of individuals will win out. I'm betting on capitalism. But, the unpleasant fact in this day is that not every man can take a chance. Not every man shares fully in the profits of the profit system."<sup>2</sup> "This is because there

exists the problem of industry" writes the Rev. F. G. Desbuquois. "Fifteen or twenty years ago it seemed that the struggle between Capital and Labour could still be settled by mere social reforms. It was then simply a question of bettering the wage-earners' living and working conditions by mere social legislation and collective agreements, whereas nowadays the reforms required involve the very relations between Capital and Labour. Quite obviously, the nature of the problem has changed."<sup>3</sup>

Now, the "economic capacity" formula is one of these modifications which is so direly needed in the field of labour relations and which is of the utmost importance both from the Capital and Labour viewpoints.

Indeed, this principle tends on the one part to deny employers the exclusive right to dispose of its profits because it compels them to pay higher wages.

(1) Bulletin des Relations industrielles, Vol. 2, No. 4, December 1946.

(2) The New York Times Magazine, Feb. 24, 1946.

(3) Les réformes de l'entreprise et la pensée chrétienne, p.a., Action Populaire, Editions Spes.

On the other hand, it grants Labour indirect profit-sharing and hence what the worker considers an important step towards integral participation.

### Application

Although the "economic capacity" formula constitutes a remarkable improvement in wage determination and an important modification in modern industry, its actual conception lays itself open to the justified criticism that we mentioned in our previous article. Therefore, before being applied it will have to undergo certain slight alterations.

1) This principle cannot and must not be considered solely with respect to the concern but with respect to the entire industry, either on a regional or national basis, so that the determination of wages be effected according to the very economic capacity of the industry concerned in a given economic region. Besides, such is the manner in which Walter Reuther intended the principle to be applied. By the way, the method followed by our Parity Committees is an application of this principle; in fact, it is generally after taking into account the economic capacity of an industry located within the territorial jurisdiction of a decree that the Government ratifies the rates specified in the decree and previously discussed by the parties to the agreement. Should the Government further apply such a formula by carrying out investigations within each concern, we would witness a thorough and strict application of the "economic capacity" formula as presently understood. We believe that it is of interest to note here that the parity committee formula is actually being introduced in Europe; but naturally, it is being submitted as a new idea.<sup>4</sup>

2) If Labour is willing to accept the "economic capacity" formula, it must also accept "inability to pay" formula. Labour will come to accept the latter only after the present tendencies of trade-unionism will have been thoroughly reformed, because, outbidding seems to be the only purpose of unionism to-day.

3) Finally, more than the principle itself must not be expected from the "economic capacity" formula, that is to say: not more than an improvement in wage determination methods and one of the reforms so direly needed in the structure of modern industry. That is our conclusion.

### Conclusion

If we consider that industrial peace is the logical continuation of national and international peace and that it is one of the greatest of all social aspirations, we must therefore seek to achieve much more important reforms again: reforms in the juridical and social structure of the enterprise through profit-sharing and even through participation in operation and ownership; moreover, we must contribute to the realization of economic reforms of far-reaching effect, namely: "changes in our system of income tax, modifications in agrarian and industrial own-

ership, the development of social insurances, the diffusion of co-operation and the promotion of handicrafts; the attribution of monopoly enterprises and other great production enterprises to State controlled organizations.<sup>5</sup> And yet, such reforms will prove utterly inadequate "if they are not accompanied by a much more important and difficult reform: a reform of all men. In order to achieve success, a new institution needs men with renovated minds." "Our chances are not infinitely numerous and all of them rest in the hands of a few men "employers, associations and workers able and willing to try the liberating experiments together and thus steer a difficult course by the light of hope."<sup>6</sup>

And then once more we must apply a higher principle, the supreme principle which Christ gave to mankind two thousand years ago and which his Church will preach forever: "Love thy neighbour as thyself..."

(5) La participation des travailleurs au profit des entreprises à la lumière de la théorie économique moderne. Les dossiers de l'Action Sociale Catholique, No. 8, October 1946, pp. 593-604.

(6) G. Desbuquois, op. cit.

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## Conflits du travail et arbitrage obligatoire

(Suite de la page 3)

tellement nombreuses lorsqu'il s'agit des conflits d'intérêts qu'il nous semble que la procédure actuelle est encore préférable. Ici, il s'agit d'une appréciation de valeur, d'un *droit à créer*: les juges ou les arbitres manqueraient de règle précise pour orienter leur décision. On comprend qu'en des cas exceptionnels, comme dans ceux des conflits dans les services publics ou les expropriations on s'en remette à de telles autorités, mais cela ne peut être admis partout. S'il appartenait à des juges ou à des arbitres de trancher de tels conflits, de par la loi, nous serions bientôt entraînés dans une économie dirigée par quelques personnes. Fixer les taux de salaire et les conditions de travail provoque automatiquement des répercussions sur le prix de revient et le prix de vente. Et cette pratique se généraliserait dans toutes les industries. La convention collective disparaîtrait pour faire place à des décisions d'autorité. Employeurs et syndicats perdraient graduellement toute mainmise sur leurs propres affaires pour s'en remettre à des individus choisis par le gouvernement. En effet, à chaque fois que l'on ne viendrait pas d'accord, on aurait recours à ces tribunaux et comme le choix du troisième arbitre relève de l'autorité publique, en dernière analyse, ce serait la politique qui dirigerait les conflits et dirigerait toute l'économie. Employeurs et syndicats seraient fatalement amenés à exercer des pressions sur les gouvernants et à mêler la politique à leurs affaires. Les conflits économiques tourneraient toujours en conflits politiques. Certains pays démocratiques, comme l'Australie, la Nouvelle-Zélande et, aux Etats-Unis, l'état du Kansas ont déjà tenté cette expérience. Elle a eu des résultats dans les périodes de prospérité parce que les employeurs faisaient payer par les consommateurs les augmentations de salaire accordées par ces tribunaux. Durant la période de crise, les travailleurs n'ont pas accepté de diminution de salaire et les grèves se sont accrues en nombre et en longueur. Aussi ces mesures ont-elles été mises de côté.

A des tribunaux spécialisés pour régler les conflits de droit, nous n'avons aucune objection; mais l'arbitrage obligatoire ou des tribunaux du travail pour régler les conflits d'intérêts dont les sentences sont exécutoires, c'est utopique et préjudiciable au bien de tous.

Gérard DION

(4) Bulletin Social des Industriels., Brussels, July-August 1946, pp. 291-294.