

## **Economic and Social Consequences of Fringe Benefits** **Conséquences socio-économiques des bénéfices sociaux**

Monteath Douglas

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Article abstract

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# Economic and Social Consequences of Fringe Benefits

Monteath Douglas

*In this article, the Author analyses fringe benefits as fundamental values. According to him, fringe benefits are more than an increase in the pay check; they are an important and permanent element of wage administration structure.*

Perhaps we would take nothing for granted. Do fringe benefits really matter very much so far as the public interest is concerned? This question might well be asked by anyone who has read a fair selection of the writing about fringe benefits that has appeared since the war, as I have tried to do. On this evidence, the answer looks doubtful. Most of the discussion is about the variety and cost of benefit programs, and how to measure and compare them. The subject is generally treated simply as an issue in bargaining between management and unions. This treatment implies that these are the two interested parties; they may agree or they may start a fight, but any third party would be well advised to stay away and leave them alone.

During the last war when the expression « fringe benefits » first became current, — I understand it was invented in 1943 by a member of the National War Labour Board of the United States — a specific public interest was indeed recognized and asserted. The public interest at that time was identified with wage stabilization. But when wartime government controls finally disappeared, this view of the public interest disappeared with them. The government retired from the field and left it clear for unions and management. They have had it to themselves through some years of high employment and booming industrial activity. The public interest in fringe benefits dropped out of sight until fears of inflation recently started to bring it back to the minds of a few people.

DOUGLAS, MONTEATH, Director, National Industrial Relations Conference Board, Montréal.

When we think of fringe benefits as the trimming on a pay check, the public interest appears remote. But on a wider view of fringe benefits we come to the opposite conclusion. When we look at the contents of the growing benefit «packages» of recent years and list them: pensions, health benefits and medical plans, time off with pay, working amenities, and so on, we can see at once that every one of these provisions that is widely recognized has, in the past, been the subject of legislation setting minimum standards. This legislation was dictated or sanctioned by public opinion. The whole structure of fringe benefits today can be said to rest on the same basis as the conception of the public interest that is found in our laws respecting industrial welfare. I believe that this is substantially the case in all English-speaking countries.

I think this observation answer my opening question. We can think of these benefits as fringes on the pay check, or marginal remuneration, if we only have in mind the way in which they have developed. But their scope and substance are in no sense marginal. On the contrary, they comprise central elements of social welfare in our industrial economy. Moreover, as Mr. Martin pointed out yesterday in a quotation from one of The Conference Board's studies, the term «fringes» in its original sense is now a misnomer, for they are now a major and permanent part of the whole fabric of employee remuneration.

I am not suggesting that our legislation is responsible for this development. Progress in industrial welfare has been and still is the joint responsibility of forward-looking management and unions. The law is only concerned with those who abuse their responsibilities or lag too far behind. And I am not implying that our present arrangements necessarily measure up to the public interest. We shall come to that question. I only want to make the clear and simple point that the keynote of the public interest in fringe benefits — whatever anyone may think of them — is welfare; and in an industrial society, I mean the community's welfare. This is the test by which all these provisions will eventually be judged.

If you accept this view, I think you will also agree that the social and economic consequences of fringe benefits, their impact on the economy, deserve attention in the same sense. So far as their secondary consequences are advantageous, their contribution to welfare is en-

hanced. So far as such consequences are harmful, this is part of the price we pay for them.

Not much seems to be known about the effects of fringe benefits either way. At least, I have been unable to find any authorities on this question.

What are the effects of fringe benefits on the public's purchasing power and the volume of personal consumption? Or on savings? Or on industrial investment? Do they exert a stabilizing influence on the economy, or the contrary? What is the relationship between fringe benefits and government welfare measures? Are they taking us towards socialism? These are fair questions.

More people should be raising them and trying to answer them. But I confess that all I can do now is to offer you some guesswork from one or two angles. It will leave you none the wiser as regards any ascertained facts, but it may illustrate the range of possible consequences that may follow the operation of these new compensation arrangements.

Let us take the case of pensions, which represent one of the biggest items in a typical fringe package. The enrollment in company pension plans is very extensive and it is steadily increasing. Who pays for these pension benefits? The employee's contribution comes out of his wage. Over a period of time, if wage rise as they have done, the employee's contribution as well as the employer's contribution become part of the latter's cost of production. Since the war, over the years in which pension plans have become prevalent in industry, prices have been going up steadily, transmitting higher costs to consumers. This means that by and large a very substantial part of all industrial pension costs have been paid for by consumers, including in that capacity the beneficiaries themselves.

But not all companies, are equally able to transmit higher costs by increasing their prices. When a company's earnings suffer, the shareholders pay. If the company's competitive position is weak or its affairs are vulnerable, the consequences don't end with the shareholders. Everyone connected with the enterprise is involved in its struggle for survival, or its possible collapse.

These are all questions of degree. I suspect that many small businesses have probably been embarrassed by compulsion to adopt benefit

schemes which they could not afford, leading in part to their absorption by larger competitors. The final position of the employee may be better or worse, but it will not be the position that he contemplated when the process began.

This is one range of possible consequences, as regards pension costs. There are others. The effect of pension schemes on freedom to change employment, or on the employment prospects of older people, are widely recognized. Pension funds in Canada have not been accumulated on the scale or invested with the diversity which in the United States is beginning to revolutionize financial control in industry, but this may occur if our trustee regulations are changed in future. Canadian pension plans on the other hand have helped to finance government borrowing by increasing the volume of savings.

This panoramic but very superficial view of some of the consequences of the growth of pension plans as regards the cost of living, the competitive process, employment opportunities and the security markets, is not intended to furnish grounds of judgment on the merits of such plans. Much more thorough analysis would be needed for that. But it may indicate the kind of analysis and the variety of data that would be involved.

One such example is probably enough. But another, much shorter, will illustrate consequences of a different kind. Extension of paid leisure — something that has a special interest and attraction so far as I'm concerned — is just about as big an element in fringe benefits as pensions are, covering vacations and holidays with pay and shorter hours. I invite you to speculate how far this marked development in the last fifteen years may be associated with the tourist business and all the services that cater to it, with improved housing standards, and perhaps with the demand for passenger cars and the headaches of provincial highway departments. As a final point, what will be the effect of increasing leisure on workers' choice as between more fringe benefits or more hand cash in future?

As these examples show, it is difficult and certainly unwise to make general judgments about the economic effects of fringe benefits without ample factual evidence. But if I am to accept the challenge of the questions posed in the program, or of some of them, I would conjecture that the growth of such benefits has the following specific effects, meaning effects attributable to the benefits as such, as com-

pared with equivalent increments of cash income. And I want to add that my only reason for sticking my neck out like this is my fear that if I don't try to pass Professor St. Laurent's exam, I won't be asked back here another time.

a) These benefits increase the volume of personal saving at some expense of corporate savings, and some expense of consumption.

b) They therefore inhibit the consumption that would otherwise occur. But they probably increase the propensities of consumers to buy expensive, durable goods on credit, owing to a stronger individual share of income security.

c) Their effect on the business cycle is probably adverse on balance, because they add an element of rigidity to higher labour costs which retards recovery of employment. I believe that this result may be observable today, but I am simply guessing and have no idea how far this reasoning can be verified.

d) As to the distinction between welfare schemes in industry and welfare schemes financed by the federal government, the characteristic feature of the latter is that a deficit has no power to restrict them. On the contrary, they are more likely to be increased in such circumstances. On this point, evidence can be produced.

e) These speculations can be concluded by one generalization that can be made with some assurance. Fringe benefits are costs which tend to be shifted to consumers when business is prosperous. The conditions of the past fifteen years have favoured this process. Had it been otherwise, I feel sure this growth would have been slower.

In these questions, and others like them, it can be seen that consequences of fringe benefits cannot easily be isolated. The economic processes that have been mentioned are influenced more powerfully by other concurrent factors, such as the rate of industrial investment, the level of taxation, and the condition of our foreign markets. Even so, the impact of fringe benefits on the economy deserves the same kind of study and research that has been directed to the incidence of taxation, and it probably offers about the same mixture of open trails and blind alleys.

These observations can perhaps go on the record of this meeting as a warning and encouragement.

Why should study and research in questions like these be encouraged? They are difficult, and some of the effort may be misdirected. Certainly no one is going to do it for fun. The study of the economic effects of fringe benefits is relevant and necessary for four reasons:

First, need to know more about the real contribution that they make to the welfare of individual employees and of the community.

Secondly, such welfare measures are costly, and the cost is not confined to money. Social and economic costs determine the balance of advantage. For example, the growth of fringe benefits has been made possible by a great advance in the productivity of industry. If productivity is arrested, this progress cannot continue. We therefore need to know more about the effect of fringe benefits in terms of cost in the broadest sense.

In the third place, industrial welfare is a joint responsibility of management and unions, and of governments too. They are all in it. The unions are asking industry to do more; and they are asking government to do more too. We, all of us - employers, unions, people in government and certainly the general public who vote and pay - need the kind of knowledge and understanding which can lead to wise decisions about where to draw the line between private measures and public measures. How far should industry be expected to go, and how much of our welfare objectives should be left to the government?

Finally, we need to know more about the operation and effect of fringe benefits so that public opinion can be stimulated and lightened. As the scope and cost of these benefits increase, as they will increase in future, the two immediately interested parties - employers and employees will be answerable to the third party, the public interest, and should be enabled to appeal the informed opinion.

These, then, are the four objectives of continued study, research and discussion of this subject. The real welfare achievement, the cost, the division of responsibility, and the democratic foundation. The rest of my remarks will offer some comments on each of these in turn.

#### WHAT HAS BEEN THE REAL CONTRIBUTION OF FRINGE BENEFITS TO WELFARE SO FAR?

One of my objections to the expression « fringe benefits » is that it obscures their significance for human relations in industry. It focuses

attention on the bargaining process and the bargaining scoreboard and encourages a certain amount of cynicism. When our attention is directed or confined to bargaining tactics, pressure plays and shortsighted, and the indiscriminate results that this approach produces, we - the consumers - can easily become cynical and apprehensive.

But acknowledging these features, the fact remains that the growth of industrial welfare schemes since the war - not only in Canada, but in the United States, Great Britain and other countries too - has been associated with a major advance in the whole field of human relations in industry. An experienced American observer<sup>1</sup> has summed up his views as follows:

«Probably the major reason for the growth of fringe benefits is a virtual revolution in the concept of the employer's responsibility for his workers. Originally, his duty was seen as paying a fair price for each hour of labour purchased. Today it is viewed as indemnifying the worker against major economic problems, not as an individual but as head of a family. Unions have assiduously pressed this concept, and employers have generally been content to accept it.»

Opinions are bound to differ about the share of credit that should go to unions or management. In fact, there is enough on each side to satisfy both parties. From the standpoint of the public interest, this is not an important argument. The important question is the achievement in human welfare and in human relations in industry.

It should be noted that fringe benefits are only one part of a much larger picture. While negotiated provisions for the benefit of industrial workers have been spreading through industry, other things have been happening too. I cannot begin to review them here, but they are reflected in the status and responsibility of personnel management in running modern business. I am reminded of a certain company where the president was asked why they had no Director of Personnel. He replied that this the President's job.

Considered functionally, fringe benefits can be regarded as aiming at one of the following results:

—Added security for the worker's income;

(1) ARTHUR M. ROSS: «Fringe Benefits Today and Tomorrow», *Labor Law Journal*, V., 7, August, 1946.



- Extension of his leisure;
- Amenities making the conditions of work more attractive;
- Extra pay for extra work, for less congenial work.

As tangible benefits to employees, and as costs to employers, the first two results far outweigh the others. They also carry intangible benefits to employees' morale and sense of participation in the enterprise.

Now I would suggest that the real measure to the welfare of the worker and the community - is to be judged by their results for the worker's family, rather than for each man as an individual. It is in the family, rather than the individual, that the social strain and cost of industrialization have been experienced most seriously in the past. This consideration needs no argument in Quebec, where family loyalties and memories are so strong, and where the contrast has been most marked between the older way of life based on ownership of land and the ties of kinship, and the newer industrial society which brought higher material standards but placed the worker and his family in a position of dependence on his job and on new group loyalties in the factory and town. In all industrial societies, this change has disrupted family life more or less seriously, leaving results which have generally been felt through succeeding generations.

Views on this question differ. I am one of those who believe that one critical test of a civilized society is its attitude towards the family, as the primary agency through which the society's cultural values are transmitted and advanced. And I believe that in this respect we have paid a high price for the technical achievements of industry in the past.

The point of this digression is to suggest that added income security and increased leisure are now helping to redress the earlier disruptive effects of industrialization on family life, and that it is in this order of results, rather than in terms of higher pay alone, that their real contribution to the welfare of our society should be judged.

#### THE COSTS OF FRINGE BENEFITS

The public interest in the cost of fringe benefits goes further than the question of their financial cost to employers. It is concerned with

their effect on productivity, on which the progress of welfare schemes obviously depends. It is concerned with their effect on the cost of living and the possible hazards of inflation which can make such progress illusory. It is concerned also with the consequences for industrial relations, and with the alternatives of joint responsibilities recognized by both sides or irreconcilable attitudes in conflict. Another question that the public interest will raise as fringe benefits continue to grow is the incidence of their cost on the community. How many people are paying for welfare benefits granted to others which they themselves do not enjoy?

It is in terms such as these that the price we pay for fringe benefits has to be reckoned. Such questions have been generally disregarded hither - to because the growth of fringe benefit programs has coincided with a period of major industrial expansion. If we have a prospect of harder times ahead, and if such programs continue to grow, their costs will loom larger in the broader sense that I am suggesting.

#### THE RESPONSIBILITIES OF PRIVATE INDUSTRY AND GOVERNMENT

The role of the government cannot be disregarded from the standpoint of the public interest, particularly when the policy of one of the parties concerned in fringe benefit agreements has been stated as clearly as it appears in the briefs presented by the Canadian Labour Congress to the Federal government January 1959 and in previous years. I am assuming that the recommendations of the Congress respecting universal compulsory health insurance, old-age security, private pension plans, and family allowances, are well known to the members of this meeting.

If these recommendations were adopted, many existing fringe benefits would disappear from industrial pay checks, - or would they? This is not the place to debate this question, but I would make two comments. The first has been heard before, but it is none the less relevant. What are the limits, the objective limits, to the taxable capacity of the Canadian economy, and how would the cost of the recommended measures compare with these limits? The role of the government in social welfare depends directly on the answers to these questions. Secondly, I think we should face the practical proposition that fringe benefits will in fact continue to be the joint concern of management and unions, though not necessarily nor forever in their present form. Progress in industrial re-

lations, as I said earlier, is a joint responsibility. Unless we want a Bismarck to take charge of them, this joint responsibility must be fully accepted. If industrial relations were static, and no progress had been achieved, the argument for government responsibility would be unanswerable. But the experience of the past fifteen years is something to build on, and the building is taking shape. I believe that to put it in government hands would be the bleakest kind of reaction.

WHAT CAN BE DONE TO KEEP THE PUBLIC INTEREST  
IN VIEW AND ASSERT IT IF NECESSARY?

Four points:

First, more study research are needed. For reasons already indicated, I believe that study of the effect of fringe benefits should be focused on the recipient's family responsibilities and the experience of the firm; or, in other words, on their contribution to social needs and their consequences on industrial productivity.

Against the background of what is already known concerning human behaviour and human needs in industry, the advantages that both employers and employees have derived from fringe benefits should be evaluated. This information should be made available not in technical jargon but in language that would enable both parties, and the public too, to profit by it. I believe this would lead to a clearer view of the extent to which both sides have a common interest in their fringe benefit « package », in the light of which their contents could be reviewed more objectively and revised by agreement.

Secondly, it seems clear that the methods and atmosphere of bargaining for fringe benefits can be improved. Speaking as an outsider, I have some hope that indiscriminate pressure tactics will give way to a more rational and constructive approach, for two reasons:

One reason is that as the extent of these benefits continues to increase, the consumer's voice will at last be heard. The next decade may offer less opportunity for producer groups to settle their arguments at the consumer's expense.

My other reason for some optimism in this matter is that the comparative novelty of fringe benefits will wear off. When this happens, I believe that their essential welfare aspect will be put ahead of their at-

traction as counters in the bargaining game, and they will acquire more of the character of a constructive institutional arrangement in industrial relations. This may allow greater scope for joint administration, and the adoption of more rational criteria of evaluation.

Some such criteria may be suggested:

- a) That a benefit should not impair the efficient operation on the enterprise.
- b) That the net advantage of any new benefit, i.e., its value as against its cost, should be subject to review.
- c) That parity of initiative should be recognized. That is to say, that the adoption and announcement of a new benefit should rest on the fact of joint approval, rather than on the fact that one side or the other proposed it in the first place.
- d) That the future cost of a benefit should be ascertainably within the capacity of the enterprise to pay for it without raising prices.

I put these ideas forward with some hesitation because I have had no experience of negotiation in this matter. But they naturally occur to a spokesman for the public interest, which is my role today.

Are they naive and visionary? I am sure many people would think so. But they do express my conviction that as and when the genuine welfare aspects of fringe benefits take precedence over their present fragmentation on the bargaining table, it will be logical and ultimately more rewarding for both sides to regard the « package » as the constructive product of joint responsibility and experience.

Thirdly, the public interest demands well-informed public discussion, such as this Conference is providing. If research can produce better knowledge and understanding of this new departure in compensation practices, and if fringe benefit negotiations can develop attitudes of common interest jointly accepted, organs of opinion - the press and radio - can be expected to show a more alert and responsible interest, treating the whole subject as a broad element of industrial welfare and helping to disinfect it of the cynicism that is now sometimes apparent. It seems to me that this would be constructive from every point of view. The beneficiaries would gain a better judgment of their own interests too. Employers, therefore, have a responsibility to the public as well as to their benefit programs.

Finally, we need some inspired genius to invent a new name for it, which will abolish the expression « Fringe Benefit » and convey the real character of the whole matter. These measures have long ago outgrown their wartime origin. Today they have a central place in our economic system, for better or for worse. Wisely handled, they can become a creative element in industrial human relations. Out of control, they can breed industrial conflict and inflation.

### Conséquences socio-économiques des bénéfices sociaux

Si on les considère uniquement comme un certain pourcentage du chèque de paie, les bénéfices sociaux ne prennent pas toute leur signification véritable. Il faut plutôt les envisager comme des valeurs fondamentales dans notre conception du bien-être social dans la civilisation industrielle. Les bénéfices sociaux constituent désormais un élément important et permanent de la structure de la rémunération ouvrière.

Les bénéfices sociaux d'origine privée sont en fait une partie intégrante de l'ensemble du système de bien-être social, que l'opinion publique et l'intérêt général réclament. C'est dans cette perspective qu'il faut les juger et sur ce critère qu'il faut s'appuyer pour faire l'évaluation critique des décisions qui sont prises dans ce domaine.

Il n'est pas facile de mesurer exactement les conséquences des bénéfices sociaux, mais on peut affirmer avec une certaine assurance que leur coût tend à être passé au consommateur sous forme d'augmentation du prix des produits lorsque les affaires sont prospères. C'est ce qui est arrivé au cours des quinze dernières années. Il ne faut pas oublier non plus que le coût global des bénéfices sociaux dépasse celui des montants qui y sont consacrés sur les chèques de paie: il comprend les effets sur la productivité, les résultats de l'augmentation des loisirs, la possibilité d'inflation, etc.

Il importe que patrons et ouvriers soient conscients de leurs responsabilités publiques dans ce domaine et que le public lui-même soit mieux au courant de ce qui se passe autour de la table de négociation afin que l'intérêt général ait le dernier mot.