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THE IMPACT OF THE AMERICAN LABOR  
MOVEMENT ON EMPLOYEE BENEFITS

Thesis for the Degree of M. S.  
MICHIGAN STATE UNIVERSITY

Anita E. Mason

1966

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## ABSTRACT

### THE IMPACT OF THE AMERICAN LABOR MOVEMENT ON EMPLOYEE BENEFITS

by Anita Mason

In the ebb and flow of the history of the American labor movement, there has always been, on the one hand, a desire for stability and consolidation and, on the other, an urge for revision and reconstruction. Sometimes the current flows one way and sometimes another. For the present there is no doubt that stimulation for revision and reconstruction at the bargaining table is focused on employee benefits.

"Fringe Benefits" as a term was first used about 1943 by members of the National War Board. This board, unable to allow direct wage increases, encouraged employers to grant indirect benefits. The federal government's war-time economic policy of limiting wage increases diverted union demands toward every non-wage benefit so far imagined. The National War Labor Board then permitted many of these benefits on the "fringe" of wages, on the grounds that since they were not wage increases, but were social in nature, they were not inflationary and could be permitted. In less

than twenty years the fringe benefit movement has transformed our concepts of the employer-employee relationship by imposing social obligations upon those who hire the service of others.

Benefit plans may be considered part of labor costs and compensation, broadly defined, but they are not part of wages or salaries. Benefit plans protect or insure wages or salaries.

These plans must conform to the basic principles applying to all insurance--the substitution of a small, but certain loss for a large uncertain one. In benefit plans, as in all other techniques of personnel administration, principle must take precedence over expediency. The plans must benefit the employer, the employee, the consumer and the public. A plan which benefits one group at the expense of another is not really a benefit plan and cannot, in the long run, help anyone.

THE IMPACT OF THE AMERICAN LABOR MOVEMENT  
ON EMPLOYEE BENEFITS

By

Anita E. Mason

A PROBLEM

Submitted to  
the Dean of the College of Home Economics  
of Michigan State University  
in partial fulfillment of the requirements  
for the degree of

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## PREFACE

The ever-increasing interest in personnel administration at all state-supported institutions is a reflection of the importance of good basic policies which management must establish in relation to its employees. Several factors make this so. Every state-supported institution is in competition for employees. Sometimes it is with other universities, sometimes with hospitals; competition is even present with employers in industries, both in the city and in the adjacent labor area.

On the university campus, competition is felt directly at times of employee shortage and indirectly all the time. Because university workers do not live in a vacuum, they are continually in contact with workers from other industries and they tend to compare their status and benefits with those of their neighbors.

For a long time the author has had a keen interest in the labor-management field. Perhaps this interest was originally sparked by her experience as Cafeteria Manager at the Ohio Bell Telephone Company in Toledo, Ohio, from 1946-1958. In this highly industrialized city, it was

natural that labor unions and labor-management relations would play an important part in the life of its management personnel.

At the Ohio Bell Telephone Company personnel contacts and labor-management discussions were a vital part of the daily schedule. A good human relations attitude was strongly emphasized and everyday on-the-job contacts between management and nonmanagement, as well as at grievance sessions, were closely observed and recorded. Liberal benefits were awarded to all telephone company personnel.

The purpose of this study was to review the development of the American labor movement and its impact on employee benefits.

The author expresses appreciation for the help which she received from her committee: Professors Katherine Hart and Grace Miller.

Acknowledgment is also made to Miss Elaine Mishler, Manager of Snyder-Phillips Hall at Michigan State University, who was understanding and cooperative.



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## THE AMERICAN LABOR MOVEMENT

The real beginning of the American labor movement was in the early nineteenth century. With the rise of the merchant capitalists, business was established on a whole-sale basis. The extremely simple economic organization of the seventeenth and eighteenth centuries precluded any significant concerted action on the part of workers. It was not until the retail shop and custom-order work gave way to wholesale business that the workers really felt compelled to organize in order to bargain collectively with their employers. As Foster Dulles points out,

With the beginning of the 19th century, the skilled artisans and mechanics in trade after trade followed the earlier example of printers and shoemakers in forming societies whose avowed purpose was to guard their interests against the intrigues of employers and to secure adequate reward for their labor.<sup>1</sup>

### Origins and Early History

The original trade union was the Federal Society of Journeymen Cordwainers, which was formed in Philadelphia in 1794 by the shoeworkers. However, the labor movement really

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<sup>1</sup>Foster Rhea Dulles, Labor in America (New York: Thomas Y. Crowell Co., 1960), p. 24.

began in 1828 when the Workingmen's Party, which included earners, craftsmen and farmers, was organized. Among its demands were free public schools, an end to child labor, a ten-hour day, better taxes and direct election of public officials. In spite of these progressive goals, this group went out of existence in 1832.

The rise of merchant capitalism in the early 1800's led to the deterioration of the general status of labor at that time. In 1806 the Journeymen Cordwainers were prosecuted in Philadelphia for being a conspiracy against employers, and prejudiced to the interests of the community. Later, in 1819, a serious depression developed and many labor unions disappeared. After 1822, when prosperity returned, unions re-emerged. The continued upswing in the economy in the early 1830's encouraged growth of unions and strengthened their bargaining power. The dignity of labor and respect due the workingmen were as much the concern of labor unions as improvement in the working conditions.

In the 1840's the real impact of immigration was felt when the overabundant supply of cheap labor kept wages low. The discovery of gold in 1849 was the turning point in labor history, because this event brought the return of prosperity to the economy. Job-conscious unions were formed and labor parties emerged.

Even though the labor parties as a whole failed because they were too heterogeneous, they had more to do with the achievement of free public education than any other group, managed to get wage increases, and emphasized the need for shorter working hours.

The widespread and violent industrial strife after the Civil War led to the formation of the National Labor Union in 1866. This union was a national association of unions, a federation of trade assemblies, rather than of national craft organizations. Its aims were an eight-hour day, establishment of consumers' and producers' cooperatives, restriction of immigration, abolishment of convict labor and establishment of a Department of Labor. The National Labor Union collapsed in 1872, largely because this group had a middle-class idea of how society might be regenerated, rather than understanding the basic needs of the workers for higher wages and better working conditions. Union officials lacked managerial skill and funds and the cooperatives were run inefficiently and dishonestly.

The year 1877 was one of the most turbulent in American history because of the prolonged railroad strike. As a result of this strike, which was marked by violence and property damage, more than 100 persons were killed and 200 injured. From this experience, labor learned that there was a significant need for organization and authority to prevent strikes from developing into mob action. In 1886 a movement

to strike in favor of an eight-hour day led to the Haymarket Square riot in Chicago. This incident in which a bomb thrown at a group of strikers and policemen in downtown Chicago killed a number of people, aroused and alarmed the public and blackened the whole labor movement. It also had an important influence on developing the trend of trade unionism since it separated those Marxian socialists who wanted to promote trade unions as a base for revolutionary activity, and those whose basic goals were better hours, wages, and working conditions.

The original purpose of the Knights of Labor, organized in 1885, was to meet the needs of the workers, who felt that they were being ignored by the capitalists. The Knights were a diverse group, composed of farmers, businessmen, and mechanics. Since the strength of the Knights of Labor was over-publicized, business leaders were afraid of labor organizations and consequently did everything in their power to eliminate the Knights by the use of iron-clad contracts and injunctions.

In 1886 the American Federation of Labor (AF of L), under the leadership of Samuel Gompers, took over the Knights of Labor group of 800,000 members. At this time, the Cigar Makers' Union decided to organize the craft unions and thus deprived the Knights of their skilled workers.

Whereas the Knights of Labor had been highly centralized and had an autocratic leadership, the AF of L believed strongly in the autonomous individual needs of its members. The Knights had been all-inclusive in their membership, while the AF of L was exclusively for skilled workers. Each national and international union that was a part of the AFL had full powers of discipline over its own members and complete freedom of action toward the employees, without interference from the Federation. The Federation guaranteed to each union a certain jurisdiction and protected it against rural unions.

#### Progressive Era (1900-1914)

The popular discontent with business domination which had been so prevalent in the American presidential campaign of 1896 did not subside with the defeat of William Jennings Bryan. It found new expression in a more general and less radical movement that emphasized political and social reforms through the agency of both major political parties. In a determined quest for a larger measure of social justice, the nation demanded an end to "invisible government" and special privilege. There was effective advance in many sectors of the economy and a "bracing of the moral sense of the country" that gave the progressive era a distinctive character in sharp contrast to the climate of public opinion in the 1890's or the 1920's.

Nineteenth century concepts of a laissez-faire economy gave way to an awakened sense of social responsibility that accepted the need for action by government to meet the mounting problems of industrialization and urban growth. These gains were made against a background of peace and prosperity that led to a significant rise in living standards. Confidence in democratic capitalism, which was lost in the mid-1890's, was once again renewed in a spirit of optimism. The organized labor movement was almost wholly dominated by the American Federation of Labor. However, the overwhelming number of employees in the large mass-production industries remained outside union ranks. During the progressive period, less than 10% of the nation's wage earners were directly involved with union activities. The favorable turn in relations between national unions and employers was so pronounced in the years 1898-1904 that they have been called the "honeymoon period" of Capital and Labor.

This progressive period in United States labor history began about 1900, when the AF of L entered into politics for the first time. Although Theodore Roosevelt, the President of the United States at the turn of the century, was anti-union and opposed to big business, he was not anti-labor. President Roosevelt resented Samuel Gompers of the AF of L because Gompers tried to dictate governmental policy regarding working class problems. When Woodrow Wilson assumed the

presidency in 1912, Gompers and the AF of L thought they had found a friend for labor.

The Clayton Anti-Trust Act of 1914 was intended to prevent "yellow-dog" contracts (contracts forcing employees to sign an agreement not to join a union) and to limit the use of injunctions. Experience showed, however, that the cautious wording of the Clayton Act kept workers from winning any really new rights, and injunctions had not been outlawed. The most effective achievement of the Clayton Act was the statement in it that "labor is not a commodity." This was significant in that this event marked a change in the public attitude toward labor, but the act itself had no practical effect on employer-employee relationships.

In the decade beginning with 1910 the trade union enrollment, as a whole, rose to over 3 million members. The urge to join a union came not only from expectation of economic gain through collective action, but from the hope that greater job security, protection from arbitrary discipline, and a gain in one's individual worth and significance in an industrialized society would be achieved. The desire to take part in some group activity was particularly strong during the progressive era, for this was a period marked by the rapid growth of social clubs, lodges, and fraternal associations. The unions met a very real social need, entirely apart from the support they provided for collective bargaining.



The continued low wages and long hours for workers in the mass-production industries before World War I largely accounted for the unevenness of gains attributed to labor during the progressive era. Disturbing currents of a deeper discontent developed among the workers who were outside the bounds of existing trade unionism. New demands were voiced for organization on industrial lines. The adherents of socialism grew in strength and redoubled their efforts to build an effective political party. Radical agitation for direct action to secure their share of the benefits made available by an expanding economy was evident among the unorganized workers. However, the AF of L continued to dominate the labor movement and revolutionary unionism made no real headway against business unionism.

#### World War I Era (1915-1931)

As the shadow of impending war fell over the United States, organized labor was stronger than it had ever been before, and had won for the first time what was in effect official recognition of its role in the national economy. Labor leaders were determined that in the event of war such gains as had been made in recent years should be protected. In pledging support to President Woodrow Wilson, labor insisted on full recognition of its newly attained status, in which trade unionism was upheld as an essential institution for the settlement of industrial disputes. The

administration was prepared to work with labor on this basis, and after actual entry into the war in 1917 tried to pursue a policy in respect to industrial relations that would forestall strikes.

Agreements with the AF of L specifically provided for the enforcement of trade union standards in all government contracts, and Samuel Gompers of the AF of L was made a member of the Advisory Commission of the National Council of Defense. However, industrial peace was not easily maintained during the year 1917. As prices rose under the stimulus of wartime purchasing without a corresponding increase in wages, there was discontent among the workers and general demands for increases in pay. When such demands were not met, strikes broke out on a scale that exceeded even pre-war years, reaching a total of 4,450 by the latter part of 1917 and involving over a million workers.

By the beginning of 1918 this situation threatened to block the flow of military supplies overseas. Both the friendliness of Wilson's administration toward organized labor and simple expediency dictated a policy that would win the workers' support rather than one of suppressing strikes by force. President Wilson appointed a National War Labor Board in April, 1918, to serve as a final court of appeal. This group was organized to settle all industrial disputes that could not be resolved through other means. It was

composed of five representatives of labor and five of management, with two joint chairmen representing the public.

The general principles upon which the National War Labor Board operated were very significant as a reflection of new governmental attitudes toward labor, and also foreshadowed those which were later to be incorporated in the labor legislation of the New Deal. The Wilson administration was prepared to accord full labor support for all its traditional demands. The right to organize and bargain collectively through "chosen representatives" was recognized; all existing agreements in respect to union or open shop were to be upheld on their pre-war basis; the eight-hour day was to be applied as far as possible, and women entering industry were to be given equal pay for equal work. With these important commitments, strikes tended to subside and such disputes as did develop were, for the most part, quickly settled.

Labor policy was reflected in the wartime gains of the workers and the growth of unionism. The unions in 1919 had over a million more members than in 1916, and it was evident that the war had opened up great opportunities which American labor had used to the best advantage.

The conclusion of hostilities at once created a new situation. Wartime prices continued unchecked in 1919 and the workers began to realize the high cost of living,

despite the high wages they were able to command. However, the basic issue of union security was far less easily settled than wage adjustments. Many employers were willing to grant or at least compromise wage demands, but saw in any extension of collective bargaining a threat to the management of their own businesses. They refused to recognize union spokesmen, and concessions that had been made under the pressure of war were widely withdrawn. Newspaper reports of strike activity and the statements of public leaders all revealed a hardening attitude toward labor. Popular demand grew for a national policy of strike suppression in the name of economic and social stability.

Strikes in steel and coal in 1919 were significant in their national industry-wide implications in that they forecast a new pattern of industrial conflict that was to be greatly accentuated after the Second World War.

On July 1, 1922 a strike was called by the railway brotherhoods and 400,000 shopmen walked out. On September 1 of the same year Attorney-General Daugherty, in President Warren Harding's cabinet, obtained from the Federal district court the most sweeping injunction ever issued in a labor dispute. It prohibited picketing of all sorts, strike meetings, and expenditure of union funds to carry on the strike. This drastic move caused vehement debate throughout the country. Government intervention resulted in a disastrous setback for railway labor.

The whole labor movement continued to lose ground during the 1921-1922 depression and was unable to command the strength to defend itself against capitalism. Some unions were completely crushed; others suffered heavy losses.

Labor had emerged from World War I strongly organized, determined to extend its gains and confident that it would be able to raise the standard of living for all American workers. Between 1920-1923, however, union membership as a whole fell from its peak figure of a little over 5 million workers to approximately 3,500,000. On the other hand, in 1928 during President Herbert Hoover's administration labor gained some strength through the Norris-LaGuardia Act, which made "yellow-dog" contracts unenforceable and prohibited Federal injunctions in labor disputes, except as specified. This act also tried to enforce the idea that workers could select their own representatives without interference from employers. This last feature of the Norris-LaGuardia Act eventually gave John L. Lewis the power to establish the CIO.

#### World War II Era (1932-1949)

When Franklin D. Roosevelt became President of the United States in 1933, his stirring inaugural address held out a promise of action in coping with the national emergency in labor and industry. The government was at last prepared to accept the responsibility of extending aid to labor, industry and agriculture. While there was nothing in Roosevelt's

immediate program that applied directly to labor, except his promise to put people back to work, basic understanding and sympathy for the rights of labor were inherent in the emerging philosophy of the New Deal. For the first time in United States history, a national administration was to make the welfare of industrial workers a direct concern of government, and it acted on the principle that in a capitalistic society only organized labor could deal on equal terms with organized capital in bringing about a proper balance between these two rival forces. While labor unions up until this time had been tolerated, they were now to be encouraged. The advent of the New Deal was to prove a tremendous boon to the labor movement. Larger gains were won by wage earners than in any previous period in our history, and both the economic and political powers of labor were immeasurably enhanced.

The National Recovery Act (NRA), which was signed by President Roosevelt in 1933, was designed originally to put people back to work. However, the most significant aspect of this act was emphasis on employees' rights to organize and to bargain collectively.

In 1935 the long-standing breach between the industrial unions and the federated craft unions of the AF of L led to the formation of the CIO (Congress of Industrial Organizations) by John L. Lewis. Lewis had been in a power struggle with William Green of the AF of L; and because

Lewis understood the need of the auto workers and other industrial workers to have industrial unions, he seized the opportunity to organize the mass-production industries as a bulwark for labor against management. The CIO rejuvenated the labor movement and shook the lethargy of the AF of L. The rift between the AF of L and the CIO resulted not only from differences between craft and industrial unions, but was also due to the clash of activism ideologies of the CIO against the passiveness of the AF of L.

The success of the employees' "sit-down" strike in 1937 at the General Motors plant in Flint, Michigan, and the settlement of the Big Steel strike in 1938 decided the fate of the CIO. These were both outstanding achievements for labor, because General Motors Corporation agreed to recognize the United Automobile Workers (UAW-CIO) as the bargaining agent for its members, to drop injunction proceedings against strikes, not to discriminate against union members, and to establish a procedure for handling grievances. Then, too, the United States Steel Corporation recognized the Steelworkers' Organizing Committee as the bargaining agent for its members, gave a 10% wage increase to its workers, an eight-hour day and a forty-hour week.

The National Labor Relations Act (Wagner Act) in 1935 had established as national labor policy the right of workers to organize and to select a union of their own

choosing to represent them, but this act was not held constitutional until 1937.

In December, 1941 a National War Labor Board was created to settle disputes between labor and management that might interrupt the war effort, and to approve or disapprove voluntary wage agreements. This board was composed of twelve members--four from labor, four from management, and four from the public. One of the main problems of the War Labor Board was trying to recognize the wage formula, in which wage increases were limited to the equivalent of the increase in the cost of living from January, 1941 to May, 1942. Because of the subsequent escalation of living costs, figures on which the wage increases were based were not accurate.

When John L. Lewis defied public authority by refusing to deal with the War Labor Board in 1943, and encouraged a coal strike, Congress hastily proposed the Smith-Connally bill. This legislation provided that if the War Labor Board's intervention in a labor dispute were unsuccessful, the President of the United States had the power to take control of that particular plant.

To meet labor's demands during the wartime period, the War Labor Board established supplementary compensation which they designated as "fringe benefits." These benefits helped to decrease industrial unrest, averted strikes and established an entirely new pattern in employment practices.



The Board also granted equal pay for equal work for women. While the War Labor Board was criticized by both management and labor, strikes were limited to one-third of the number that occurred in pre-war years; and approval of vacation pay for employees as well as health and insurance funds were gained.

The National Labor Relations Board had been created in 1935 to conduct elections for bargaining units and to protect unions from unfair employer practices. Even though the whole mass-production industry was covered by collective bargaining agreements after World War II, the excesses of some unions and the militant spirit among the rank and file blue collar workers put the unions in a more vulnerable position than their wartime strength suggested. Generally speaking, after World War II the labor situation was quite different from the period following World War I in that unions were strong and cohesive and not on the defensive.

The main purpose of the Labor-Management Relations Act (Taft-Hartley), which was passed in 1947, was to restore the equality of bargaining power between employers and employees. The basic rights guaranteed the workers in the Wagner Act of 1935 were not withdrawn, but comparable rights were given to employers. The first six years after the adoption of the Taft-Hartley Act saw a gradual decline in strikes. In the strikes that did occur, labor was able to bargain effectively for additional fringe benefits.

Mid-Century Status (1950-1965)

At the outbreak of the war in Korea in 1950, the AF of L and the CIO set up a United Labor Policy Committee to work out agreements among major unions regarding production, prices, wages, and manpower problems. After the deaths of William Green of the AF of L in 1952 and Phillip Murray of the CIO in 1953, Walter Reuther became head of the CIO and George Meany was elected the new leader of the AF of L.

In 1955 a first step toward the merger of the AF of L and the CIO was the signing of the two-year "no raiding" agreement. After a joint unity committee was formed, the merger of the two large labor organizations was completed. One of the major objectives of the merger was to gain more control of the irresponsible unions and to minimize jurisdictional disputes. The merger did serve to strengthen forces combating communistic infiltration, racketeering, and racial discrimination.

By January, 1960, less than one-quarter of the nation's wage-earners were union members. The "right-to-work" laws in many states appeared to be a dangerous threat to union security by discriminating against the closed shop and the union shop. Great advances in automation led to technological unemployment. In the early 1960's there was considerable corruption and racketeering within the unions, and defections and expulsions grew out of Senate investigations.

The changing character of the nation's labor force could partially explain the failure of the merged AFL-CIO to realize further growth. The gradually decreasing proportion of workers in manufacturing, mining, and transportation industries and the increase in the proportion of white collar workers, who were resistant to the idea of union membership because of the social stigma attached to it, caused a decline in union membership.

After Senator McClellan's Select Committee on Improper Activities in Labor or Management in 1957 disclosed dictatorial union control in a few unions and corruption, violence and racketeering in some of the other unions, suspicion was cast on the whole labor movement. As a result of this investigation, Congress passed the Landrum-Griffin Bill in 1959. This legislation outlined a labor Bill of Rights with safeguards for democratic procedures within unions, prohibited communists and criminals from becoming union officials, and attempted to limit the economic power of all unions. However, this bill proved to be unsatisfactory to management by not going further in setting up new controls over boycotts and picketing, and, on the other hand, angered labor by strengthening rigid anti-labor provisions of the Taft-Hartley Act.

The Landrum-Griffin Bill seemed to reflect a changed attitude toward unions due to their monopolistic powers and the violence and corruption that had been demonstrated by

many of them. However, the bill did not materially impair the fundamental bases of organized labor's real strength.

In the ebb and flow of the history of the American labor movement, there has always been, on the one hand, a desire for stability and consolidation and, on the other, an urge for revision and reconstruction. Sometimes the current flows one way and sometimes another. For the present there is no doubt that stimulation for revision and reconstruction at the bargaining table is focused on employee benefits.

## EMPLOYEE BENEFITS - A RESUME

Some basic employee benefits, e.g., vacations and holidays, were offered in some form by a few companies even before 1900. In practically all cases these benefits were graciously given and in many instances were discontinued in the early 1930's due to depressed economic conditions. Before World War II, fringe benefits were rare among union demands, and where they did appear on the bargaining agenda they had a low priority. These benefits were thought of as employer gratuities, appreciated, perhaps, but not the answer to workers' more pressing needs for a higher money wage for the essentials of life.

### History and Background

"Fringe Benefits" as a term was first used about 1943 by members of the national War Labor Board. This board, unable to allow direct wage increases, encouraged employers to grant indirect benefits. The federal government's wartime economic policy of limiting wage increases diverted union demands toward every non-wage benefit so far imagined. The War Labor Board then permitted many of these benefits on the "fringe" of wages, on the grounds that since

they were not wage increases, but were social in nature, they were not inflationary and could be permitted. In less than twenty years the fringe benefit movement has transformed our concepts of the employer-employee relationship by imposing social obligations upon those who hire the service of others.

Using the term "fringe benefits" to describe payments other than wages to employees is becoming more and more misleading. This is because the cost of these benefits has become so substantial that, taken together, they have ceased to constitute a "fringe" and have become instead an important segment of the compensation of employees from janitors to presidents. In 1965 according to Allen, "Employee benefits frequently constituted 25% of the average employee's straight time hourly rate."<sup>2</sup>

One factor accounting for the rapid growth of fringe benefits was the Federal tax structure used during World War II. This was designed to confiscate excessive profits, yet it did recognize contributions to health and welfare and pension plans as legitimate business expense and therefore nontaxable.

After World War II the continuation of prosperity and full employment determined that the benefit movement was

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<sup>2</sup>Donna Allen, Fringe Benefits: Wage or Social Obligations? (Ithaca, New York: Cornell University, 1964), p. 25.

here to stay. This post-war period of prosperity was long enough and sufficiently great enough to support not only a higher economic standard of living, but a higher standard of social welfare. Realistically, there probably was no political alternative to the private approach, because of the considerable economic power of some unions and the limited political power of the labor movement as a whole.

Although labor unions had been bargaining with management for vacations, holidays and premium payments as early as 1945, they had no right to the bilateral establishment of welfare programs. After the Inland Steel decision in 1948 they received this right. The Inland Steel decision held that Section 9a of the Labor Management Relations Act (Taft-Hartley), by giving the unions the right to bargain for wages, hours and other conditions of employment, made welfare and pension plans bargainable items. This decision also affected the unilateral plans then in existence, and prevented management from making any changes without first bargaining with the union. It also gave impetus to the 1949 union pension drive. In a four-year period (1949-1952) fringe benefit costs rose 60%, over half of this increase being for employee security plans.

Since the unions were unable to get political support for social legislation, they sought their social gains in the only way open to them. Social in origin and in concept, the fringe benefit movement was advanced in the

postwar period by conscious choice of employees and their unions. With wage controls gone after the war, there seemed to be no question that workers were seeking fringe benefits by choice. By the time of the fourth yearly round of postwar bargaining in 1949, the fringe benefit movement was in full swing. This time it was the workers themselves who were limiting the wage increases and asking for more fringe benefits.

There was a growing belief that the employer had two obligations attendant upon his use of workers' services:

- To compensate workers adequately for the actual service they rendered.
- To assume certain obligations of a social nature, essentially unrelated to production but existing because of the employment relationship.

In effect, those who hired the labor of others took on certain social responsibilities pertaining to the needs of the worker in his life off the job and in the society of which he was a part.

According to Allen, these social benefits are of three general types:<sup>3</sup>

1. The penalty premiums for the purpose of establishing and enforcing a given social standard of working habits.

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<sup>3</sup>Ibid.



- a. Overtime. The general purpose of paying a premium for overtime work would be to spread work among more employees if a worker had to be given premium pay for working more than 40 hours.
  - b. Reporting Pay. The purpose of this payment is non-wage and social. This payment is designed to compensate a man for the loss of his time if he reports to work when little or no work is available, and as a penalty to the employer to discourage unreliable scheduling, since this would interfere with the worker's life off the job.
  - c. Night Shift Differentials and premium for working on Sundays and holidays or during a regularly scheduled vacation period.
2. Provisions for "time off" without loss of customary income for certain activities which are social in nature. This would include:
- a. Historical or religious holidays
  - b. Annual vacation
  - c. Sick leave
  - d. Voting and jury duty
3. Benefits that could be called "economic-hazard protections" which make outright payment for social benefits, such as those that alleviate the economic hazards of illness, unemployment and old age.

Payments in this third group occur only as social need for them arises, and they are paid according to the agreed-upon standard of how much economic hazard will be met, with what level of benefits, and without reference to service rendered.

The fact that fringe benefits are wholly social in nature does not mean that they are not intended by the

employer who voluntarily adopts them (in the absence of a union) to be a means of increasing employee productivity.

### Advantages of Employee Benefits

From the employer's viewpoint, in the prosperous postwar period of rising productivity, putting additional profits into labor costs, which would then be deductible as business expense, was economically wiser than having it taxed as income. The organized employer's willingness to grant the union's fringe benefit demands made it necessary for most unorganized employers to follow suit. When they did so, it was for the same productivity purpose. Fringe benefits, and particularly those that required employees to build up seniority in order to be eligible for them, have often been voluntarily adopted to keep or attract labor; that is, for the purpose of indirectly increasing productivity by reducing labor turnover costs.

Employers who voluntarily incur these costs to increase productivity more directly do this because of the social nature of these benefits. For example, some employers feel that if workers have freedom from insecurity and worry about the financial problems of old age, unemployment, and illness or accidents, production is affected favorably.

Other employers see improvement in morale and loyalty resulting from the voluntary provision of benefits.

The granting of social benefits which unions have won elsewhere is thought useful in persuading workers that having a union is not necessary. The worker believes his employer has an interest in him beyond his life on the job and is a happier, more productive person.

Fringes which are union-initiated are for the primary purpose of providing particular social benefits, while fringes initiated by the employer make the provision of social benefits a secondary but essential consideration. His primary purpose in voluntarily incurring the cost is to increase work-free productivity directly or indirectly.

The employer has had a nonwage purpose in adopting fringe benefits voluntarily and in yielding to the union demands for them. This purpose, as the Maine Supreme Court stated in 1946, "includes certain intangibles which are of very real worth and value to the employer who desires a stable labor force."<sup>4</sup> Such plans foster good will and sound employer-employee relations. For example, a pension plan provides an orderly way of retiring older workers from the work force. Disqualification of a worker for unemployment compensation, if he has been given a separation payment, represents a tax saving for the employer.

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<sup>4</sup>Ibid., p. 26.

In some cases, employers adopt fringe benefits for tax purposes. The employer controls the terms and conditions and keeps the benefits sufficiently qualified to protect the return he expected in initially incurring the cost. Technically, he is free to reduce or eliminate a fringe benefit at any time that he finds its cost not worth the return. His provision of the social benefit does not represent any assumption on his part of an obligation to provide for his employees' social welfare off the job as does the contractual provision of a fringe benefit.

In reality, however, the distinction between fringe benefits in the management phase and those in the union phase is not clear-cut. The fringe benefit movement as a whole, in both its dimensions, quite generally represents an employer responsibility to provide for his workers' social welfare.

The paid vacation is the most universal of all benefits. Given to white collar workers for over one hundred years, vacations were first granted to blue collar wage earners about 1910. By 1945, over 90% of the employers granted vacations to their employees. Until recently, paid vacations were the largest cost item of all benefits.

As of 1965, holiday payments, noncontributory pension plans, sick leave payments, and in many cases, hospitalization insurance costs have been assumed completely by the

employer. Meals and laundry for food service personnel are often part of the compensation of the employees of restaurants, residence halls, hospitals, and other similar institutions. Overtime pay and personal time off for funerals, jury duty and voting time are included in the benefit programs of many industries.

#### Introduction of New Benefits and Limitations

In the union phase of fringe benefits programs, benefits follow a three-step pattern of development. The first step is winning recognition of the obligation by securing the benefit in the contract. At this step, the union often takes the benefit, however it can be won, with all the restrictions and qualifications management feels are needed to protect its productivity returns. In the second step, the union liberalizes the benefit provided. In the third step, the union works to eliminate management qualifications and restrictions upon the right to the social benefit. As an example, workers generally secure additional paid holidays in their contracts before eliminating management qualifications upon the right to those holidays.

All union actions are a steady progression toward imposition upon employers of a new social obligation. However, the unions persistently call fringe benefits "wages." This implies no obligation beyond the employer's

compensation for their actual service. Designating fringe benefits as wages was a union strategy to win an acceptance of the social obligation equal to the acceptance the wage obligation enjoys both legally and in the general public attitude.

Even when benefits are provided by contract, the employees in many industries have found that their claim to these social benefits still suffers from the old attitude toward them as "gratuities," fringes which are not to be taken as seriously as the wage obligation of the employer. Fringe benefit money may or may not be considered a legal obligation of the employer, as in the case of bankruptcy. Generally speaking, even the benefits provided by contract remain partially in the area of management control. The desire to have benefit funds jointly administered is a reflection of the desire to win more control over benefits which are still not wholly accepted as belonging to the employee, in the way in which the wages he wins at the bargaining table are.

#### Costs of Employee Benefits

Costs of fringe benefits are computed in one of three ways:

- Total annual cost for all employees is computed.
- Percent of payroll is figured.
- Costs are figured on the basis of cents per employee per hour.

As Francis M. Wistert points out:

Fringe costs generally range from 6% to 60% of the payroll, with an average of 21.8%. The highest payments are in the northeastern section of the United States. In a survey made of identical companies in a ten-year period (1951-1961) the average cost for fringe benefits rose from 20.6 cents per hour to 55.8 cents per hour.

While the national income during the past twenty-five years has risen 240% and the individual compensation has risen 300%, the cost of fringe benefits has increased 2400%.<sup>5</sup>

This is a startling revelation. For this expenditure, employers have maintained a temporary truce with labor unions and have, in some cases, kept organized labor completely out of their establishments.

To compute the cost of an employee benefit plan is often difficult. Regardless of who administers the plan, it must be recognized that the cost equals at least the administrative expense plus benefits paid. The value of the plan may be measured more accurately by the benefits paid than by the costs. Today the government is playing a greater role than ever before. According to Wistert,

In 1965, amendments to the Social Security Act and retirement benefits increased by 7% across the board with a minimum increase of \$4 per month. The fact that the new retirement benefit is related to a wage base of \$550 per month as compared with \$400 per month in the past makes a difference. Under the 1965 amendments,

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<sup>5</sup>Frances M. Wistert, Fringe Benefits (New York: Reinhold Publishing Corporation, 1959), p. 144.

the average hourly worker with a wife will retire at almost half pay.

Moreover, taxes paid by employers and employees were materially stepped up under the new law from a maximum annual tax of \$174 each to \$277 each. (This resulted from an increase in the tax rate from 3-5/8% to 4.2% and an increase in the taxable base from \$4800 per year to \$6600.)<sup>6</sup>

To consider what it may cost not to have a benefit plan is also important. Each company or group of administrators must contemplate some of its special problems. If a company is having difficulty in recruiting employees, lack of a good benefit plan may be more significant to an applicant than the specific plan.

Certain types of benefit plans may encourage employees to remain with a company rather than to accept employment elsewhere. On the other hand, benefit plans should not be so designed that they will freeze employees to their present jobs.

In considering costs of various benefit plans one must recognize two facts:

- The same plan may result in differing costs to specific companies because of difference in distribution of employees by age, length of service, and sex.
- The effect of costs may be different in specific companies because of the ratio of labor cost to total cost, the profitability of the industry and other factors.

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<sup>6</sup>Ibid.



### Trends in Employee Benefits

In contrast to the 1920's, at the present time there is a sharply different attitude toward all fringe benefits. The present interest in and demand for fringe benefits did not exist during the second decade of this century. Employers, who in the past fifteen or twenty years have been providing fringe benefits as a means of attracting and keeping labor, will find themselves unable to get rid of them when the labor market is no longer tight. In most cases, benefits are an obligation of the employer, equal to his obligation to pay wages for services rendered.

Dealing with employee recognition of the values of benefit plans is generally viewed as a communications problem. It appears that the communications task has become more difficult as the trend toward noncontributory benefits continues. Some companies that prefer to pay the full cost of benefits themselves admit that they have a communications problem, but they feel that when an employee contributes, he tends to give less significance to the company's share of the cost.

Most employees take for granted the benefits they receive or minimize the part played by their employers in making the benefits possible, yet few workers would acquire for themselves the kinds and levels of benefits made available in the employer-employee relationship. In many cases,

if it were not for the payment by the employer of all or part of the cost, the benefits would not exist.

When the union tries to claim that employee benefits are largely a union achievement, the employer is faced with the challenge of developing a communications program that is really informative, explaining what the benefits are and how and when they will be paid.

The trend at the present time is toward noncontributory benefit plans, even though most companies started their benefit programs originally on a largely contributory basis and still favor that plan.

Three factors have contributed to the general trends which have emerged in financing employee benefits:

- The first deals with federal income tax laws. Employers still have the right to deduct as a business expense their contributions to qualified benefit plans. In contrast, employee contributions are taxed as wages before they are used to help defray benefit costs.
- Labor unions have made the establishment of employee benefit plans a major bargaining objective. This creates a basis for expecting continued interest in extending benefit plans through collective bargaining.
- There has been an increasing public dissatisfaction with the continued upward climb of wages and the effect this has had on prices. Union negotiators, in their desire for collective bargaining gains, must be forced to shift their emphasis from the wage increase toward the increase of present benefits and the securing of new types of benefits.

What appears to be emerging generally is a basic package of direct (noncontributory) employee benefit coverages

for pensions, a moderate amount of life insurance and hospital-surgical coverage.

More and more employers will begin to examine their total employment costs when considering changes in wages, hours or benefits. The total employment cost approach to a consideration of union demands provides an excellent yardstick for a company to evaluate cost trends over time in comparison with other costs and in comparison with total labor costs of other employers.

The trend toward greater utilization of benefits by employees, together with mounting costs, will continue to determine the present pace of the benefit cost trend.

There is a continuing role for the contributory principle in benefit financing, but it will be confined to certain types of benefits such as social security. Other types of benefits such as major medical insurance and additions to group life or disability insurance are clearly improvements to a basic benefit program. Since these benefits are refinements to basic coverages, employees who want them should be willing to pay at least part of the cost.

By their nature, thrift and savings plans must remain contributory. Generally speaking, contributory benefits can do no more than lessen the benefit cost burden imposed on a company. New benefit plans raise total employment costs and must be considered in terms of the whole

complex of employee motivations, needs, competition for labor, and bargaining pressures.

Today there is a recognition of the fact that a primary purpose of pension plans is to make possible the necessary transition of some employees from an active to an inactive status, when it is within the company's interest, as well as to provide income for an employee in retirement. In past years, pension plans served to reduce turnover and decrease labor mobility. At the present time, the early retirement provisions of these same plans are being used to aid management in maintaining a trim, efficient work force by moving employees into retirement in order to make way for younger people with new skills or permit a company to adjust to changes in methods and markets. Now employee benefit plans are being looked at by management in a new and broader perspective than in the past. Major emphasis is being given to the role of employee benefits in the over-all employee relations program.

Benefit plans can no longer be considered an isolated element in relationship to the objectives of the business.

### Integrating Employee Benefits

Evaluating and integrating various employee benefits into a comprehensive program of employee benefits may require five steps:

- Define employee benefits.
- Inventory present benefits.
- Analyze the needs of groups of employees and of the employer.
- Evaluate the relationship between existing benefit programs and the needs of the employees and employer.
- Integrate the varied programs of employee benefits into a planned program of benefits.

As Allen states:

It is obvious that the whole social benefit movement has implications beyond the parties immediately involved. The public should have a larger voice and influence in the fringe benefit movement than it presently has.

One example for the need of guidance is on the subject of control of medical costs. These rising costs depreciate the benefits of those receiving them. More importantly, the ability of those without health and welfare coverage to meet their health costs, so greatly increased, is one of the direct results of the extensive fringe benefit coverage of these costs.<sup>7</sup>

Because the unions have led the fringe benefit movement, they are in the best position to say what these benefits intend and what their nature and significance are.

Allen explained:

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<sup>7</sup>Allen, p. 265.

It is time that they acted less as an interested party and considered the long-run advantages of telling the truth about their benefits. Fringe benefits are not a form of wages in payment for actual personal services, but represent a new nonwage social obligation.

The significant result of twenty years of bargaining has been a transformation of the employer-employee relationship: management has now taken on certain social responsibilities pertaining to the needs of the man in his life off the job and in the society of which he is a part.<sup>8</sup>

Looking at the whole employee benefit picture realistically, the most important result of fringe benefits has been the preservation of the employer's right to provide benefits for his employees voluntarily. Since the employees of the average company receive far more dollars in fringe benefits than do investors in dividends, the investor is really subsidizing the future of Free Enterprise as opposed to the Socialistic State, and thus guaranteeing future outlets for investment capital.

The extensive coverage itself, whether employer-initiated or union-initiated, creates additional demands. As today's benefits increase their coverage, a demand is created for each benefit on the part of the workers not covered and these fringe benefits, too, will come to be considered an essential part of the working conditions, not to be denied by any employer, organized or unorganized.

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<sup>8</sup>Ibid., p. 267.

Pensions are almost universally considered important and few employers can fail to provide some sickness benefits for their employees. Few nonunion employers can keep their employees at work on holidays when the majority of other workers are at home. If the demand by workers for social benefits and extensive coverage continues, employers with or without unions will not be able to withdraw them easily.

Provision of social benefits becomes an industry obligation in general conception, whether initiated by union action or by the employer voluntarily. Arbitrators and courts who believe provision of a given social benefit is management's obligation and part of its proper cost of doing business, will rule that other fringe benefits are due, even if not clearly provided in the contract.

The time may come when an unorganized employer, who tries to withdraw a benefit the workers have taken as an acknowledged responsibility of the employer, may find his workers justifiably upset. If they do not organize on the spot, they may collectively or individually take their case to the courts, where they might expect a favorable ruling.

Fringe benefits become a more or less permanent part of the employer-employee relationship. However, during a depression cycle in the economy, many benefits provided by contract will be negotiated downward or will disappear completely as contracts are lost.

### Effectiveness of Benefit Plans

Employees and their families benefit from the existence of statutory and private benefit plans in that they are furnished some security against income loss, compensation for medical expenses, and other protective measures.

Companies benefit to the extent that the program offered improves employee morale, adds to work efficiency and gives the company an advantage in labor market competition and public relations.

Society profits in that destitution and need for public relief is reduced, unnecessary labor mobility is curtailed and some degree of purchasing power is maintained.

Whatever the value received by the employer for fringe expenditures, it is proportional to the effort expended toward a sound and thorough job of communication to the employees and to the public.

Each benefit plan should be scrutinized from the point of view of whether or not it meets the needs of various classes or groups of employees and whether it meets the needs of the employer. A contributory pension plan, for example, which provides some vesting after a period of years is helping to meet the needs of retirement but also gives some protection against premature death. Stock purchase plans and thrift plans may also be revealed as not



only providing for retirement and premature death, but also making some provisions against unemployment and permanent disability.

Many companies fail to see the value in disclosing to their own employees the real values and true worth of their fringe benefit programs. This is a real mistake. Selling the company or the organization to the employee as an outstanding place to work is very important. It should be emphasized to the worker that the value of the benefits he receives is greater than the actual cost to the employer, and that the actual dollar and cents value of all these fringe benefits is difficult to measure.

How much better satisfied the employees at the university, in the factory or at the office job would be if these extra benefits were clearly defined and outlined for them, and if they realized how many plus values there are in their present jobs.

It should be realized that no one will profit from a benefit program if he does not understand it.

Answers to these questions should be kept in mind regarding benefit plans:

- Does the employee understand it?
- Does the employee's family understand it?
- Does the supervisor understand it?
- Does top management understand the plan?

The evaluation of benefit plans based on an inventory of employee benefits and on an analysis of the needs of various groups of employees and the employer will suggest adjustments to be made to integrate these plans into a well-balanced program.

Benefit plans are essential for employees, employers, consumers and society. To be of greatest value, benefit plans must be integrated to give maximum protection against a variety of losses. However, these plans cannot be integrated until existing plans resulting from legislation, union agreements and company policy are inventoried and evaluated against cost of plans, needs of various groups of employees and employers and the understanding of benefit plans.

As Robert Gray points out,

The foundation for improvement of benefit plans is the understanding by employers, employees, unions, insurance companies, government and the public of the various types of employee benefit plans. The most important ones are those which give an orderly, predetermined method of insuring the replacement, for a specified period of time, and under specified circumstances, of all or part of the regular income of an individual or of protecting him from specific expenses.<sup>9</sup>

It must be recognized that benefit plans may be considered part of labor costs and compensation, broadly defined,

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<sup>9</sup>Robert D. Gray, Appraising and Integrating Employee Benefits (BIRC Publication No. 3, October, 1956), p. 23.

but they are not part of wages or salaries. Benefit plans protect or insure wages or salaries.

These plans must conform to the basic principles applying to all insurance--the substitution of a small, but certain loss for a large uncertain one. In benefit plans, as in all other techniques of personnel administration, principle must take precedence over expediency. The plans must benefit the employer, the employee, the consumer and the public. A plan which benefits one group at the expense of another is not really a benefit plan and cannot, in the long run, help anyone.

## THE CHANGING LABOR PICTURE

In the past ten years there has been a change in the composition of the labor force. Today persons under twenty-five comprise 21% of the labor force, and according to Paine,

By 1975 this percentage should be approximately 24. The baby boom of the 1940's produced many new entrants to the labor market. The size of the middle age group is not growing at all, because of the declining birthrate during the depression, as well as the casualties sustained during World War II.<sup>10</sup>

As a result, by 1975 our work force should be substantially younger and less experienced than it is today. These shifts will present serious problems for management. As the number of persons in the 35-50 age group declines in the labor force, competition for key people will grow sharper. It is very possible that compensation rates for managers may be forced up faster than is presently anticipated. Because of the shortage in the middle age group, the development of managerial talent will be a critical need in the next decade.

Cathles states that

the economic reasons to automate may grow even more pressing tomorrow than they are today, partly because increases in compensation rates

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<sup>10</sup>Thomas H. Paine, "Employee Benefits - Nowhere to Go But Up?" Personnel, XLIII (January, 1966), p. 14.

will make it profitable to substitute for men, and also there will be too few people competent to lead and supervise large groups of workers.<sup>11</sup>

According to Thomas H. Paine,

By 1975 today's labor force of 77 million will reach 94 million. The present rate of unemployment will continue at 4.5% and there will be a reduction in the average number of hours worked per week from 39 to 36.7 hours.<sup>12</sup>

This is based on the assumption that the American people will choose to take some of their productivity gains in the form of leisure time. If these assumptions are reasonable, the total annual growth in compensation per person per year will be 4.5%. This would mean that by 1975 the average pay will be 155% of the average compensation today.

The view for the U.S. economy as a whole in the next decade is one of rapid growth, continued prosperity, some inflation, substantial increases in compensation, dramatic changes in the composition of the work force and significant increases in the levels and costs of benefits.

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<sup>11</sup>L. M. Cathles, Employee Benefits in 1974 (Aetna Life Insurance Company, Bureau of Industrial Relations publication, 1964), p. 1.

<sup>12</sup>Paine, p. 12.

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