

- (b) To set up, and adopt, a standard method for readily making further comparisons as time goes on;
- (c) Then by that method, to find out what the relative percentage of increase in living cost has been;
- (d) And, with that percentage as our guide, determine whether or not the advance in the daily earnings of the various classes of workers has shown the same relative percentage of increase as has the cost of living;
- (e) If any classes have not been advanced proportionately, then to adjust the rates for such classes to the extent due them through those findings.

*It is plainly evident throughout the report that it does not, in any manner, attempt to establish the requirements of the average family, or any specific sum to meet those requirements. It is in no respect an attempt to establish a minimum wage. Neither is it designed to act as a guide in establishing a minimum wage for the workers in our plant or in any other. Consequently any figures given are merely for the purpose of arriving at the relative percentage of increase on the essential factors of living cost from the period which we have accepted as being normal to this community, to the present time.*

It will be noted that in this report we have considered unvarying quantities of food, clothing, fuel, etc., throughout the years covered by our research, and that we have not made deductions for the reclamation or salvage of food or clothing. Yet we all know that every thrifty family does considerable work of that nature. Neither have we made any special al-

lowance for the purchase of sundry articles or expenditures for various items not included in the specific factors chosen as basic or fundamental ones. Such items as medical care, education, and amusements are provided in a varying degree, in many families, from the wage-earner's income. And the reason for that omission is, that while such allowances should be made in establishing a minimum wage, they are not strictly pertinent to the determination of the relative increase in living cost.

Our findings show an average of 80% excess in living standards over wage paid for the various years, including 1913, which is the year we have chosen as our base. This is no doubt because quantity requirements as given us were highly exaggerated over actual quantities used, and because of the omission of the factor of salvage and reclamation. However, this excess did not affect our final conclusions as to the relative percentage of increase, for the percentage of increase in the past six years has been just as great on one pound of any specific commodity as it has been on any fraction or multiple thereof.

Therefore the percentage of increase, as determined herein, we do claim is properly representative of conditions existent for the average worker in our plant and his family. This percentage of increase may be useful in wage adjustments in our own community, but not for other localities. For other communities we recommend an investigation similar to this in methods, but the conclusions should be based solely on the findings with respect to the actual variations and changes occurring in the locality of the investigation.

RAY M. HUDSON,  
Manager, Department of Methods and Personnel

## REPORT ON COST OF LIVING IN RELATION TO WAGE ADJUSTMENTS

### I. INTRODUCTION

Among the constantly recurring topics of the day there is none of so much concern to us all as the cost of living in relation to wage adjustments. Every one of us has been forced to reckon with this problem either from a personal or managerial standpoint. The trend of events indicates that this issue is one which cannot be dodged, but must be faced fairly and squarely. The point at issue is whether or not "Wages should be adjusted with due regard to the purchasing power of the wage and to the right of every man

to an opportunity to earn a living at fair wages, to reasonable hours of work and working conditions, to a decent home, and to the enjoyment of proper social conditions." (See question 8 in Referendum No. 27, on the report of the Committee on Industrial Relations, regarding Principles of Industrial Relations issued April 16, 1919, by the Chamber of Commerce of the United States). Many will recognize the foregoing paragraph No. 8 in the Declaration of Principles of Industrial Relations. The arguments in the affirmative as deduced from the answers state:

"Adjustment of wages as recommended in the eighth proposition places the wage standard upon an equality with the American standard of living. Compensation which does not permit the recipient to have his part in the life of the typical American community—and for a part in such life a wage adjusted as is suggested is essential—means immediate public detriment in that it creates an element which is apart, and it may mean an eventual public charge for the maintenance of persons rendered incompetent for any industrial service through the inadequacy, by this test, of the wages they have received. The adjustment of wages that is suggested is likewise of importance to individual industries which, in the long run, are dependent for stability and permanence upon contented workers with a sense of well-being according to the standards of the community. Without such conditions an industry cannot have among its personnel the esprit de corps which is essential for both quantity and quality in production.

Adjustment with due consideration of purchasing power will necessarily take into account the fluctuating value of money. The wage is customarily expressed in dollars and cents. Because of changes in the purchasing power of money, a wage which at one time was generous may become insufficient. Changes of this kind in the past three years have been marked, and wages have been widely readjusted, with degrees of accuracy that cannot be ascertained. In 1918 the Railroad Wage Board reported that the changes had been especially burdensome upon persons with small incomes and that, in order to have the same wage in 1918, a man who received \$85 a month at the first of 1916 should have an increase of 40%. A more recent independent inquiry resulted in a conclusion that between July, 1914 and November, 1918, the cost of living for wage-earners in representative American communities advanced 65% to 70%. Even under very favorable circumstances the purchasing power of money can return only slowly to the level of 1914. To this circumstance, and the great changes that occurred during the war, due regard must be given in comparing money wages of earlier years with the wages that are adequate today.

That wages should be kept adjusted to their purchasing power is important from another point of view. Wide markets are essential to industrial success where industrial achievement is in great output at low cost. Such markets are created by workers as consumers. The great domestic markets of the United States are made by the workers. Per capita they

consume more of the products of industry, and in greater variety, than the people of any comparable country. When industry itself is based upon the ability of wage-earners to buy its products, it is dependent upon purchasing power of the wage being unimpaired. An abundance of consumable articles with purchasers ready to acquire them brings prosperity."

Arguments in the negative state:

"This prosperity may be a paraphrase of the standard often expressed as a living wage. Living wage is a rather loose term which probably means a wage sufficient for the necessities, comforts, luxuries and conditions to which the normal individual has become accustomed. Accordingly, the living wage is not by any means a universal standard but differs widely. Moreover, in such a country as the United States these differences are accentuated by dissimilarities in race so marked as between negroes and whites and by variations among immigrants from many lands where they have divergent standards which still remain as their background.

In so far as the proposition may imply that wages should be determined by the standard of living it might not rest upon a sound basis. High wages do not arise from a high standard of living; they depend fundamentally upon effectiveness in the application of labor,—upon its being highly productive. Improvement in the arts, increasing capital, and greater productivity of industry are the sources of high wages and of the prosperity they connote.

The purchasing power of which account is to be taken is difficult to ascertain. The relative importance of articles, including the necessities of life, varies for persons of differing incomes. Changes in purchasing power of a wage cannot be exactly ascertained. At best, index figures of prices only approximately reflect changes in the purchasing power of the wage in the hands of a worker. Besides, he frequently can evade an increase in the price of an article, at least temporarily, by substituting another.

Finally, it might be appropriate to recall that purchasing power of money has apparently reached its low mark and is now increasing. At the time of the Civil War, the low point—i.e., the time of highest prices—was in 1864. A difficult question may soon arise, as to whether or not wages increased with the decrease of purchasing power should be decreased as purchasing power grows. Such a question should not be asked from the point of view of the employer, but of the public which in large part has incomes that did not greatly change with the rise in prices and