Discussion—

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The speaker gives us two definitions of wage incentives. At the outset he includes as wage incentives "all monetary payments made to employees as an encouragement to perform work, including hourly base rates of pay, overtime premiums, individual and group production bonuses, piecework rates of all kinds, and job evaluation."

Toward the end of his paper he states: "Wage incentives are designed to encourage increased productivity by the application of increased effort, with earnings in proportion."

Of the two, the latter definition, a functional one, comes closer to my concept of what the term means, although the increased earnings need not, of course, be precisely proportionate to the increased production. More accurately, however, it seems to me that a wage incentive is a method of wage payment which is calculated to reward the individual or group on the basis of some predetermined ratio between satisfactory units produced and wages. It does not matter whether or not the increased production stems from added effort or whether it is the product of ingenuity or teamwork, but it should properly compensate the individual or group only for that added output which is attributable to the individual or the group and not for that portion which may stem from arrangements introduced by management.

One of the soundest tests of a good incentive system was that developed by the War Labor Board. You will recall the language of the general order which permitted—and, in fact, required—the adjustment of incentive rates when changes occurred in product, materials, equipment, and so on. You will also recall the test of an acceptable new plan—that it should not lead to an increase in unit labor costs but, if anything, to a decrease.

Job evaluation and merit-rating systems do not belong in the definition which I have just given, and I do not propose to discuss

them, because the problems they raise are, in my opinion, of a completely different order.

Mr. Waite treats his subject from two points of view: the issue of arbitrability of the incentive system itself, and the handling of grievances arising out of the operation of a wage incentive system. Unfortunately not all of the wage incentive problems brought to arbitration can conveniently be pigeonholed into these two categories, and most usually they are not mutually exclusive. We are all familiar with cases in which it is alleged that the union is seeking to make a substantive change in an incentive system, where it is necessary to go fully into the facts in order to ascertain whether the union's objective is a necessary revision consistent with the premises of the plan, or a modification of the plan itself.

Generally speaking, when a grievance is raised by a union with respect to the propriety of a particular incentive rate we almost invariably encounter the argument that the rate is not subject to review, or, if it is, the burden of proof as to its impropriety rests with the complainant. In those industries where piecework or incentive systems are significant—that is, where a significant proportion of employees derive all or most of their compensation from employment under such a system—the right of the parties to raise grievances is usually recognized so far as at least the following two issues are concerned:

1. The propriety of a new rate for a new period.
2. The propriety of a rate change when methods, materials, equipment or product is changed.

Less certainly arbitrable are issues having to do with whether or not an hourly-rated job may be placed on incentive during the life of a contract, or may be removed from incentive, or whether the system itself may be changed. In these situations, barring contract language to the contrary, one may usually start from the presumption that changes of this character should be agreed upon during negotiations and not left to grievance arbitration.

Perhaps here is the place to make a point which I should have made at the very outset—that I am talking about grievance arbitration. There is also the other kind of wage incentive case—the new contract arbitration—where the system itself may be at issue and the arbitrator is specifically given legislative power. Such cases are rare—though extremely significant—and I think Mr. Unterberger may have something to say about them.

Getting back to grievance arbitration, I think that most of the incentive cases which we arbitrators get have to do with grievances about rates when conditions have changed or when new products are brought under an existing system. How should such cases be approached?

First of all, I think we have to assume that every wage incentive system is peculiar in some respect. In my own limited experience I have yet to meet two systems that were precisely the same. Some are precisely set by engineering formulas and some are merely bargained rates. Methods of calculation of rates may be identical between two plans and give a superficial semblance of identity of plans, but the assumptions underlying each may be quite different so far as "tightness" or "looseness" is concerned. This I have found to be true even as between two plants owned by the same company and represented by the same union.

The moral is, I think, that the arbitrator must make it his duty to ask questions about the nature of the incentive system, down to the last detail, and would do well to get the parties to take a hypothetical, non-controversial illustration or two in an effort to see just what kind of plan it is and whether or not the parties agree with respect to the basic principles of the plan. He should not be ashamed to do this, and the biggest mistake he can make is to try to give the impression that he understands all about a particular system, so that the parties will take too much for granted and leave too much unsaid.

After gaining an understanding of the plan we can proceed to apply our yardstick, and the only yardstick we can have, it seems to me, for measuring the propriety of a given piece rate is the system

itself. On the whole it should be internally consistent. If the proposed rate would enhance the consistency of the system, and if the existing arrangement (if an old rate) came into being during the life of the contract, then we may be permitted, by and large, to adjust the rate to bring it into line with most of the others.

An interesting situation exists when the degree of consistency of a given system is not great. Where vast discrepancies have been permitted to come into being—discrepancies which do not reflect earnings levels proportionate, on the whole, to the skill and attention required of the employees—ours is sometimes a most perplexing problem. So, too, when we find rates varyingly loose or tight according to the profitability of the product being manufactured. How many times have we run into cases where the only excuse for tightening the rate is the fact that the market for the product is running dry and price and cost become vital for the first time?

We search, then, for such consistency as the parties themselves have been able to bring into being, and we search for explanations of glaring inconsistencies which are tolerated by the parties. We do so in an effort to rationalize the existing problem—that is, to bring it into harmony with the system as a whole.

To do this we do not have to be incentive experts. At least that is my opinion. Some of us have never installed a piecework system. In fact, many people who are time-study engineers or piece-rate experts would be mighty poor arbitrators because of their desire to solve these problems with a slide rule, or to apply preconceived notions about good and bad incentive systems. Occasionally a time-study may be required. More frequently past records of production have to be sought out and analyzed. There are two great areas of doubt in our minds where ultimately we have to close our eyes and plunge forward. One is the level of earnings which is appropriate for the job in question. How seldom is it that the parties agree on what the objective is that we are shooting for.

The other is the rate which will yield that level of earnings, in the face of all the uncertainties which generally exist—whether the

people are familiar with the new job, whether they are holding back or not, how continuous runs will be, and so on.

Most of us try to get as much guidance from the parties as we can, particularly with respect to the level of earnings we should shoot for. Then, based on production records, careful observation of the job, maybe a time-study which we conduct, or time-study (plus criticisms of it) or time-study data supplied by the parties jointly or separately, we conjure up the figure that we hope they can live with. While we know they could do a better job themselves, were it not for the personality problems and political considerations which frequently intervene, I do not think we have to apologize for our results. An outsider with imagination can frequently see the problem not only more objectively than the parties, but sometimes more comprehensively, and in perspective, because he must search for maps and measuring points. To those directly involved in the controversy the terrain is so familiar they have frequently forgotten which are the major paths and which the alluring by-ways.

Our goal should be to promote the workability and acceptance of incentive systems wherever they exist. While he should be judicial, the measure of the arbitrator's success will be his capacity to bring to the parties a better understanding of the system which they themselves have created, so that they may sense its possibilities and limitations as an instrument for enabling them to live together productively and harmoniously.

I think we arbitrators can do much to take the mystery and pseudo-science out of wage-incentive arbitration. Common sense is still the foremost requirement for an arbitrator, and if he possesses an optimum amount of this quality he need not fear to step in, regardless of technical shortcomings. Common sense should also tell him when he is over his head, and where to go for help if he needs it.

These are the areas I think Mr. Waite's paper might also have touched upon. I hope my remarks, taken in conjunction with his, will provide an adequate basis for discussion from the group as a whole.