COST-OF-LIVING
SALARY ADJUSTMENT PLANS

for

MUNICIPAL EMPLOYEES

(INCLUDING MODEL CHARTER PROVISIONS)

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A SUMMARY INDEX

I. COST OF LIVING SALARY PLANS

GENERAL CONSIDERATIONS

One of the important modern developments in adjusting the compensation of municipal employees has been the cost-of-living plan pioneered by St. Paul, Minnesota in 1922. The current upswing of the economic cycle has renewed discussion of the problems involved.

The Detroit Bureau of Governmental Research issued a report on such plans in February 1942, which was the first critical analysis of this method of adjusting salaries to the economic conditions. The popularity of that report and the fact that the Detroit City Council has not as yet taken official action on the subject has prompted this further study. The first study was principally concerned with a thorough analysis of the St. Paul plan. This one outlines additional plans and discusses the development of certain plans which give much promise.

There is little need to discuss the theory underlying cost-of-living plans. It seems axiomatic as a matter of equity that insofar as reasonably practicable salaries of municipal employees should command a constant purchasing power – purchasing power being the real measure of worth of a salary. City employees, having basic permanency in their job, should not experience any substantial curtailment or inflation of their real income due to economic fluctuations.

The cost-of-living plan also has special merit in its application to municipalities. In the past it has been the experience that during the upswing of the economic cycle, city legislative bodies often were reluctant to raise salaries on the grounds that taxpayers were unfriendly to such action. And, if an increase were once given there was vigorous opposition to a decrease even though equally justified. This can be overcome if it is part of a plan which automatically adjusts and regulates salaries.

The cost-of-living plan is a helpful solution to municipal financing. When prices rise, taxes are easier to collect and salaries can be increased according to a plan equitable to both the taxpayer and the employee. When the basic justification of the higher compensation is removed through falling prices, salary reductions can likewise be made in an orderly fashion so that at all times the employee remains on a substantially even plane of living.

During depressions the usual guide to the extent of salary cuts is the state of the public treasury. Reductions are made with little regard to equity or to ability of employees to absorb them. The main consideration is to how much money is available or can be borrowed. In Detroit, as in other places, during the last major depression salaries were arbitrarily reduced, left unpaid, and eventually met by scrip.

In recent years, cost-of-living plans have grown popular with many cities. Some labor unions are finding in them a new method of settling the annual salary tussle with a minimum of friction. Labor, in some jurisdictions, likes the plan because it gives the workers a yardstick by which to measure the accomplishments of their leaders, to prevent the usual argument that they ‘should have done better.’

Cost-of-living salary plans do not eliminate all the difficulties inherent in salary adjustments between the public and its employees. But they do solve with considerable equity and dispatch on very important salary problem – the balance between municipal salaries and the economic cycle, which cycles in turn influence the salaries paid in private business. They do not solve this problem with mathematical exactitude, but do a better gob, a more reasonably certain and equitable job, than any other method yet devised.

On the other hand, the plans are not intended to solve certain other important problems – that of a satisfactory pay base, of the periodic increase in the base by reason of bettered standards of living, the adjustment between different ranks, and branches of the service, the value to the employee of good working conditions, permanency of employment, pensions, vacations, prestige of public office, and other factors which are an integral part of a complete compensation plan.

BASIC CONSIDERATIONS

In order to discuss the various plans presented here — and only typical plans are presented, the discussion is kept to several headings as explained below.

1. BASE SALARY:

The cost-of-living adjustment is predicated upon a base salary which represents (or should represent) at the time it is determined: (1) reasonable equity between the various ranks and grades of the municipal service, and (2) a reasonable correlation between rates of pay prevailing in municipal government and private industry. The object of a cost-of-living pay plan is to adjust predetermined salaries to the ups and downs of the economic cycle – *it does not determine salaries, it adjusts them once they are determined.*

It is important that a cost-of-living pay plan be based on an equitable pay base, otherwise the two distinct elements of base pay and cost-of-living become confused, with the result that demands for base salary increases are made when cost-of-living adjustments should be sufficient to preserve equity of the pay scales.

2. INDEX OF THE COST-OF-LIVING:

An index is a statistical device for measuring the relationship of several items. In the U.S. Bureau of Labor Statistics' cost-of-living index some 17 items which comprise a family budget are priced and the results related to the prices of these items for the base period. The base prices are equated to 100, and increases or decreases in the cost-of-living for other periods are stated in percentages of 100.

This index, the most commonly used, is entitled: 'Index of the Cost of Goods Purchased by Wage Earners and Lower-Salaried Workers,' and originated in 1919. The current index is a revision of the earlier ones and is based on a study of the spending habits of families in 42 cities in various regions of the United States for a one-year period between 1934 and 1936.

The 1919 index showed changes in living costs as compared to the base years 1914 to 1917, depending upon the city concerned. In 1935, the base was changed to the period 1923-25.

This index remained in effect only a few years when a new base (100) was developed for the period 1935-39.

The U.S. Department of Labor now prepares its index for 33 cities which means that other cities must either accept the figures of a neighboring city or modify an index to reflect local costs, which in most cases is not successful.

In 1939, the National Industrial Conference Board developed an index for some 60 cities, but there is no pervious history of this index for past years.

In Michigan, the State Department of Labor and Industry has developed indices for six Michigan cities which apparently satisfy the requirements for a cost-of-living index. The base is September 1941 prices. No current index reflects the items of expense entering into living conditions of governmental employees who are usually higher paid than employees in private enterprise, but the changes probably are not important.

3. LIMITATIONS:

In theory, changes in the cost-of-living probably should affect all employees proportionately, regardless of the salary brackets in which they may be. However, in actual practice the lower income groups are usually favored with more liberal cost-of-living adjustments, both because of popular appeal and because of the limitations on the general property tax as a means to finance salary increase. Usually, the limitations operate semi-automatically.

— *Limited Amount of Salary*: The cost-of-living adjustment is applied in a manner so that only the lower-salaried employees secure the full adjustment. In the original Dearborn plan the application was in full on all salaries up to $2,500 and on that amount for higher salaries. In the Portland plan, the uniform application is up to $1,200 of salary. In the model plans, one of the suggested plans applies to salaries up to $1,800 and on that amount for those above.

— *Graduated Scale*: A graduated scale is used in the novel St. Paul plan in which the cost-of-living adjustment is graduated to the amount of salary received – the higher the salary the less the adjustment with no adjustment at $4,560 and above.

Much the same effect, without the upper ceiling, is secured in the alternate plan in the proposed model law where the full effect of a cost-of-living change is given on salaries up to $1,800, decreasing on higher salaries.

All plans operate on the above devices or some modification of them.

4. NUMBER OF ADJUSTMENTS PER YEAR:

Most cities must finance substantially all salary costs from the general property tax which serves to limit the amount of adjustments to the capacity of the property tax to support them. Further, these taxes are levied as of a given period and are not subject to increase during that period. Some charters and statutes place rigid restrictions on changes in appropriations once made. Therefore, it usually is practical to make only a SINGLE ADJUSTMENT for a year, although, as in the Duluth plan, changes might be given more frequently within an over-all maximum limit. Before the start of the fiscal year every municipality must know within fairly definite limits the amount of taxes which can be anticipated for salary adjustments.

5. MAXIMUM-MINIMUM ADJUSTMENTS:

There are several developments:

— Percentage Limit – Minimum: It is almost uniform practice to make no adjustment unless the index changes two points or more.

— Percentage Limit – Maximum: Not all, but most plans provide for a definite maximum adjustment in any one year — usually ten pints. More than this cannot usually be granted without disrupting the city's finances, and even though unlimited increases might be given, it is less likely that unlimited decreases would be applied. For practical purposes it is desirable to have definite limits within which total adjustments can be made.

Cities which permit more than one adjustment a year usually provide for a limit on the total adjustment in a year. In a very few plans, such as that of Whitefish Bay, there is no upper limit.

— Amount Limit – Minimum: It is usual to blanket lower salaries in a manner so they receive the full effect of the cost-of-living index. In the St. Paul plan, the full effect of the index applies to all salaries of $1,000 or below on the 1916 basis, equivalent in December 1942 to $1,464. In the Portland, Oregon plan the minimum AND maximum salary affected is $1,200. It is, usually considered that the lower salaries are marginal, and therefore should receive full effect of the increase in the index — unfortunately, in a balanced plan, they likewise receive full effect of the decrease.

— Amount Limit – Maximum: A maximum salary affected is found in some plans, such as the St. Paul plan, and in single amount plans, like Portland, Oregon. In general, the better plans provide for the full effect of the cost-of-living index on some definite salary, and that amount above. This is found in the original Dearborn plan, and in the two suggested 'model' plans. A maximum amount is usually a device to limit the cost of the plan. The better plans seek to taper off the cost in the higher brackets by some automatic operation of the original formula.

— Permanency: Up to the present time, there are no cost-of-living plans which have any assured permanency. Universally they are ordinances, or by-laws which are readily modified and therefore, usually are. A workable cost-of-living plan should have some permanency through a charter amendment or a statute, so that it is not the subject of continual bickering or tampering.

II. TYPICAL PLANS

Certain typical cost-of-living plans are described below. All of them have some strong and some weak points. It is interesting that so many cities have approached the problem from different angles. The variety of plans presented is not due to the search for some compromise plan or variation which will best meet the interests of all groups concerned. These are by no means all of the plans now in use but are representative.

1. THE ST. PAUL PLAN

The St. Paul plan, which is the oldest, has been in operation over twenty years. It has operated during the highly inflationary period of the 1920's, and through the depression of the 1930's. This experience is of considerable value, and for this reason the plan will be discussed at greater length.

Characteristics: The outstanding feature of the St. Paul plan is its application of the cost-of-living adjustment on a graduated scale based on a basic salary. The lowest salary levels are given full 100% adjustment; salaries of $4,560 and above receive no adjustment at all, and those in between receive a graduated percentage of the adjustment for the cost-of-living. This feature will be discussed later. Other parts of the plan are more or less orthodox.

A. Base Salary: The base salaries were fixed at levels which were considered equitable for the year 1916. In explanation of this 1916 wage scale, it was said that inquiry among economists in 1922 indicated that 1916 was the last 'normal' year suitable as a base for a cost-of-living adjustment. However, it also was true that certain municipal departments had been granted raises during 1919 and 1920 while the salaries in others had remained fairly constant; for this reason, using 1916 as a base was a diplomatic way to avoid all discussion of the equities involved in the 1919-1920 pay raises.

The 1916 base has serious disadvantages, although all present day adjustments are still computed from it. It gives employees a feeling that the salary schedule is out-dated and is out of tune with current standards of living. As new types of work have been added to the positions already existing it has been difficult to project them back to a period when the motor bus was unknown as a method of transportation, when garbage was collected by horse drawn wagons, and when records were posted by hand instead of mechanically, it is almost impossible to adapt an old salary schedule to the wade-sweeping changes which have taken and are taking place in municipal administration.

In 1938 general complaints from employees forced a $60 a year bonus for all employees, which was added to the 1916 base. This was granted to make allowance for the 'increased standard of living,' but actually the amount granted was so small that in effect it was merely a compromise to meet the city employees' demands for higher pay. Inequalities in the salary schedule between the various types of employees were not corrected by the bonus, and especially the police and fire fighters felt they received far from an equitable salary.

As a matter of fact, the police and firemen had been disturbed for some time over their salaries. These were the largest groups of employees whose salaries were readily comparable with those paid by other cities. The 1916 base was especially difficult for these two services, as the physical and mental qualifications had been increased in the last ten to fifteen years, so that higher salaries were necessary to get the proper type of recruits.

However, it was not until the spring of 1942 that the fire and police officers took the problem to the voters and secured approval of a special salary increase averaging $226 a year each, effective January 1, 1943, bringing a patrolman's salary from $1,900 to $2,310. But if such a blanket raise were justifiable for the uniformed services, some similar adjustment probably was equally justified for all other employees. The net result was to bring into question the entire salary structure.

The $60 a year raise for all employees in 1938, and the referendum election for police and firemen in 1942 are indicative of the difficulties involved in a cost-of-living plan when there are not general revisions in the salary base over a term of years. The experience of St. Paul emphasizes that it is impossible to expect a salary base once adopted to remain equitable over a long continuing period.

B. Index Used: From the beginning the Bureau of Labor Statistics' cost-of-living index was used. When the plan went into effect in 1922, there was no local cost-of-living index for either St. Paul or Minneapolis dating back to 1916, so the national index was used. There was, however, an index for Minneapolis dating back to 1917, which was later adopted, but for some reason it was not deemed satisfactory when the plan was first put into operation.

The increase in the national index of cost-of-living between 1916 and 1922 was 50%, so the first adjustment in salaries put into effect by the St. Paul plan was a 50% increase of the 1916 base salaries. A salary of $1,020 in the 1916 schedule became $1,530 when the plan went into operation in 1922.

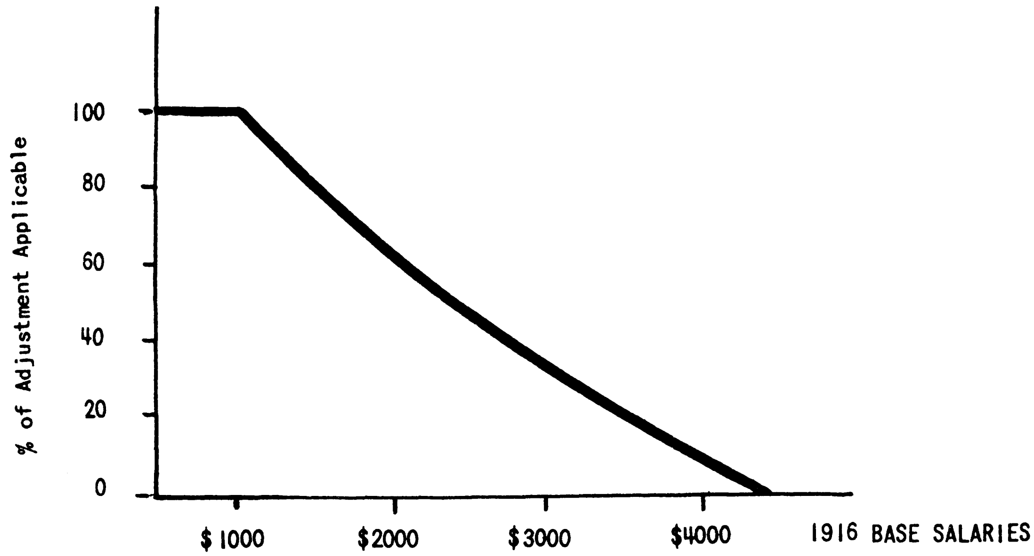
In December, 1926, it was decided that the national index did not correctly reflect local conditions and that the Minneapolis index would be more accurate. The Minneapolis index, however, went back only as far as 1917, and showed a 17-point increase between 1917 and 1922. On the basis of the 50% increase in the national index between 1916 and 1922 it was 'estimated' that the increase in the local index between 1916 and 1917 was 33 points and that the addition of the 33 points to the Minneapolis 1917 base would convert it to a 1916 base with reasonable accuracy. This reasoning introduced some error, but probably not enough to be of serious consequence.

The Bureau of Labor Statistics' cost-of-living index for Minneapolis is still being used. Adjustments in the St. Paul ordinance were necessary when the base of the index was changed from 1917 to 1922-25 and again when it was changed to 1935-39.

In retrospect, the selection of 1916 had the advantage of an initial 50% raise in all salaries, which went a long way to secure employee approval of the system. But there the advantage ends. Today, the plan, even with the $60 raise of 1938, and the fire and police referendum raise, is still outmoded.

C. Limitations: The St. Paul plan is an example of the graduated application of a cost-of-living adjustment. Figure A illustrates the approximate curve used.

Fig. A



The application is as follows: For salaries of $1,000 or less in 1916 the full effect of the changes in the cost-of-living is used. Thus, if the cost-of-living rose from 50 points to 60 points in one year (over 1916), a 1916 salary of $1,020 would rise from $1,530 to $1,632 (160% of $1,020). But, an employee with a base salary of $2,040 would receive only 62% of the increase, from the above curves, or 62% of the 60-point change or about 36%. The increase would then amount to $735.

The basic principle of the St. Paul plan is that the higher the salary range, the less the effective percentage of change, with no change at all for salaries of $4,560 and above. There is apparently no relation between the curve and observed data — the cost-of-living increase is probably just as effective for salaries of $2,500 as for salaries of $1,000 except that the $2,500 bracket has greater opportunities for economies than the $1,000 group, although opportunity for economies is not equivalent to maintaining equal standards of living — the presumed goal.

The specific effect of the St. Paul application of the cost-of-living plan is to keep the cost down and so within the financial capacity of the city. As the full 100% application of changes in living costs is applicable only to the lowest on the payroll, the full cost of the application of cost-of-living changes is kept to a minimum — although by giving only a token payment to the higher brackets.

The other plans in this study will show different methods for reducing the costs involved in the application of a cost-of-living salary adjustment plan. No city has felt it possible to give the full effective change to all salary ranges and it would only be possible in either (1) a small city or (2) one in which there are no tax limits. All cost-of-living plans are centered about devices for cushioning the effect of the cost-of-living adjustment to keep it within the financial capacity of the cities.

The St. Paul plan has the advantage that it has the greatest effect upon and therefore is most acceptable to the largest number of employees — those grouped in the lower income brackets. In brief, the keystone of the St. Paul plan is that it gives the most to the largest number of workers, at the least cost to the city.

Of course, the plan is not entirely equitable to any but the low income group but the fact that it has lasted 20 years would indicate that if the lower brackets are remunerated with fair liberality, the other employees do not protest too vigorously. In many respects it is as ingenious a method for applying a cost-of-living plan as any yet developed, but that does not mean that it is completely satisfactory of the best possible.

D. Number of Adjustments per Year: The plan provides for a single adjustment, made each January, based on the index of the previous June. But, the adjustment has not been observed religiously, as shown below:

June 1932: On January 1, 1928 and again on January 1, 1931 there had been reductions in the cost-of-living index of 3 points each. Another reduction of 9 points was indicated on January 1, 1932 but opposition of the city employees deferred application of this, decline until it was apparent that the cost-of-living was going down still further. A 9-point reduction was finally authorized in June, 1932.

Nov. 1933: The treasury was bare, salaries could not be met, so each employee was given an 8-day payless vacation — the only salary 'cut' during the entire depression. This record of failure to cut salaries could be matched by few cities regardless of size.

Jan. 1934: The cost-of-living index fell 7 points, but the city employees complained they had four salary cuts totaling 25% since January, 1928 (plus 8 payless vacation days) and that the plan was working too much to the benefit of the taxpayers. The council did not put the cut into effect. Thus, the employees' salary never felt the entire force of the depression.

Jan. 1935: Most of the effect of this 7-point decline was cancelled when living costs rose 5 points the next year.

Feb. 1938: An increase of $60 to each employee was given to compensate for 'increased standard of living.'

Jan. 1943: For years the firemen and policemen had been dissatisfied with their salary as compared with salaries in cities of similar size, especially the sister city of Minneapolis. A referendum in April, 1942, increased all firemen and policemen four steps on the rate scale, representing $26.20 a month. Thus, the salary of fire and policemen adjusted for cost-of-living rose from $1,900 a year on January, 1942 to $2,310 a year later, January, 1943.

A HISTORY OF THE ST. PAUL SALARY PLAN

BASED ON COST-OF-LIVING

1922 TO 1943

Effective Date of Change	% Change from Previous Figure Up	Down	Accumulated Change From 1916	Comments
Oct. 1922	50%		50%	Original Adjustment
July 1, 1924	2		52	
Jan. 1, 1927	1		53	Adjust to Minneapolis Index
Jan. 1, 1928		3%	50	
Jan. 1, 1931		3	47	
Jan. 1, 1932		3	44	
Jan. 1, 1933		10	34	
Nov. 1933				8 payless days, no funds
Jan. 1, 1934	No Change			Cost-of-living fell 7 points
Jan. 1, 1935	No Change			Cost-of-living rose 5 points
Jan. 1, 1936	3		37	
Jan. 1, 1937	4		41	
Feb. 1, 1938	4		45	
Jan. 1, 1940		4	41	In addition a flat raise of $60
Jan. 1, 1942	8		49	
Jan. 1, 1943	13		62	Police & Fire salaries raised

Note: from 1928 to 1942, all salaries were below the original Oct., 1922 adjustment — a period of 15 years.

The over-all picture (shown on the adjoining page) during the twenty-year period (1922-1942) shows that aside from the original 50% adjustment, there have been six increases totaling 22%, and five decreases totaling 29%, but two decreases were deferred, and one increase was given without any particular study — the $60 annual increase to all to compensate for 'increased standard of living.' In addition there was a minor pay cut — an 8-day payless vacation.

Probably the safe conclusion is that the plan has wobbled a bit in application but still has stayed reasonably well on the original course. And judging from more recent plans, this is perhaps its highest recommendation.

E. Maximum-Minimum Adjustments: The minimum adjustment, as in most similar plans, is limited to a 2% change in the cost-of-living, based on the reasoning that a smaller adjustment involves too much work for the result gained.

The plan has no specific maximum amount of adjustment, because in the basic plan the cost is whittled down by the application of a formula (curve) which decreases the salary change automatically for the higher brackets.

F. Permanency: The plan is covered by a city ordinance, and, as shown, thereby somewhat subject to the usual vagaries of political life.

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The ADVANTAGES of the St. Paul Plan as described are:

— It provides an ingenuous method of apportioning the changes in living costs so that the full effect is received only by the low-income groups. The higher the salary, the smaller the percentage change granted, until $4,560 is reached, when the plan becomes inoperative.

— For all but the lower income groups, in substance, the plan provides a token payment in lieu of adjustments for living costs.

— The cost of the St. Paul plan is low, and for that reason the plan withstood the test during the depression, with only 8 payless days, apparently, the plan is a satisfactory cost-of-living adjustment for employees and is within the financial capacity of the City.

But the are DISADVANTAGES:

— The base salary set at 19126 gives an antiquated aspect to the plan which is undesirable. However, this is not inherent in the plan and there is no reason why it cannot be changed to include a periodic study of the salary base.

— The plan, because it is legalized by an ordinance only, does not have the permanency desirable in a cost-of-living scheme, and therefore has been subject to some pressures.

- There may be some salary inequities in the plan, for the fire and policemen, whose salaries are readily comparable with other cities, have insisted for years they were underpaid, and through a referendum vote, the voters agreed with them. It is possible that the use of the 1916 base, and a lack of a thorough revision in 20 years, may have post-dated certain other salary brackets.
- The cost-of-living adjustment and the salary seem to be inextricably interwoven, which is not advisable.

However, the plan has worked reasonably well for 20 years, which is more than can be said for any other plan of the same type.

2. THE DEARBORN PLAN

This plan has been in effect in the Fordson School District in Dearborn since 1941. As originally adopted it was a simple and effective cost-of-living adjustment plan, but has been sufficiently distorted so as to become largely a device for arbitrary pay raises. Recent changes illustrate what can easily happen when the enabling legislation is too readily subject to change.

It is the most expensive of the various plans discussed in this study. Its main characteristic is the full application of the cost-of-living index on the first $2,500 of salary. This amount has been increased to $3,000 for the 1943-44 fiscal year.

Changes which became effective July 1, 1943, have complicated the plan by providing that when the cost-of-living begins to show decreases, the adjusted salary of teachers shall be brought up to or maintained at $3,000 by raising the maximum a sufficient amount to achieve this. This makes it a one-way plan, operating only when the cost-of-living is going up.

A. Base Salary: A thorough revision of the salary schedule was made around 1936, so the base salaries (those prevailing June 30, 1941) represented what was then considered substantial equity. The theory of a cost-of-living plan is that once equitable salaries have been established, it is desirable to maintain this equity by preventing falling or raising prices from changing the purchasing power of these salaries. The Dearborn plan denies this theory.

The original salary plan provided for a starting salary for teachers of $1,300 with annual increments of $100 a year. In 1942 the minimum was changed to $1,400 and the annual increments were raised to $200 a year. The initial salaries of clerical workers were raised $5 to $15 a month and their annual increments were raised from $5 to $10 a month.

When salary schedule changes are made together with cost-of-living adjustments, the two become inseparably fused and the entire increase is attributed to the cost-of-living adjustment, although actually it is in part due to manipulation of the salary schedule. The Dearborn experience illustrates one of the most dangerous pitfalls of a cost-of-living plan – mixing changes in base salary schedules with living cost adjustments.

However, even more sweeping changes were made in the plan. To make sure that the gains made would not be nullified by a declining cost-of-living index in subsequent years provisions have been made to 'up' the maximum salary in the salary schedule and increase the base salary of teachers to a level where their adjusted salary shall be at least $3,000. This immediately removes the plan from a cost-of-living adjustment to a method of raising salaries.

B. Index Used: The Detroit cost-of-living index is used inasmuch as Dearborn is directly adjacent, with about 50% of the boundary of Detroit coterminous with Dearborn. Originally, the plan provided that the adjustment would be based on the previous December index, to go into effect on the succeeding July 1st, a six month's lag, during which the school budget would be set.

This was objected to on the ground that this gave a total lag of 18 months from the effective date to the end of the fiscal year, which is true in practically all cost-of-living plans. The plan adopted by the school board provides that the cost-of-living index now *will be estimated* for its value on July 1st – the beginning of the fiscal year, thus reducing the time lag to 12 months. This change became effective July 1, 1943.

By this action the plan lost all resemblance to a cost-of-living pay plan and becomes in effect a guessing contest. The recent reductions in the cost-of-living since July 1st illustrate the folly of such guessing. It is impossible, under a government financed by taxes collected in advance, to pay salaries adjusted to a current cost-of-living index. The elimination of a six months lag dies little to promote equity when the adjustment then is made upon a guess.

C. Limitations: The Dearborn Plan incorporates the full application of a cost-of-living adjustment or a fixed amount of salary – originally the first $2,500, in the future the first $3,000.

These amounts represent the maximum salary for regular teachers. Under the original plans, if the cost-of-living index increased five points, a $1,800 teacher would receive a $90 adjustment (5% of $1,800) but a $2,800 teacher received only $140 for every five point increase in cost-of-living, and only those earning more than $3,000 will receive a flat sum of $150 (for a five point adjustment).

As originally developed, the plan was simple and easily understood, but provisions to keep the salaries of teachers from dropping below $3,000 regardless of changes in living costs limit it as a scientific salary determination scheme. While it is true that now the majority of employees are still being compensated for increases in living costs according to an estimated change in the index, it is solely a one-way proposition – always up until $3,000 is reached. This is not to argue here whether $3,000 is a justifiable base salary – the point is that the principle of adjusting salaries to meet changes in cost-of-living is intertwined with another consideration from which it is, or should be, kept quite strictly separate.

D. Number of Adjustments: The adjustment is made once a year, becoming effective on salaries as of July 1st. When the plan went into effect a five point increase was given effective July 1, 1941 although the index showed no change, and if salaries were equitable at the time there was little need for a salary increase to help 'sell' the plan. As it turned out, living costs did increase 7% from December, 1940 to July, 1941, or two points more than the five point increase, but this was fortune, not sound planning.

E. Maximum-Minimum Adjustment: No adjustment is made unless the index changes two points or more, as in most plans. But, singularly, there is no maximum adjustment, a serious defect in a plan as expensive as this.

F. Permanency: The plan is established by a resolution of the Board of Education and so can be changed at will. In Michigan, a school district could only establish a permanent cost-of-living plan through state legislation, which probably would be difficult to secure.

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The Advantages are:

— The full benefit of the cost-of-living increase is given to all employees up to the first $3,000 of salary, the maximum salary of the majority of the school employees.

— The plan as originally conceived was simple, liberal, easy to explain and apply, although the recent change in estimating the index of living costs removes most of the 'certainty' ordinarily associated with such plans

The Disadvantages are:

— The plan is more expensive than other similar plans and probably beyond the capacity of most cities with established tax limits or limited tax resources. This is due to the high base rate to which the change in living costs applies.

— Prohibition against any downward cost-of-living adjustment, which distorts the plan in favor of the employees and against the taxpayers.

— The index of the cost-of-living is estimated some three or four months in advance, which definitely removes the whole computation from exactness to guesswork.

— The repeated annual changes in the plan, leaves the plan barren of real usefulness in compensating for annual variations in living costs.

NOTE: The lengthy discussion of the Dearborn plan is justifiable only because it indicates some of the pitfalls which can occur to a cost-of-living plan which is not set-up by a fundamental law, such as a statute or charter provision. When employee groups anxious to secure the greatest possible remuneration, are liable in their enthusiasm to sabotage the entire plan. The most valuable lesson to be leaned from the Dearborn plan is the necessity for a fundamental law as a basis for the plan.

3. THE DULUTH PLAN

CHARACTERISTICS: This plan provides for a monthly cost-of-living adjustment in event there has been a change in the index of at least 2 ½ points. In the two previously discussed plans, the adjustments were made annually, but the Duluth plan makes the change currently – perhaps a more equitable method, but more difficult to administer and much more difficult to finance.

A. Base Salary: There is no 'base' salary. The resolution setting forth the plan provides:

> '. . . that for the purposes of this resolution, the term 'current salary' shall mean that salary established by the annual appropriating ordinance, or as amended by the City Council.'

In other words, there is NO BASE SALARY – the plan is simply for the monthly modifications of current salaries as established in the annual budget ordinance. The plan therefore, is not a true cost-of-living plan except that salaries in Duluth remain fairly stable.

B. Index Used: The U.S. Department of Labor index for Minneapolis is used, although no study has been made of its adequacy. The base from which the changes are computed is assumed to be 111. The City employees insisted on a base index of 100, while the Governmental Research Bureau urged 122, as this was considered the average of the 1925-29 period when the taxpaying ability was thought to be at its peak.

To resolve the argument, the Council averaged the two indices arriving at 111, which strangely enough produced practical advantages. When the plan was adopted in February, 1942, the Department of Labor's index for Minneapolis for the previous December (1941) was 110.7 – or practically the 11 used and thereby facilitated subsequent computations.

C. Limitations: The Duluth plan is a flat salary plan – all salaries of $2,000 or under receive the same adjustment of $1 per month for each point change in the index. This is equivalent to a percentage adjustment on an annual salary of $1,200, regardless of the actual wage received. This makes the plan economical, although it is hardly justifiable to assume that only the first $1,200 of salary is affected by cost-of-living variations.

D. Number of Adjustments: The chief feature of the Duluth plan is the monthly adjustment when a variation in the index warrants. There is some advantage in monthly adjustments since living costs are maintained on a current level, rather than being based on costs from six to 18 months in arrears. However, the monthly adjustment clashes with established budget procedure which frequently prohibits such periodic changes, as shown below.

E. Maximum-Minimum Adjustments: There are several restrictions on the operation of this plan:

1. No adjustment is made unless the index changes 2 ½ points or more.
2. The MAXIMUM ADJUSTMENT is limited to 5 points in any one year.

Thus, the plan operates within rather narrow limits – no change for less than 2 ½ points, or for more than 5 points in one year and further, the change is limited to a $1,200 salary. The ordinance expresses the limitations in different terms: the adjustment is made on the basis of $1 per month for each point change, with a maximum adjustment of $5 per year, regardless of the change in the cost-of-living. But any monthly adjustment plan which is to remain financially sound would have to have some such restrictions.

3. The adjustment is limited to salaries of $2,100 or less per year.

4. There are definite limits on decreases.

The plan is designed especially to aid the low income groups, with the added feature of reducing the annual cost. A further feature of the plan is the provision that when the index falls between 111 and 100, there shall be no salary adjustments. These 11 points constitute a period of grace when no change shall be made. This has the effect of delaying the salary reductions (or increases) until there is a marked change in the economic cycle.

When the index goes below 100, the decreases are computed in the same manner as the increase -- $1 per month within the 2 ½ to 5-point range.

The plan is economical on the upswing, but it is equally restrictive on the downward trend, tending to preserve salaries on a fairly stable level, particularly through the use of the 11 point plateau, although the total adjustment is not large.

F. Permanency: This plan is covered by ordinance, as are all other plans. Added to such instability is the lack of permanency in the base pay which is not an established amount, but is the current salary provided in the annual budget.

The ADVANTAGES of this plan are:

— The resulting low cost from restricting the adjustment to a narrow range, from2 ½ to 5 points.

— Because of the narrow range, the adjustment can be made monthly, instead of once a year.

— A ‘period of grace’ of 11 points during which salary adjustments are not effective so that only marked changes above or below ‘normal’ are reflected.

The DISADVANTAGES of the plan are:

— The temporary nature of the plan, especially the lack of any adequate salary base.

— The adjustments are small, amounting to only five points a year, and these adjustments apply on only a low salary amount -- $1,200.

— No adjustments are five to anyone whose salary exceeds $2,100 a year.

Although in actual practice the plan may work satisfactorily, the disadvantages seem to be over-balancing probably due to the difficulties arising from monthly adjustments. The mechanics of budget making are rigid, and any interim living cost adjustment (such as the monthly adjustment) must be limited to small amounts.

4. INDUSTRIAL PLANS

A brief study, 'The Cost-Of-Living' by the National Industrial Conference Board (1941) briefly outlines 21 cost-of-living adjustment plans used in industry, most of them a part of union agreements. Although it is often assumed that labor unions are antagonistic to cost-of-living adjustments, this apparently is a local (Detroit) situation, for a number of unions have adopted the cost-of-living annual salary adjustment principle in their labor contracts.

A characteristic of these industrial plans is the reliance on a standard formula – one point rise in the index gives a 1% increase in wages; far more equitable than the Duluth and Whitefish Bay plans in which a one-point rise is equal to a $1 increase.

The following is a summary of the 21 plans discussed:

	Number of Plans	
1 point change equals 1% adjustment	7	
2 points ' ' 2% '	1	
3 points ' ' 3% '	1	
5 points ' ' 5% '	9	18
% change in index applies to base pay	1	
10 points change equals $0.12 a month	1	
5 points change equals $0.04 an hour	1	3
Total Plans		21

It is apparent that a ratio of one point change to a 1% adjustment is the outstanding plan – 85% are in this group. The exact method of application varies – the most popular is the 5% change for a five point rise which simplifies the payroll procedure because it is rare that more than a ten point change in the index occurs in any one year, dating back to the start of the Department of Labor figures. The 5% for a five point change is more economical and more advisable than the 1% for one point change because the employee receives an appreciable amount when an adjustment is made, and fewer payroll changes are necessary.

Other Conclusions: Only one of the plans gave full benefit of the cost-of-living change to all salaries although limited to salaries below $6,000. In all but four plans, the U.S. Department of Labor's index was used. In eight of the plans the adjustment was to be made for increases only.

In four of them, the maximum adjustment was limited to 10% in any one year, which gives as much protection to the employee during decreasing costs, as to the employer when cost-of-living is increasing. In general, the 10% limit is not restrictive. In one plan, no further increase was to be given until the index reached 117, and in another the limit was an index of 125, when the plan was to be given further consideration.

CONCLUSION: Most of these industrial plans have been created during the past two years so there is not sufficient history to determine their adequacy. The outstanding conclusion is that the basic formula of '1 point equals 1%' is a favorite. Some of the plans are elementary in structure; others are well developed and are suitable to a long term of years. There is every evidence that the plans are created as yardsticks for use during inflationary periods, as a guide to both the union and employers in wage negotiations.

Although most of these plans refer to hourly workers with weekly pay periods, the basic formula is readily adaptable to municipal practice.

5. CANADIAN DOMINION PLAN

The Dominion government has combined a cost-of-living adjustment plan with economic controls to prevent inflation which are applicable to all business and industry in Canada. This is the first application of a cost-of-living plan on a country wide basis. The plan is administered by the National War Labor Board uniformly throughout the Dominion. The Board in addition has extensive other powers over industry and labor.

The wage adjustment is based on the index of the cost-of-living as prepared by the Dominion Bureau of Statistics in the Department of Labor. The plan provides roughly for a 1% adjustment for one point change in the index, on a uniform salary of $1,300 a year, or as provided in the act, a 25 cent a week adjustment for a one point change in the index, to be adjusted quarterly.

The act divides all employees into two groups: the first are those who receive earnings of $25 a week or more, who receive the 25-cent a week adjustment. The second are those who receive less than $25 a week, or males under 21 years of age, and who are given a 1% adjustment of the actual wages received. The reason for the division is obvious – the $25 a week or over group are actually receiving a 1% adjustment on a flat income of approximately $1,300 a year, or 25 cents a week for 52 weeks in the year, while those under $25 a week receive the straight 1% adjustment.

The adjustments are made quarterly starting February 15th of each year, based on the cost-of-living index of the previous month. No change is made unless the index changes 1 point or more over the previous quarter. The plan went into effect on November 15, 1941 using the October 1941 index. The rule that no change is made unless the change exceeds 1 point from the previous quarter, and that the effects of changes of less than 1 point are not cumulative, operates peculiarly, as shown below. At the start of the plan, November 1941, the index stood at 114.6 (October 1941), and at the end, 1 ½ years later, it was 117.9 – a difference of 3.3 points – although there was only one upward adjustment for a two point rise in August 1942 because in other cases the increase had not equaled at least 1% between quarters.

Index Date	Index	Adjustment
October 1941	114.6	
January 1942	114.5	
April 1942	115.0	
July 1942	117.0	50 cents
October 1942	116.9	
January 1943	116.2	
April 1943	116.7	
July 1943	117.9	

* The period is the quarter starting 30 days after the index number is issued.

The Canadian plan differs from its American relatives in the lengthy detailed provisions covering its application. This perhaps is due in part to its application to business on a country-wide basis, although the plan enters into far more detail than is characteristic of the municipal plans in America.

The Canadian plan, like some of the cost-of-living plans in this country, is a device to adjust wages to rising prices – the plan becomes inoperative when the index drops below the base of 114.6.

It should be noted that the Canadian cost-of-living plan is a part of a larger effort to equalize wages. The Department of Labor (Canadian) studies individual industries, issuing orders adjusting the wage scales to conform to a national standard – some are raised, some lowered – and the cost-of-living adjustment is then applied. In substance then, the Canadian plan has two distinct steps: (1) equalization of all salaries within the Dominion to a standardized plan and (2) quarterly adjustment of the standardized salaries to the cost-of-living.

In the Canadian plan, the adjustment follows a formula becoming more popular; 1 point change equals 1% adjustment. This is the principle of the Duluth and the Whitefish Bay plans. The advantage of such plans is the simplicity inherent in a single adjustment of a flat salary. The plan is economical in Canada because the base salary is comparatively low – the $1,300 salary affected is near or below minimum subsistence in urban United States.

In the first 18 months, there had been but only one adjustment for two points (August to October 1942); for the balance of the time the Dominion has been able to keep the cost-of-living within minimum range. Perhaps the greatest advantage of the Canadian plan is the control possible through administration by the central government extending over the economic life of the country.

The result is that the cost-of-living can be controlled through subsidies, price regulation, and other similar devices.

The plan applies to industry mostly, with exceptions such as agriculture, house servants, and some other categories.

6. OTHER MUNICIPAL PLANS

Most of the plans discussed in this section are modifications of plans already discussed, or plans which have not been sufficiently developed to be included in any true cost-of-living system. Not all the various plans are included; only those which would be of aid in developing a new approach to a cost-of-living salary plan.

(A) PORTLAND, ORE.

This plan went into effect on July 1, 1942. It follows the Duluth plan by providing for a $1 adjustment for each point change in the cost-of-living index with no adjustment unless the index changes two points or more. The plan provides for salary increases only; it becomes inoperative when the index falls below the September 1941 index of 111. The salary adjustment in computed to the nearest 10 cents.

The original adjustment amounted to $5.40 a month or $64.80 a year for all employees at or below the maximum. This was given on July 1, 1942. But the employees complained that this was insufficient, chiefly it is believed, because commercial wages were approaching the rates paid by the City. The Council then voted a blanket raise on February 1, 1943 of $15 a month or $180 a year to everyone. This was for the war period and six months thereafter. On July 1, 1943, a further cost-of-living increase of $11.60 a month or $139.20 a year was granted.

The results of these raises give an additional $32 a month or $384 a year practically to all employees, of which $17 a month ($204 a year) is for cost-of-living and given only to those who are at or below the recommended maximum of their class, but the $15 a month ($180 a year) bonus goes to all alike.

The cost-of-living adjustment is made once each year based on the AVERAGE index of December and the following March.

The plan is simple, easily understood, and inexpensive. As pointed out in the discussion of the Duluth and Canadian plans, the increase is given on a minimum salary only – in Portland’s case on $1,200. But it also is a one-way plan, in effect only when the index is above 111. And apparently the economy feature has caused difficulties since there was the extra increase of February 1943 over the cost-of-living adjustment.

Portland is heavily engaged in war industry which has its effect on municipal government, resulting in the extra $15 bonus. The plan has been subject to some complaints: the first, by union employees who are now above schedule and who therefore are not entitled to the regular salary adjustments.

The second is the claim that the September, 1941 index of 111 dies not reflect true conditions, and salaries should have a further adjustment back to an index of 100. However, it is said that the municipal salaries have been above those in commercial practice for many years. There is now a study of the entire classification plan by a consulting firm, which will probably remove some of the salary defects.

In general, the Portland plan indicates that in the face of relatively high war wages, it is folly to adopt a salary adjustment plan which is too economical. The February, 1943, $15 a month adjustment may be the peg upon which other adjustments are authorized to defeat the entire plan.

(B) NIAGARA FALLS, N.Y.

The Niagara Falls plan incorporates an entirely different method of computation than used elsewhere. The plan provides for two payments: (1) a flat sum and (2) a percentage of the salary. The effect of this is to give the largest increase to the lower paid workers without the use of a more or less arbitrary formula, as in the St. Paul plan, and still give some adjustment to the higher salaries.

The history of the plan is as follows:

1942 - $100 plus 5% of salary.
1943 - $100 plus 10% of salary.
1944 - $360 plus 10% of salary.

The only rule apparently is that the percentage increase is added and then the lump sum. The effect is about the same as the St. Paul plan, or could be so adjusted, except it is determined by easily understood computations, rather than by an arbitrary curve. There is probably no more 'science' to the Niagara Falls plan than the St. Paul, but the simplicity of the computations makes it appear so. The use of a flat sum together with a percentage adjustment graduates the increase to the higher brackets in an orderly manner with the computation.

The development of the plan in Niagara Falls has been peculiar. Up to the present, the cost-of-living has not increased over 25% in any city, and yet the trend of the Niagara Falls plan has been over upward, and starting January 1, 1944 will greatly exceed the increased living costs for the lower income groups. This is shown below for two salary levels:

	Percentage	Increase
Year	**$1,200**	**$5,000**
1942	13.3%	7.0
1943	18.3	12.0
1944	40.0	17.2

This difficulty has arisen because the plan is not tied to a cost-of-living scheme, but is actually a salary increase which is computed in an original manner. But the basic concept has many advantages, especially the ease of adjustment and the simplicity of the formula. It could be developed into a uniform plan applicable to any change in the economic cycle.

(C) COLORADO SPRINGS, COL.

This plan follow the St. Paul principle of graduating the cost-of-living adjustment according to the need, although in Colorado Springs the system is in terms of actual money, not percentages. To this extent the plan is more desirable because the determination of the actual increase from percentage figures serves only to give an appearance of mathematical exactness to the plan.

(D) GROSSE POINTE, MICH.

A different approach from all other plans discussed was adopted in the City of Grosse Pointe, a suburb of Detroit. In April, 1942 an increase of $60 a year ($5 a month) was given all employees, followed in November of the same year with a $120 a year ($10 a month) raise or a total of $180 a year for 1942. This might have some approximation to the 'Little Steel" formula, although the sum was a flat amount, not a percentage adjustment, and for this reason most closely approximates it for the lower salaried groups.

In June 1943, a new approach has made – a bonus of 10% of the 1942 salary was given all employees and to be invested by a fiscal agent in U.S. Government bonds. These bonds become the property of the employee, although the transfer from the City tot he employee is made only upon his leaving the City's service. In other words, the employee must quit in order to secure possession of the bonds.

The Grosse Pointe plan has two advantages: (1) the $180 a year raise is a rough approximation of the 'Little Steel' formula although actually it is less than this for most of the City employees, and (2) the purchase of war bonds is linked with patriotic motives urging everyone to invest 10% of their salary in war bonds.

The salary level of Grosse Pointe is rather high compared with other Michigan cities of the same size reflecting the liberal Detroit policy toward its employees. A Grosse Pointe patrolman receives $2,900 of which about $2,640 represents salary and $260 is invested in bonds.

Like all the plans in this section, it is unbalanced in that no downward revision is provided.

(E) COLUMBUS, OHIO

The Columbus plan represents a minimum cost-of-living plan, advantageous both to the employee and to the City. It went into effect on January 1, 1942. The cost-of-living adjustment applies in full to salaries under $1,500 (or 75 cent an hour) when the living costs change 5% or more. On salaries in excess of $1,500 only one-half the cost-of-living adjustment is granted. The U.S. Department of Labor index of the previous September 15th is used to determine the annual adjustment for the fiscal year starting January first.

The plan has several defects. It provides for a 5 per cent change in the cost-of-living, but it is assumed a 5 point change is meant since in index numbers per cent and point are not synonymous. There is not upper or lower limit – if the cost-of-living changed 25 points in one year, it would either break the City of the employees, according to the way it went. The ordinance provides that the basic salaries can be changed at any time by the Council, with the result that Columbus has a continuous stream of petitions for salary adjustment. But the most serious defect of the plan is the break at $1,500 – the full benefit of changed living costs is given to those under, while only one-half is given to those above. For instance, under the salary schedule a rodman receives $1,440 for the third year of work. A cost-of-living adjustment if 12 points would mean an effective rate of 6 points, or $90. Thus the rodman would receive a total salary of $1,612 for his third year, but only $1,590 for his fourth year.

Columbus' finances under the State 1% law are in miserable shape, with almost perpetual funding and refunding of the annual deficit amounting to about one half million dollars a year (in 1943 it was $650,000). As a result of this singular method of financing the municipal government, a payless pay day occurred early in October, 1943. It is said that the entire cost-of-living plan may fail in Columbus.

(F) MILWAUKEE, WIS.

A plan developed by the Milwaukee County Civil Service Commission has been uniformly adopted by all the Milwaukee local governments. It provides for an annual adjustment according to the Department of Labor cost-of-living index, on a flat salary of $1,620 or equivalent hourly rate. The index of June 15th is used for the adjustment effective the following January. No adjustment is made of less than one point and no adjustment shall be made in any one year to exceed ten points.

The Milwaukee plan had advantages over others of the same type. The $1,620 represents perhaps an average minimum wage, with the adjustment of this minimum applicable to all employees. The basic theory is that the municipality is interested only in maintaining a uniform standard of the minimum wage – the amount which represents a standard of living – and those receiving less salary get a higher adjustment than justified on a cost-of-living basis, while those receiving a higher salary are not adequately compensated for changes in living costs.

Like most plans, the lower paid employee is most adequately paid on the upswing of the index, but he equally must assume quite a burden on the downward trend. A $1,200 employee will secure an adjustment of $370 when the index has changed about 20 points, or 30.7% increase. But, when the trend changes downward, he likewise is penalized almost 50% over the cost-of-living change. This is a basic difficulty when the adjustment is based solely on a single salary.

(G) WHITEFISH BAY, WIS.

This is one of a number of the newer plans whereby salary <u>increases</u> are adjusted to the rise in the cost-of-living but become inoperative when the living cost index falls below 101.9, the index at the start of the plan, January, 1939.

The plan provides for a $1 a month increase for each point change in cost-of-living with no upper limit, and is adjusted on only the first $1,200 of salary.

The National Industrial Conference Board's monthly index for Milwaukee is used – one of the few cities to use this index. The index for January 1939 is considered the base. A peculiarity of the plan is that an adjustment of $1 is made each time the index rises, for even a fraction of a point. The more common device is to compensate for only sizable increases to save frequent payroll adjustments, although Whitefish Bay is so small that the payroll costs would not be much consideration.

The cost-of-living adjustment is paid by a separate check each month, the check being issued by the 22nd of each month. The plan is covered by ordinance only but as it provides for increases only, this should not prove a difficulty.

The plan is very simple in application and only moderately expensive for although the adjustment is made only on the first $1,200 of salary, the increase is direct and immediate with no upper limit. From the standpoint that the plan only pays increases, it operates to the benefit of the employee; from the standpoint that only $1,200 of salary is affected, it operates to the benefit of the taxpayers. In general however, there is little advantage to the plan except that it does graduate upward salary adjustments according to a plan of limited generosity.

III. RECOMMENDED PLANS

On the basis of plans now in operation, including those used by industrial and commercial concerns, plus such additions or modifications as appear to be desirable, a basic plan and a modified plan are presented. These are designed to be readily adapted to municipal practice with reasonable equity and protection to both the governmental authority and its employees, and to be simple in application.

A. BASIC PLAN – LIMITED SALARY

Basic elements of a plan to meet the needs of conditions in municipal practice are:

1. A 1% change in salary for each point change in the index.
2. The adjustment to apply to only the first $1,800 of salary (or some other amount determined upon).
3. Adjustment to be made only if the index changes at least two points – a minimum of three, four, or five points would be better.
4. Maximum adjustment in any one year to be limited – for instance, 10%.
5. Adjustment to be made once a year.

Making each point change in the index equivalent to a one per cent salary change results in simplicity of calculation and application.

The provision that the adjustment shall apply only on the first $1,800 of salary is primarily to keep the cost of the plan within the economic means of a community; not necessarily in the interest of equity. In logic there may be little reason why higher salaries should not be allowed the full proportionate increase – it is rather a question of what the community can afford. The $1,800 limit helps keep the cost within reasonable limits while protecting the lower salaried employees.

In effect, this method gives the full benefit to the lower salaried workers – which includes the bulk of municipal employees and those who might be hardest hit by cost-of-living changes. It also gives increase, though in declining proportion, to those above the salary limit of $1,800.

To illustrate, with a five-point increase, a $1,200 salary would increase $60; an $1,800 salary would increase $90. A $2,100 salary and a $2,400 salary also would increase $90 (5% of $1,800), representing increases of 4.3% and 3.8% respectively. It is in the higher salary brackets that the 'limited salary' method is weakest wherein the increases based on $1,800 are more in the nature of token payments than real adjustments to meet changes in the cost-of-living.

A provision that adjustments will be made only after the index has changed a stipulated amount is necessary or desirable for several reasons. A requirement of 'minimum change' is essential if too frequent changes are to be avoided, which might in many cases be insignificant in amount and perhaps reflect only temporary fluctuations in the index. Also, family budgeting is not of such an exact nature as to justify salary changes for minor changes in living cost. Minor changes are often actually unnoticed and it is to be remembered that applying such adjustments involves substantial work so that they should be made limited to a reasonable minimum.

It is suggested that the least change upon which an adjustment is made should be two points. A requirement higher than this – three, four, or even five points, is better, avoiding too frequent adjustments for small amount and making the adjustments, when received, more significant in amount.

For the protection of both the employee and the city (or other employing unit) the maximum change effected in any one year should be limited – preferably to 10%. The obvious purpose of this limitation is to prevent too great a shock either to the city's finances or the employee's. In addition, it is seldom that a greater change than this will occur in one year and even when it does occur the surplus usually would be picked up the following year.

In addition to the above, in most governmental jurisdictions it will be found expedient, even mandatory in some cases, for adjustments to be made only once a year. There is no objection to more frequent adjustments, per se. This would, however, inject uncertainty or outright guessing into budgeting unless carefully safeguarded and be apt to increase the number of times adjustments must be calculated – with increased costs. If change more than once a year is desired, it should be limited to once every six months, be limited to 5% at any one time, and require the creation of 'protected' reserve funds sufficient to finance such an increase for a six months' period (something less than 2 ½% of the annual payroll).

B. MODIFIED PLAN

The point was made that perhaps the most debatable feature of the above plan is the effect resulting from the use of a salary limit above which no further adjustment for cost-of-living change is allowed, so that adjustments to salaries in the higher brackets tend to become only token payments. This question – that of the effect of cost-of-living changes on the several salary levels – is worthy of brief consideration.

Not allowing full proportionate adjustment in all salaries is primarily a matter of holding the cost within reasonable bounds, not a matter of equity. Evidence is lacking to show that cost-of-living does not change as much for those in the higher brackets as in the lower brackets. The major difference is that those in the higher brackets are assumed to be more able to <u>absorb</u> such changes, and <u>adjust</u> their standard of living, without undue hardship. This, of course, is quite a different concept from that of maintaining a constant standard of living – the presumed goal of these plans. On the other hand, it should be remembered that allowing the full change to lower salaried workers does include the greatest number of employees.

The danger in the theory that those in the upper brackets are better able to absorb changes is that while this logic may prevail on the upswing, perhaps as a matter of financial necessity, it is apt to be forgotten when the trend is downward. At these times, when fully proportionate decreases are applied to the lower salaried groups, jus as full increases were applied, it is likely to be forgotten that the higher salaries did not similarly benefit from increases, and there may be pressure for their reduction whether justified or not. If possible, therefore, it would be desirable that some further adjustment be applied to the higher salaries than is incorporated in the basic plan.

To grant some further adjustment to the higher salaries, although still less than fully proportionate, the above plan can be modified by providing that the full change applies up to the salary limit (as $1,800), and that some part of the change – for example, one-third – applies to the amount of salary above the salary limit. In other words, on a three point change, the full three per cent would be applied up to $1,800; one percent on the amount over $1,800.

This sounds more difficult of application than is actually the case. In actual calculation, on the basis that the full change were to be allowed up to $1,800 and one-third of the change on the amount over $1,800, the simplest procedure would be to apply two-thirds of the change to the first $1,800, one third of the change to the entire salary. This would mean, in turn, that in calculation the full change would be applied to salaries under the limit, involving only a single calculation. On all salaries over the limit, tow-thirds of the change applied to $1,800 would in all cases be a constant flat amount. To this would be added one-third of the change applied to the entire salary – the only calculation to be made. Thus, although the plan sounds unavoidable involved in description, it still would be just about as simple as the basic plan in actual application. It is the description of the plan that makes it appear difficult – not its application.

The proportion of the change to be applied to the amount of salary over the limit can, of course, be set at any percentage desired; one-fourth probably would add sufficiently greater effect without too great drain or finances.

COMPARISON OF SELECTED COST-OF-LIVING PLANS

FOR A 12-YEAR PERIOD

		Proposed Plans*					
Year**	**Index**	**Basic**	**Modified**	**St. Paul**	**Dearborn**	**Duluth**	**Portland**
1940-1	100.0	$2200	$2200	$2200	$2200	$2200	$2200
1941-2	100.9	2200	2200	2200	2200	2260	2200
1942-3	112.7	2380	2390	2339	2479	2320	2352
1943-4	121.4	2560	2580	2435	2671	2380	2457
1944-A	122.1	2560	2580	2435	2671	2355	2457
194A-B	110.9	2398	2401	2319	2440	2260	2330
194B-C	96.6	2218	2219	2163	2125	2200	2200
194C-D	84.3	2038	2029	2028	1855	2170	2200
194D-E	85.6	1948	1934	2028	1855	2197	2200
194E-F	88.9	2020	2010	2079	1956	2200	2200
194F-G	94.1	2092	2086	2136	2070	2200	2200
194G-H	97.0	2092	2086	2167	2134	2200	2200
Average	101.2	2225	2227	2211	2221	2245	2266
Maximum	122.2	2560	2580	2435	2671	2380	2457
Minimum	84.3	1948	1934	2028	1855	2200	2200

* -- The proposed plans are based on an $1800 salary limit; and a 3 point minimum charge. The modified plan allows one-fourth of the index change applied to the amount of salary above the limit.

** -- The index for the year after 1943-44 represents the assumption of a cycle.

IV. COMPARATIVE PLANS

Comparison of plans is hindered by the fact that in practically all cases, and particularly in the proposed plans, certain assumptions or choices are necessary which influence the results obtained. Different plans vary in effect depending on the amount of salary involved, and the salary limit chosen for the proposed plans. They may differ in effect depending on the degree of change used as an example, and the minimum change assumed as part of the plan. The modified plan also will vary according to the proportion of the change to be applied to the amount of salary above the limit.

All of these factors must be considered and balanced, in relation to the desires and economic means of a community, in the construction of any specific plan. The following discussion will, however, offer some basis for comparison, with due allowance for the variable factors.

The table below contrasts effects between the proposed basic plan and several suggested modifications. In this table a salary limit of $1,800 has been used. It also is based on a five per cent increase. The data shown are the amount and per cent of increase resulting for various salary levels.

	Basic Plan	Effect of 5% Salary Increase for various salary levels under several modified plans		
		25%	33-1/3%	40%
$1,500	$ 75 – 5%	75 - 5%	75 - 5%	75 - 5%
1,800	90 - 5%	90 - 5%	90 - 5%	90 - 5%
2,100	90 - 4.3	93.75 - 4.5	95.00 - 4.5	96 - 4.6
2,400	90 - 3.8	97.50 - 4.1	100.00 - 4.2	102 - 4.3
3,000	90 - 3.0	105.00 - 3.5	110.00 - 3.7	114 - 3.8
4,000	90 - 2.3	117.50 - 2.9	126.67 - 3.2	134 - 3.4
5,000	90 - 1.8	130.00 - 2.6	143.33 - 2.9	154 - 3.1
7,000	90 - 1.2	161.25 - 2.2	185.00 - 2.5	204 - 2.7
9,000	90 - 1.0	180.00 - 2.0	210.00 - 2.3	234 - 2.6

As another comparison the table on the adjoining page shows the variation in a given salary over a period of years under the proposed plans and by following the plans used in several other cities. The salary used is $2,200, as being fairly representative, but the fact should be noted that somewhat different results would be obtained between the different plans, and in maximum and minimum salary ranges, by choice of another salary figure. The index used is the actual Detroit index for the years 1940-41 to 1943-44. The index for the years beyond this is an assumed one, following the index for the period 1928-29 to 1935-36. The effect is to portray results during changes in the index which include both ascending and declining periods.

From the data thus resulting several items are worthy of note. Items such as ‘average,’ ‘minimum’ or ‘maximum’ salary in this example are naturally dependent to a large extent on the trends within the index that is chosen. They do, however, have value in contrasting effects between the plans.

Average Salaries resulting from application of the proposed plans are midway in the range shown, indicating that these plans would, in turn, be about average both in cost and effect on employee. (The fact that all averages are above the base salary is a result of the particular index figures assumed and is not in itself significant).

	Average Salary
St. Paul Plan	$ 2,211
Dearborn Plan	2,221
Basic Plan (Proposed)	2,225
Modified Plan (Proposed)	2,227
Duluth Plan	2,245
Portland Plan	2,266

Minimum Salaries show greater variation, reflecting the degree to which salary adjustments do or do not proportionately follow index changes. In this illustration the index fell to 84.3 or 16% below the base of 100. Yet, under both the Duluth and Portland plans the minimum salary did not fall below the base salary of $2,200. It would seem to be one-sided logic that provided that salaries should rise as the index rose, but not also fall accordingly. The Dearborn plan provides the lowest minimum, about 16% under the base, equivalent to the drop in the index. The proposed plans gave the next lowest minimum – 13% and 11.5% under the base, somewhat cushioning the full effect of the drop.

	Minimum Salary
Dearborn Plan	$ 1,855
Modified Plan	1,934
Basic Plan	1,948
St. Paul Plan	2,028
Duluth Plan	2,200
Portland Plan	2,200

Maximum Salaries show much the same pattern. The Dearborn plan gives the highest maximum – almost fully equivalent to the 22% rise in the index above the base. The proposed plans are next highest – 17% and 16% above the base. In connection with both minimum and maximum salaries it again is important not to accent the amount of increase or decrease but rather the *relative* effect *between* plans. From this, it also follows that if the intent of these plans is to allow adequate adjustment for changes in the cost-of-living, then a reasonable approximation of the degree of change in the index should be maintained. This the proposed plans do satisfactorily.

	Maximum Salary
Duluth Plan	$ 2,380
St. Paul Plan	2,435
Portland Plan	2,457
Basic Plan (Proposed)	2,560
Modified Plan (Proposed)	2,580
Dearborn Plan	2,671

V. A PRACTICAL PLAN FOR ADOPTION IN DETROIT

A number of different plans have been outlined for applying a cost-of-living adjustment to municipal salaries. As pointed out, the two usual practical limitations to be observed are: (1) the cost cannot exceed the returns from the inelastic real property tax upon which all municipalities are dependent, and (2) the plan must prevent municipal salaries rising or falling to such an extent that reaction is aroused against the cost-of-living adjustment plan.

In the oldest of all cost-of-living plans, St. Paul, considerable pains were taken to keep the cost low. The initial adjustment of 50% in 1922 appeared to be satisfactory, but salaries, according to Detroit standards, still remained on an economical basis. And no other plan has been in existence for sufficient time to determine whether liberal adjustments on the upward rise would not jeopardize the entire cost-of-living plan.

The history of the Dearborn school plan indicates that cost-of-living adjustments can be made with too lavish a hand to be effective. Although there is not sufficient experience to draw valid conclusions, good sense indicates that the St. Paul plan, which veered to the economical side, is safer for any salary cost-of-living adjustment over a term of years.

In designing a cost-of-living salary adjustment plan, for Detroit or elsewhere, determination of a satisfactory base salary level to which the changes will be applied is among both the most difficult and important aspects of the process. The base adopted must fairly meet the interests of employees and taxpayers alike. The extent to which this is accomplished will largely determine the continued acceptance of the plan and the avoidance of future dispute.

In addition, this determination of base offers some particular problems in Detroit inasmuch as local municipal salaries not only are liberal but outrank practically all other American cities. As an example, for senior stenographers – the second rank of office workers – the base rate in Detroit up to 1942-43 ranged from $1,860 to $2,220, but in 1943-44 was raised from $2,140 to $2,553 by applying the 15% ‘Little Steel’ formula. This salary is for a 40-hour work week, and if on a 48-hour week schedule, as most of these positions are, time and one-half for the added eight house is granted, making the range from $2,795 to $3,319. As this position is fairly typical and standardized in general practice, comparison with commercial and other municipal practice readily can be established.

Several adjustments were made in Detroit’s municipal salaries in the years following 1925, and then remained substantially unchanged until the 15% increase was put into effect in 1943-44. From this it might be deduced that these salaries, prevailing in 1928-29, were adequate to attract a sufficient employee supply, that the Detroit cost-of-living index was 124.7 in December, 1929 and was 124.9 in December, 1943, so the base salaries should have been adequate without increase.

On the other hand, while the above conclusion could be supported with some logic, the fact also is true that the index is based on the years 1935-39 as the ‘normal’ or base of 100, and that salaries prevailing during that time should likewise be the base for computation of changes. Such a position seems fairly reasonable. It also is practically convenient. Salaries in 1940 were about the same as during 1935-39. During 1940 the index was just about 100.

Therefore, use of 1940 salaries as a base, related to a base index of 100, would facilitate the computation of changes.

In the comparison that follows, 1940 is assumed, with some reservations, as the base period from which change is measured.

COMPARISON OF PLANS

Through the fiscal year 1943-44 Detroit had granted a 15% (Little Steel) increase applying on the first $3,000 of salary. The data below show the additions and resulting salaries effected by this increase. In comparison are calculations showing the effect of a 25% increase applied, first, according to the basic plan with a salary limit of $1,800 and, secondly, according to a modified plan whereby one-fourth the increase also is granted on the amount of salary above the salary limit.

Comparison of Salary Adjustments

	City 15% Adj.			Basic Plan*			25% Modified Plan**		
Base Salary	Inc.	Salary	% Inc.	Inc.	Salary	% Inc.	Inc.	Salary	% Inc.
$ 1,200	$ 180	$1,380	15.0%	$ 300	$1,500	25.0%	$ 300	$ 1,500	25.0%
1,500	225	1,725	15.0%	375	1,875	25.0%	375	1,725	25.0%
1,800	270	2,070	15.0%	450	2,250	25.0%	450	2,250	25.0%
2,100	315	2,415	15.0%	450	2,550	21.4%	469	2,569	22.3%
2,400	360	2,760	15.0%	450	2,850	18.8%	487	2,887	20.3%
3,000	450	3,450	15.0%	450	3,450	15.0%	525	3,525	17.5%
5,000	450	5,450	9.0%	450	5,450	9.0%	650	5,650	13.0%
7,500	450	7,950	6.0%	450	7,950	6.0%	805	8,305	10.7%
9,000	450	9,450	5.0%	450	9,450	5.0%	900	9,900	10.0%

* -- Both the basic and modified plans assume a salary 'limit' of $1,800; both assume a 25% increase in cost-of-living.

** -- The modified plan adds to the basic plan one-fourth the increase in cost-of-living applied to the amount of salary above $1,800.

In this comparison it can be assumed that the basic plan is the minimum to be followed. The purpose of the modified plan is to allow some additional increase to the higher salaries. Before this is done any plan should first assure equity to the lower salaried groups. On this basis, and comparing the plan followed by the City with the basic plan, the important fact is that the present City plan makes as good an allowance for the higher brackets as would result from a 25% salary adjustment according to the basic plan (with an $1,800 salary limit). But lower salaried groups are not so fortunately treated. At $3,000 the increase is the same under either case; but at $1,500 the City's increase is only 60% of the amount that would be allowed by the basic plan.

These facts point to the need for serious consideration of the basic policy reflected in the plan now being followed by the City. It differs in important respects from the direction of the 'standard' plan. Whether the increases already granted could not be modified may be doubtful. Provision for a 25% increase, even on the terms of the basic plan and with a salary 'limit' of $1,800 or even $1,500 still would add to the cost and the question as to the amount of funds available for this purpose would be important. Granting an increase of more than 15% also might be held to be counter to the national 'hold-the-line' anti-inflationary effort, although perhaps could be tied to a bond purchase plan as in Grosse Pointe. It also seems, that to the extent funds are available recognition of more than a 15% increase might well be made for the lower salaried employees even if the full 25% could not be granted. And, finally, any future changes that are made at least should be according to a fixed and definite plan and in the direction to first assure equity to the lower salaried groups. The fact must be granted that these groups have prior claim on any funds available for salary adjustments.

REASONS SUPPLEMENTING THE RECOMMENDATIONS

Implications of Full Change in Living Costs: Why should the City not give the full cost-of-living change to all employees in all salary ranges?

One reason is cost. The City has already made various upward adjustments in wages since 1941, including the 15% "Little Steel' raise, time-and-one-half for the sixth day, and various increase to the per diem workers. From January 1, 1941 to December 1, 1943 these totaled $15.4 millions, according to a report of the Budget Bureau dated December 15, 1943.

An increase of 10% to all salaried employees, to bring them in harmony with a 25 point rise in the cost-of-living would add $5.2 million, which in turn would entail other increases to both the per diem workers and the uniformed services (fire and policemen).

In fact, as proved from the budget history of the past three years a raise to one group requires raises to others. While technically the City's salaried employees have their rates determined differently from the per diem workers, and both of these are supposed to be considered separately from the school employees, as a matter of fact, all are more or less combined. Therefore, any adjustment to one group entails an adjustment to all others in what constitutes a form of inflationary spiral.

Ultimately, under such a procedure, the City employee wage rates attain such levels that political repercussions result and some ready 'solutions' are at hand when the taxpayer gets around to them. The most restrictive and most frequently used in Michigan is the over-all constitutional 15-mill limit which forces all city, county, school district and other units within a property tax of not to exceed $15 a thousand for all. Although the Detroit rate for city, schools and county is now over twice this amount, it is not impossible that the governments can be forced within these limits by a vote of the people.

Effect on National Economy: The growth of employee organizations serving both municipalities and industry tends toward an equalization of wages in both fields with often the municipality leading the way.

If the labor representatives in the municipal field can secure wage adjustments to compensate for the full change in living costs which is not reflected in commercial or industrial fields, the municipal employees enjoy a favored financial position at the expense of the taxpayer. If the differences are marked, this will undoubtedly cause repercussions over a period of time. The only permanent and safe basis is for increases in municipal salaries to be held in line with increases given in commercial and industrial concerns.

This also leads to difficulties. A study, 'Wage Rates and Living Costs in a War Economy' by Maurice S. Brody, of the School of Business of the University of Chicago (June 1943) finds that parallel increases in wages and living costs in industry leads to dangerous developments in the price cycle.

'Gearing wage rates to living costs sets in motion an upward spiral of forces. As no increase in the supply of consumer goods takes place, higher wage rates increase the cost of the products produced. Increased purchasing power is used to buy food and clothing in larger quantities . . . This brings about a higher cost-of-living, which in turn brings forth the demand from wage earners for still higher wages.

'The process is continuous, one step leading to another and the result is a futile race between living costs and wage rates. Wage rates based on living costs thereby impart a vicious spiraling to the cost-of-living at a time when the natural inflationary forces of war are already pushing living costs steadily upward.'

The argument, from which the two above paragraphs are taken, is lengthy. Summed up briefly, it advocates not a full cost-of-living adjustment for industrial workers (with whom the report is concerned) but only compensation to prevent the standard of living falling below that is necessary to maintain health, morale and efficiency. The reason being, as stated above, if the cost-of-living rises, wages rise in proportion, the demands for the producers and processors rise and in turn prices rise, which in turn raises the cost-of-living to start the cycle over again. The answer is to call a halt in the process so that there is no excuse of further upward adjustment.

But, concludes the study: 'Preferential treatment should be accorded the wage earner below the level of subsistence. Economic society in self defense should not permit the real income of the worker to fall below properly determined levels of subsistence.' In substance, this means that in any cost-of-living adjustment, the full effect is given only to the lowest brackets, and to the others only a token payment is given.

To give the full cost-of-living adjustment to all municipal salaries, which can be used as a precedent to boost industrial and commercial salaries, is not an answer to the problem of rising living costs. It but augments the difficulty by tending to raise costs still further until a never ending race results as to which will win – salaries or prices. In our form of economic society, prices always win.

The Downward Side: The cost-of-living is not always going to stay at present levels. No one knows when the dip is to come but when salaries are raised in proportion to living costs, then it is only equitable that the same decrease should apply when living costs fall. The hope of the advocates for salary increases at this time, ‘to compensate for the increased cost-of-living may be that the taxpayers’ memory will fail by the time that prices fall. Or, that some equally potent argument can be created to prevent a salary deflationary program when living costs fall.

CONCLUSION FOR SALARIED WORKERS:

The application of a balanced cost-of-living plan to permit a salary in harmony with price changes can be adapted to the present salary structure without too much cost, or without danger to the financial structure of the City, if held within reasonable limits. The plans outlined are liberal, but are modified in a manner so they do not jeopardize the sound financial structure of the city.

Taxpayers usually consider ALL taxes as a lump problem regardless of whether the federal, state or municipal government is the collector. Although for many years taxpayers the federal taxes are far higher than the local taxes, the high federal tax program will undoubtedly have an effect on municipal financing. But, regardless of the equities, the federal government is remote – the local government is subject to far more direct control by the man who pays the taxes.

PER DIEM WORKERS:

Day laboring groups in Detroit have been handled similarly. A tabulation by the Budget Bureau dated December 14, 1943, shows for some sample groups:

	Prevailing Maximum Rate		Per cent Increase Computed on a current	
Occupation	Jan. 41	Dec. 43	40 Hour Week	48 Hour Week
Rubbish Collector	.72 ½	.97 ½	34.4%	74.8%
Garbage Collectors	.87 ½	1.05	20.0	56.0
Truck Drivers	.75	1.08 ½	45.0	88.1
Gas Station Attendant	.85	1.05	24.0	60.6
Garage Attendant	.75	1.02 ½	25.0	62.5

During this period (January 1941 to December 1943) the cost-of-living change was 23.4 points. It is apparent that all but the garbage collectors in the sample shown above have received increases exceeding this and in the case of the garbage collectors the rate in January 1941 was high due to the organization of this group for a number of years past.

These data show that the labor group has been increased mare than the cost-of-living index would warrant. All of the per hour workers have been well represented in the budget sessions before the Council.

The hourly and per diem employees often want to continue on a basis of negotiated wage raises. In some jurisdictions organized labor resists cost-of-living pay plans, in others, they accept them willingly. In Detroit the constant trend of the Budget Bureau is to transfer hourly and per diem workers to annual salaries. Probably, adoption of the plan for salaried workers would in time influence the hourly and per diem workers.

LIMITATIONS DUE TO GENERAL PROPERTY TAX.

As the chief source of municipal revenues is the general property tax, any cost-of-living plan must be based on the characteristics of such a tax. This imposes two requirements.

1. The cost-of-living adjustment must be made IN ADVANCE of the fiscal year. This means that the adjustment is based on an index which is already history, but the real property tax is too inelastic to be treated otherwise. In the course of time, this causes no difficulties.

2. Likewise, because of the inelasticity of the property tax, the total adjustment in one year must be limited – in the recommended plans to ten points in any one year.

To eliminate constant changes, it is recommended that no change be made when the index does not change to exceed five points, although many municipal plans place the minimum limit at two points. The five-point limit is equitable over a tem of years, although smaller or larger limits can be used without danger to the plan.

One of the new concepts included in the model law is a regular audit of salaries paid in private business to contrast with salaries paid by the City for equivalent work although this process is difficult in some categories where the City uses specialized workers. Unless this is done regularly, the St. Paul experience will reoccur where there has been basis revision of base rates for 20 years. The chief purpose of such studies is to determine if the municipalities are following the current trend of wages.

Working conditions in the City government should be appraised. It is common for public employees to compare salaries with private employment, forgetting that there are a number of advantages over competitive enterprise. A method of comparison for translating the advantages and disadvantages into salary increments remains an open question, but any differences should be noted in setting salary standards. At all times the municipality should reflect the working conditions of the better employees.

APPENDIX – A

MODEL CHARTER PROVISIONS PROVIDING FOR A MUNICIPAL COST-OF-LIVING SALARY ADJUSTMENT PLAN WITH EXPLANATORY NOTES

Section A. Definitions: (a) The BASE SALARY SCHEDULE[*] shall be the salary schedule in effect on (insert the month and year) together with such step increases[*] (or other designation) which are a part of the adopted salary schedule. This base salary schedule shall remain in full force and effect without major revision thereof until replaced with a new base salary schedule which shall be adopted as provided in Section E of this chapter.[*]

(b) The BASE SALARY for each employee included within the operation of this chapter shall be the salary received under the base salary schedule, as above defined, at the time such schedule becomes of effect, plus such step increases which are a part of the adopted salary schedule and which become of effect after the above date.

(c) The BASE PERIOD shall be the effective date of the salary schedule mentioned (a) above, and the cost-of-living index of (insert the name of the city used, and the organization responsible for preparation of the index[*]) which is closest tot he base period, and which shall not exceed six (6) months previous to the effective date of the budget. The index of the base period shall be used in computing annual adjustments, as provided in Section B, and shall be revised as provided in Section E.

(d) The ADJUSTED SALARY shall be the base salary (including regular step increases) as modified by the application of the index of the cost-of-living.

Section B. Annual Adjustment: The salaries of such employees as are covered by this chapter shall be adjusted annually in the manner herein prescribed, but an adjustment shall be made in any year only in the event that the index used for the current year has changed five or more points from the index used to effect the last previous adjustment,[*] which shall be the base index for the first adjustment so made, provided that in no event shall an annual adjustment be made for more than ten points.

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[*] Line 1: The base salary schedule should be the salary schedule in force as near as possible to the month of the effective date of the cost-of-living index, to preclude any difficulty from a sudden rise (or decline) in the cost-of-living.

[*] Line 2: A step increase is the regular increase which is considered a part of the salary scale. For instance, most positions are set up with a minimum and maximum salary, with two or more intermediate step increases or “raises” to progress from the minimum to the maximum.

[*] Lines 3 through 5: The intent of this provision is that the base salary schedule shall remain in effect without any major change for a period of 5 years so that the purpose cannot be defeated by alternation of the salary base in order to grant more than the cost-of-living adjustment.

[*] Line 12: Department of Labor, Bureau of Labor Statistics or The National Industrial Conference Board.

[*] Line 20: The adjusted salaries must be inserted in the budget prior to presentation to the mayor, city manager or any other executive or to the council. The idea is to cement the salary cost-of-living adjustment early in the budget review.

The (insert the name of the agency responsible for the annual budget) shall compute all salaries in accordance with the provisions of this section and shall insert the adjusted salaries in the annual budget before (insert date prior to any official action) which shall be the legal salary for the ensuing budget year.

Section C. Method of Computation[*]: (Basic Method) In effecting salary adjustments as provided by Section B, the difference in number of points between the base index and the current index shall be used as a percentage adjustment to be applied to the actual annual base salary received up to $ (insert amount of maximum salary to be affected) and on that amount for salaries above. (For the alternate modified method add:)[*], except that, in addition to the above, % (the desired additoinal change, as one-fourth or one-third) of the change so applied shall be computed on the amount of salary above $ (the salary limit).

Section D. Hourly Rates[*]: Wages of hourly or per diem employees or salaries or wages of those employees or salaries or wages of those employees on other than an annual basis, or of those who are not regularly employed thorughout the year, shall not be subject to a cost-of-living adjustment as provided in this chapter, unless the (insert the name of the legislative body of the city) elect to include any or all such employees under the provisions of this chapter in lieu of any other annual determination or negotiations of salaries or wages, in which case such employees shall be subject to all the regulations of this chapter. In computing the annual salary, the day rate paid during the base year of the regular salaried employees shall be used, and day or hours shall constitute a full year’s work. Employees who are not regularly employeed shall be remunerated in proportion as the part-time employment bears to full employment. No salary adjustment shall be made on an overtime payment.

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[*] Line 25: The method designated is to always use the index for the base year in determining the increase (or decrease). This eliminates mathematical difficulties.

[*] Line 29: There are two alternate plans for applying the adjustment so that limits can be set to coincide with the financial capacity of the city to support:

> Basic Method: This plan is based on giving the full cost-of-living adjustment on the actual salary up to a definite limit, and on that amount for those over. It is suggested that $1,800 would be approximately correct for most of the larger cities, but the amount can be increased or decreased.
>
> Modified Method: In essence this plan consists of the basic plan plus a further adjustment for salaries above the salary limit, but still being less than fully proportionate.

[*] Line 31: Often hourly or per diem workers prefer to go on the basis of annual determination than depend upon a cost-of-living adjustment. They should not have BOTH. The option lies with the legislative body of the city to adopt either method.

Section E. Revision[*]: Each five (or ten) year, the City Council (or the name of the legislative body of the city) shall order a study by the (insert the name of the agency responsible for the preparation of the annual budget or for the salary standardization of city employees) which shall make a written report which shall be a public record to the City Council of salaries paid by business and industrial concerns in the city at the time of the survey, for positions as nearly comparable as may be to those in the city service, together with such other information as would be of aid in determining the equity of city salaries or wages, including an estimate of the value of pension plans, tenure, working conditions, and other factors in the municipal service which should be considered in estimating salaries. The City Council shall then, after a public hearing, order such changes in the base salary schedule shich in their judgment are necessary so that city employees shall be paid on a comparable basis both as between the different branches of the municipal service and those prevailing in private business and industry. This salary schedule shall be considered the base schedule for the ensuing five (or ten) years.

Section F. Penalties[*]: The (insert name of the disbursing officer of the city) shall not authorize any salary or wage check or other disbursement of city moneys for salary or wages of any employee subject to this chapter, which has not been properly adjusted by the (insert name of the agency responsible for the preparation of the annual budget) in accordance with the provisions of this chapter. Any taxpayer may enjoin through a court of record, within the county, to prevent payment of any salaries in excess of those provided in this act, and/or any taxpayer may bring action in any court of record to recover any amounts paid in salaries or wages in excess of those authorized by this section, which shall be recoverable from the (insert the name of the disbursing officer of the city) or his bondsman, and shall be held as directed by the court, after deductions are made for the necessary court expenses of all parties to the lawsuit, after which such moneys shall be paid into the general funds (or other suitable funds) of the city. Further, any officer who authorizes or permits disburesment and any moneys paid in salaries or wages, in excess of those authorized by this chapter, shall thereby be removed from office by the appropriate appointing authority upon presentation of the fact by the (name of the corporation counsel or other legal representative) or by any taxpayer of the city.

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[*] Line 41: It is thought that at fixed periods there should be a thorough investigation by the legislative body of the city of salaries of similar grade of work in private industry to equalize the salary schedules of the municipality. Judging from the past there is good indication that 10 years is a reasonable period, although recently there appears to be a belief that it is too long and that a five-year interval is better.

Salaries once established should remain so fixed for a reasonable period, except as adjusted by the cost-of-living index, otherwise the cost-of-living principle is nullified.

The difficulty arises in the selection of the time the salary study is made. For instance, in 1928 a study would have shown private employment at or near to its peak of the 1920s. But 5 years later, in 1933 a study would have shown that private industry was definitely paying low wages, which would have met with a claim by municipal employees that a city is never warranted in paying “depression wages.”

[*] Line 53: The penalties listed are severe and are designed to prevent tampering with the plan once established. For this reason, it is recommended that to made the plan workable all these provisions be included in the actual adoption of this act. The disbursing officer should be the treasurer or similar officer responsible for municipal pay checks.

This section puts teeth into the cost-of-living adjustment by providing (1) summary removal of the official responsible for salary adjustment who does not adhere to the provisions of this chapter, or (2) for collection of the loss from the official or his bondsman for salaries paid which are not adjusted according to the formula provided. The corporation counsel, city attorney or even the prosecuting or district attorney can be designated as the proper legal authority to take action. To prevent blocking it, action or failure to take action, any taxpayer can take appropriate action.

Section H. Exceptions[*]: Nothing in this chapter shall prevent the standardization of salaries within the 5-year period provided for regular revision of the base salaries, nor shall it prevent transfer of employees from per diem or hourly rates to regular salary, provided however that no such standardization or transfer from per diem or hourly workers other than that provided in Section E shall in any one year affect more than five per cent of all municipal employees.

Section I. Exemptions[*]: The provisions of this chapter shall not apply to any elected official; or to any whose salary is established by law through this charter or statute; or to part-time members of boards or commissions; not to any officer or employee remunerated on a fee basis; or to any person or firm working for the city on a contractual or temporary basis.

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[*] Line 67: The exceptions are to permit some leeway in standardizing salaries within the 5-year period for a few departments, as long as it is not on a city-wide basis. This is to prevent freezing of salaries and wages when the character of the work changes during the 5 (or 10) year period. Some critics thought such a provision would be necessary considering the present trend of administrative methods.

[*] Line 72: Exemptions are simply to remove certain officials and employees who are not actually a part of the regularly classified service from operation of the provisions. Perhaps others should be added in certain jurisdictions. The intent is to apply this adjustment for the cost-of-living ONLY to regularly employed municipal officers and employees, where a definite salary is established which can be modified regularly.

APPENDIX – B

Milwaukee Ordinance

Plan: Adjustment to all employees abased on a flat salary of $1,620 with adjustment made one a year. Hourly workers to receive direct cost-of-living adjustment. No adjustment made for less than 1 point change. See discussion on page 21.

Sec. 2-248. Cost-of-Living Wages and Salary Adjustments: The basic compensation schedule of all officers and employees of the City of Milwaukee shall be adjusted annually in accordance with changes in the cost-of-living. The proper city officeres shall compute and determine, from time to time, the amounts of such adjustments in accordance with the provisions of this seciton, make the necessary payroll changes, pay the basic and adjusted salaries and wages to all city officers and employees covered by the terms of this section, and otherwise carry out the provisions of this section.

The initial basic compensation shall be the amount of wages or pay for each officer or employee fixed by the 1943 salary ordinance. . . plus the amount of the cost-of-living adjustment as determined from time to time under the provisions of this section.

(a) The first cost-of-living adjustment shall become effective on August 1, 1943 and shall continue in effect until and including December 31, 1944. Thereafter all cost-of-living adjustments shall become effective on January 1 of each year.

(b) From the effective date of this section to December 31, 1943, the basic compensation of all city officers and employees shall be the compensation established by ordinance number . . .

(c) From and after January 1, 1944, the basic compensation to be paid officers and employees of the City of Milaukee shall be the uniform compensation schedule established in the current budget . . . except that when a higher compensation than said amount has been in effect for the incumbents of particular positions as a result of ordinances passed prior to December 31, 1940, said compensation shall be considered the basic compensation for said incumbents.

(d) The index numbers of the "Cost of Goods Purchased by Wage Earners and Lower-Salaried Workers in Large Cities, by Groups of Items (Average 1935-39 equals 100)," established by the bureau of Labor Statistics of the United States Department of Labor for Milwaukee as printed in the Monthly Labor Review shall be used for computing increases and decreases in the cost-of-living.

(1) The base figure shall be the index number used as a base by the United States Department of Labor.

(2) The base report to be used shall be the report for the City of Milaukee for June 15 of the current year.

(e) In the interest of uniformity the cost-of-living adjustment for all employees, regardless of the amount of compensation actually received shall be based upon a salary or wage of $1,620 per annum. The initial basic compensation increment under this section shall be $30.64 per month to be paid as provided herein.

Cost-of-living adjustments shall not be permitted for work compensated at over-time rates of pay or for work in addition to that for which the employee earns full-time compensation from the city.

(f) Where compensation is based upon the number of days and hours the employee is actually employed, the base hourly rate shall be multiplied by the percentage increase in the cost-of-living over the base index and the result added to the bsse pay except that all decimal percentages beyond even cents shall be dropped. For purposes of standardization, 250 days and 2000 hours shall be considered a full time work year.

(g) Employees who work less than full-time shall receive a proportionate part of the cost-of-living adjustment in the same ratio as their part-time employment bears to full-time employment. This shall not be construed to apply to temporary or seasonal employees who work full-time while employed.

(h) In the event the index number of the cost-of-living as of June 15 of any year has not changed more than one point since the preceding June 15 index number, no adjustment shall be made in compensation of city officers and employees for the following year.

(i) In the event that the index number of the cost-of-living for June 15 has varied more than 10 points from that of the preceding June 15, the cost-of-living adjustment shall nevertheless be limited to the amount represented by a change in the index of 10 points except that the full amount of the variance shall be applied in the 1943 adjustment.

In the event the foregoing limitation becomes operative, then that portion of the cost-of-living adjustment not made because of such limitation shall be considered in calculating the cost-of-living adjustment for the year next following, provided that the total cost-of-living adjustment for any year after the original installation shall not exceed the 10 point limitation.

(j) The following officers and employees shall not be subject to the cost-of-living adjustment provided in this section: (1) Employees whose compensation is determined in accordance with the prevailing wage as listed under the caption “Skilled Labor Service” in Ordinance No. 127 previously described; (2) part-time members of the boards and commissions.

Part 2. Sec. 2-291 of the Milwaukee Code is hereby amended by adding after the first paragraph the following words and phrases: “In addition to the basic annual rate to be paid for the rental of teams, there shall be added to minimum rate established for teamsters an adjusted amount equivalent to that paid to city employees under the terms of Sec. 2-248 of the Milwaukee Code.” (This section). If an portion of this ordinance or its application thereof to any person or circumstance shall be held illegal or unconstitutional, such decision shall not affect the legality or unconstitutionality of any other person or circumstance.

Part 4. (Severance clause).

Part 5. This ordinance shall take effect and is to be in force from and after August 1, 1943.

Adopted July 29, 1943.

APPENDIX – C

St. Paul Ordinance

Plan: The characteristic of the St. Paul plan is a table prescribing the application of the cost-of-living index on a diminishing percentage, reaching zero at base salary $4,560. The plan is fully described on page 5 of this report.

Section 11

The compensation rates prescribed in subdivision (b) of this Section shall be known as standard rates . . . These standard rates* are computed as follows:

(1) For the purpose of this ordinance, with respect to salary adjustment, the year 1916 shall be used as a base. The rates . . . shall be deemed adequate compensation for living conditions such as prevailed in the year 1916. The current entrance salaries shall be determined by adding or subtracting the respective adjusting percentage shown in Column 2 of subdivision (b). These adjusting percentages shall be computed as provided in the next paragraph.

(2) The cost-of-living index prepared for June of each year by the U.S. Bureau of Labor Statistics shall be used to ascertain the adjusting percentage on a cost-of-living basis. If the Bureau's statistics are not available to show the current changes in the cost-of-living in relation to the year 1916 for the City of St. Paul shall be usd to determine the aforesaid adjusting percentages. For the purpose of this ordinance, the index to be used shall be as given in the Bureau's Table 5 or Table 6 for the month ofJune of each year, or the equivalent table published under any other title. To convert the table from a 1935-39 base to a 1916 base, such index for the month of June of each yer shall be multipled by 1.35 and the result shall be the current index in relation to the year 1916. The increase or decrease from 100 (1916 = 100) shall constitute the adjusting percentage applicable to standard rates numbered 1 to 10 inclusive, and shall become effective on the following January 1. This adjusting percentage for the first ten standard rates for the year 1940 shall be 35% and thereafter shall be subject to revision as provided herein. The adjusting percentage during this same period for standard rates numbers 11 to 26 inclusive shall be shown in column 2 of subdivision (b) of this section. When the adjusting percentage for standard rates 1 to 10 are either increased or decreased through subsequent revision, as provided for in this section, the adjusting percentage for standard rates 11 to 26 shall be increased or decreased in the same proportion; i.e., the revised adjusting percentage for these higher standard rates shall bear the same proportion to their respective adjusting percentage as shown in column 2 of sudivision (b) as the revised adjusting percentage for standard rates 1 to 10 inclusive, fractions of one-half shall be disregarded. In revising the adjusting percentages for standard rates 11 to 26 inclusive, the percentages shall be

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* - STANDARD RATES: This is referred to as "Column 2 of Division (b). St. Paul uses a table of standard rates, which are applied to the various positions within a classification. Standard rates 1 to 10 run from $37.50 (1916) a month to $85.00. These rates were adjusted for 1942 to $53.65 a month ($645 a year) to $121.55 ($1,460 a year). These rates are affected by the FULL cost-of-living change. The rates 11 to 27 inclusive are subject to partial effect of the cost-of-living change which is a part of the plan, but which does not appear in the ordinance. See p. Heading of the table of standard rates are:

	1	2	3#	4#
STANDARD RATE NO.	BASIC ENTRANCE SALARY	1940 ADJUST. TO OFFSET COST-OF-LIVING SINCE 1916	ADJUSTING PER CENT FOR 1942	ADJUST. ENTRANCE RATE 1942
1	$37.50	35%	43%	$53.65
11	90.00	34	41.75	127.60
22	190.00	19	23 3/8	234.40

SECTION 111. This is a table of classifications of the jobs which are included in the standard rate as indicated above. A typical example:

STANDARD RATE NO. 10 shall be payable as provided in this ordinance as a current adjusted entrance rate of $121.55 a month in each position classified in the following grades of service:

Grade 2 of Professional and Scientific Service
Grade 3 of Building Care and Power Plant Service
Grade 4 of Inspectional and Investigational Service
Grade 5 of General Maintenance and Automotive Service
Grade 7 of Clerical, Administrative and Fiscal Service
Grade 9 of Attendance Service."