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DISTRIBUTORS OF JUSTICE: A CASE FOR A JUST WAGE

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Introduction

While there is a good deal of controversy on the meaning of a just wage, most religious and many philosophical traditions demand it as an essential dimension of a good relationship between employer and employee. John Paul argued that because wages "are still a practical means whereby the vast majority of people can have access to those goods which are intended for common use . . . . a just wage is the concrete means of verifying the justice of the whole socioeconomic system." And yet, too often when the church or any religious or philosophical tradition speaks about the importance of a just wage, or fair prices, or the right to unionize, the business leader can easily become suspicious of such "justice" language. The church and its demands can appear too idealistic not grounded in the practical pressures of business life. While this article was written in 2000, it takes both the Church's social tradition on justice seriously as well as the competitive demands of the market and illustrates how business leaders can both think and act rightly when it comes to what it means to pay a just wage.

DISTRIBUTORS OF JUSTICE: A Case for a Just Wage

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In this Jubilee year, 2000, the issue of wealth distribution, especially as it relates to the larger macro issues of international debt and globalization, has received a good deal of attention and analysis. For this we should be thankful. What has not received as much attention; however, are the responsibilities of managers and entrepreneurs toward wealth distribution in their own businesses. How should managers and entrepreneurs, especially those who bear the name Christian, distribute resources, within their limited sphere of influence? Or to put it more bluntly: How do they become distributors of justice, rather than maximizers of self-interests? So as not to be too abstract on this topic, I want to examine a specific organizational practice that has specific implications for wealth distribution: wages.

Managers will often describe wages as an instrumental activity that "attracts, rewards, retains, and motivates employees who best achieve the strategic goals of the organization." These strategic goals tend to be exclusively economic in nature: increase productivity and efficiency, raise customer satisfaction and retention, maximize shareholder wealth and so forth. This instrumental value of pay, while important, tends to cloud and even crowd out a Christian insight: a wage can never exhaust human labor. Work is always more than its economic output or instrumental value, precisely because work changes God's creation and we in turn change ourselves. There is no price to compensate us for this kind of work.

One company wrestling with integrating this noble and transcendent vision of human work with the instrumental reality of wages is Reell Precision Manufacturing in St. Paul, Minnesota. It is a producer of hi-tech clutches and hinges for the office machine and computer industries. The company operates on the practical application of Judeo-

Christian values for the "growth of people." Based on its mission, Reell believes that all its workers should at least be paid a "living wage" or what they call a "target wage." In 1996 their estimate of a living wage in St. Paul was $11/ hour ($22,000/year). The actual market wage or "sustainable wage" for assemblers in the company was $7/hour ($14,000/year).

The $4 discrepancy between a living wage and a sustainable wage was a tension between two principles operating in the company: the principle of *need* and the principle of *economic order*. While the management of Reell desired to pay its employees not only their market worth, but also the worth of who they are (persons made in the image of God who deserve at least a minimum of need), management was all too aware that customers would only pay for the "instrumental value" of work. If Reell would pay $11/ hour while competitors paid $7, Reell's cost disadvantage would increase their likelihood of losing customers. Realizing that the *ought* of a living wage always implies the *can* of a sustainable wage, the company had to seriously rethink how it was doing business and act creatively.

This rethinking took on several dimensions. First, Reell's management resisted capitulating their responsibilities to the mechanical force of labor markets. They saw themselves as moral agents in the market place and not as mere technicians. Nor were they simply working toward a "target wage" because they thought it would "attract and retain" employees who would make the company more money (although they certainly welcomed the economic benefits of the policy when they came). In the words of Aquinas, Reell's managers were "well disposed towards" their employees.

Second, they realized that every action has a reaction and that raising wage levels without changing the work process would have serious consequences on their cost

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structure. So in order to raise *labor rates* to pay a living wage, they would have to reduce their overall *total costs*. They eventually saw that low wages were merely a symptom of a much large problem of how the company worked. When work is designed to use $7 of talent, it is difficult to pay people anything more than that amount.

What concretely enabled the company to pay a living wage was a whole new way of doing work. Reell redesigned their assembly-line from a Command-Direct-Control style management (CDC) where management and engineers made all the decisions concerning the conception of the assembly area, to a Teach-Equip-Trust (TET) style management where employees were taught inspection procedures, equipped with quality instruments and trusted to do things right on their own assembly-line. By restructuring the work process according to the principles of participation and subsidiarity, employees decreased set-up times for new products, reduced the need for quality inspection, increased overall quality and required less supervision. By reducing these costs, the company not only was able to pay a living wage, but also created more humane work.

The living or target wage does not come automatically. For example, the reason the company called it a target wage was that it was something it worked toward. When an employee is hired with no experience and no skills, the company pays the worker the market rate ($7/hour or whatever it is at the time), but then makes a commitment to move that employee to the target or living wage ($11/hour) through training and skill development. So as employees learn the skills and gain experience, which Reell provides for employees, their pay goes up accordingly. Typically, it takes an employee 2-3 years to reach a target or living wage. I will come back to this issue in a moment.

Interesting enough, Reell did not have to lay anyone off throughout this whole process. The engineers who originally supervised the workers and inspected quality were freed up to focus on things in which they were educated to do—create a better designed product. With a better quality product, Reell was able to gain a premium price for its product and also increase sales, all of which provided adequate revenue to support a living wage and avoid layoffs. While the moral and economic order do not always converge, we should take heed of those cases that do.

There is more to be said about how Reell's mission guided its decision making on wages, but it is important to be clear where the company's responsibilities lie in light of the Christian social tradition. This tradition, especially as it is articulated in Catholic social teaching, does not hold Reell (or any firm) responsible to pay employees in excess of a sustainable wage (a wage consistent with the sound financial management of the firm), even if that wage falls below a living wage. To do so would unjustly place Reell—and all the firm's employees—at risk of economic failure. In a market economy no firm can be obligated to pay without regard to labor costs' effect on its competitive position, since that would amount to the imprudent choice of self-defeating means. Nevertheless, Reell does have an obligation in justice to create right relationships with employees to work toward a living wage. This is why Reell can pay less than a living wage so long as it is working toward correcting the situation through some set of means such as training and skill development.

While at times managers are caught in an irresolvable bind of the market, more often than not managers and entrepreneurs have an area of *discretion* that is usually *larger* than they think. When they fail to see this area of discretion they act like "pawns of market forces" beyond their control, rather than like "distributors of justice" who can contribute to the growth of others. Reell met the strategic demands of efficiency, productivity, and quality, while at the same time satisfying the basic human needs of their employees. The firm's experience underscores an essential insight: the just wage is not a static concept, a flat demand laid upon the firm. It is, rather, a dynamic concept, a goal that is established through a common regard for justice and must be pursued with a prudent regard for concrete possibilities here and now.

Yet, this point of individual and organizational virtue cannot be taken out of context of society's broader responsibility for a just wage. There are times when employers cannot pay a living wage without violating a sustainable wage. For this reason, as John Paul II has explained, employers are not—because they cannot be—solely responsible for achieving living wages. In a real sense, any individual firm's living wage can only be an *instance* of a *social* achievement founded in cooperation with other employers, employees, unions, government and other "indirect employers." For, apart from a comprehensive commitment—a social commitment—to a living wage, those who decide unqualifiedly to pay living wages in highly competitive, commodity-driven, price-sensitive markets, risk economic disadvantages that cannot long be borne. If the market wage in the industry is below a living wage, and there is no place to reduce labor costs, employers who decide to raise wages unilaterally will price themselves out of the market. Obviously, this constraint becomes increasingly decisive in international markets, a point the protesters in Seattle made quite clear to World Trade Organization participants.

In this age of globalization, a just wage is no doubt a complex problem. Yet, this complexity cannot remove managers and entrepreneurs responsibilities as effective *distributors of justice*. To embrace justice, they must realize that an instrumental view of wages, although necessary, is insufficient to help people and themselves grow in their work. It is difficult to believe, for example, that Reell could have developed a living wage policy if they were only concerned about employees' instrumental effect on shareholder value. Rather, the company saw employees as more than "factors of production" or simply "costs" to be reduced. Management saw employees as who they *really* are: persons made to be treated with human dignity because they are created in the image of God destined for glory.

Yet, we should have no illusions here. Justice will not create a blinding flash of "pay nirvana." It will not relieve managers and entrepreneurs of their cost burdens as it relates to pay. In fact, life often gets more complicated for today's managers and entrepreneurs precisely because they are asked to do more than what traditional business practice has done. What Reell seems to have found, however, is some comfort in the reflection that the burdens involved in the quest for just wages are borne for the sake of the common good and God's kingdom, and that success in bearing them is itself growth in virtue.

Exhibit

Some Issues for a Just Wage

1. **A Living Wage**: **The Principle of Need**. A living wage is *the minimum amount due to every independent wage earner by the mere fact that he or she is a human being with a life to maintain and a personality to develop.*

Issues: What criteria are used to determine a just wage that serves as a minimum floor? How does one overcome the obstacles of a market wage that falls below this minimum floor? What creative policies are available to implement a living wage? What role does the state have in determining living wages?

2. **An Equitable Wage: The Principle of Contribution.** An equitable wage *is the contribution of an employee's productivity and effort within the context of the existing amount of profits and resources of the organization.*

Issues: How does one know if they have become too narrow or quantitative or too broad or vague in determining contribution? How does one attract the necessary human talent and maintain internal equity? How does one avoid short-termism, poor morale, and machiavellian politics when instituting incentives?

3. **A Sustainable Wage: The Principle of Economic Order.** A sustainable wage *is the organization's ability to pay wages that are sustainable for the economic health of the organization as a whole.*

Issues: Sustainable = Livable + Equitable. In light of the unique situation a company finds itself in, what are its constraints and opportunities as it relates to a living and equitable wage? What level of a livable wage is sustainable for the organization? How many people can an organization pay living wages to? What is the role of part-time work? When is it ethical to lay people off because the labor costs are no longer sustainable? When can a company move offshore? What is the role of automation?

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