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THE HANDBOOK SERIES

SELECTED ARTICLES ON
UNEMPLOYMENT
INSURANCE

Edited by

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INTRODUCTORY NOTE

The modern problem of unemployment grows from the fact that, under prevailing wage terms, there is seldom if ever as many jobs as there are available workers. That this labor market condition exists and is directly related to one's efficiency and willingness to cooperate as a producer in industry and as a citizen of the nation is conceded. The controversy centers about the measures proposed as remedies. Unemployment insurance legislation is but one of many proposals.

By unemployment insurance is meant any system created by law, for collecting contributions or premiums to insure the worker a fraction of his regular wages when involuntarily out of work, for the management of necessary reserve funds from which the unemployment wages are to be paid, and for the administration and regulation of the payments according to stated qualification standards.

Like most social legislation, unemployment insurance is still undergoing changes and experiment. While the forms of insurance in operation differ, they tend to indicate a general trend. The later developed plans assume that unemployment is more a problem and a responsibility of industry than of the community and of labor. When the Canton of St. Gaul, Switzerland, enacted its unemployment insurance law, the employing interests and the community were not called upon to contribute but required the employee alone to bear the cost of maintaining the unemployment wages reserve fund. Next, the Ghent, Belgium system supplemented the unemployment wage payments made from employee association reserves by a subsidy from the community tax funds.

The compulsory Unemployment Insurance Act of England added a third contributor, the employing interests. Later modifications of this act have enlarged the employer's and diminished the employee's and the community's relative share. Most systems adopted by other countries have been patterned after the British. Even the Ghent system has undergone some similar modifications.

Recent American proposals go one step further. They would require the employing interests to pay for the full cost of maintaining these reserves. They differ from the European plans which aim to *relieve* their poorly paid labor. While they have borrowed features from the British act to minimize malingering, proponents state that they aim primarily to reduce the volume and the severity of unemployment and to make the periods of steady employment last longer. They would distribute the cost of maintaining unemployment wages reserves in a manner that would induce greater stabilization and less severe irregularity. The theory being, according to the proponents, that if an individual employer or group of employers are required to pay employees a part of the wage loss—in a manner similar to their payments now made to employees when wages are interrupted by accidents—that employers will reduce the irregularities in employment volume, as they have already reduced accidents. They point to the possibilities of the science of management as a business stabilization force. From the discussion pro and con one gleans two issues about which their cases center. First, the existing condition of industrial over-development, or the under-capacity utilization of labor and capital resources for production; the consumers' inability to buy back with existing credit, wages, and prices, the total output which full time employment of labor and capital equipment would practically yield. Second the degree which an employer—individually and in cooperation with other employers—can

legally stabilize his business and still obtain a normal margin of profit; the possibilities of improvement in business administration, labor management, hours of labor, wage policies, budgetary control, bank credit policies, market control, etc.

No large singular group stands out as advocates for this type of solution by legislation. Many however are promoting stabilization work through voluntary effort. On the other hand individual advocates are found in numbers of groups. Leaders of farm and labor organizations, economists, manufacturers, insurance companies and even radicals are found on both sides of the issue.

As one of the Handbook Series, the best representative articles by authorities have been selected. The volume is divided into four sections. The first analyses the problem of unemployment, in terms of magnitude, significance and causes, with a brief record of unemployment legislation. The second section presents the argument for unemployment insurance legislation and the third section the negative. In the fourth section is found material which presents other ways of meeting the problem, through voluntary action.

In compiling this volume much assistance was obtained from executive directors and legislative representatives of various national and state employer organizations, insurance actuaries and economists, labor leaders and public officials.

I am indebted to various persons whose names are too numerous to mention, for valuable suggestions and helpful criticisms in the selection of articles and bibliography and in the construction of the brief, but I am especially grateful to Professors John R. Commons of Wisconsin University, H. A. Millis and Jacob Viner of the University of Chicago and W. O. Hedrick of Michigan State College, to E. E. Witte, Director, Wisconsin Legislative Reference Library, O. H. Ulbricht, General Secretary, Wisconsin Master Builders Association,

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Of course, I am alone responsible for the final selection and the editing of the articles and bibliography and for the development of the briefs.

ALLEN BENNETT FORSBERG

May, 1926

East Lansing, Michigan

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BRIEF

RESOLVED: *That obligatory unemployment insurance legislation be enacted.*

INTRODUCTION

- I. Definitions. 1. "A person is unemployed who is seeking work for wages, but is unable to find any suitable to his capacities and under conditions which are reasonable, judged by local standards." This excludes those on strike or locked out, the unemployables, the work-shy, the ill and mentally or physically defective. It includes all those who are willing to work and able to work, but unable to obtain suitable employment. 2. The term labor, wage-earner, or wage-worker, as used in this outline, refers to those who release their energies of brain and brawn to the employing interests in exchange for wages, usually fixed, by the work period or by the output. 3. The term industry, employer, or employing interests refers to those who control industry and dictate its policies, to those generally included in the term entrepreneur, whether in local residence or absent from direct management. As the context may indicate, it may include the bankers and banking system so far as they are factors in the unemployment problem.
- II. The unemployment problem. The risk of involuntary unemployment ranks first among the specific problems of labor.
 - A. Size of problem: The number of unemployed at a given time varies from one to six millions

and it depends upon the amount of underutilization of the nation's productive resources—of capital, equipment, land and labor—and it varies from one to six millions. There are two general types and sources of unemployment.

1. Intermittent unemployment. The reservoir or reserve army continually increases and decreases in volume as industry lays off and takes on workers for its ever changing needs, varying with current business opportunities, management practices, acts of the elements, the seasons, etc. There are from one million two hundred thousand to two million five hundred thousand workers in this reserve in normal times.
 2. Cyclical unemployment. The general business depressions and industrial stagnation that follow boom periods of prosperity may add three or four million to this reserve. These depressions occur periodically as in 1907, 1914-15, 1921. While all industries, including agriculture, are not affected with equal severity, the depressions are general. Thus the unemployed are afforded little or no opportunity to shift from one industry to another or to the farms.
- B. Significance of problem: Everyone is taxed by unemployment in varying degrees and in different ways; for example:
1. The cost to labor: Since the modern wage worker has no legal right to his job, he is continually exposed to the risk of unemployment.

- a. The chance of retaining one's job is a gambler's risk; it may not depend upon efficiency, workmanship or loyalty to industry. Unemployment sweeps all types before it.
- b. Unemployment is the worker's greatest risk. Of the seventy and three-quarter days' wages which the average worker loses annually, three-quarters of a day is lost due to labor troubles, three to accidents, and seven to sickness. Unemployment causes a loss of sixty days' wages—thirty due to no work, and thirty to part time work. At all times—regardless of his age—the fear of “no job” is dominant in the worker's mind.
- c. Some classes of workers suffer more frequently and severely than others. The National Industrial Conference Board states that the unskilled, lowest paid and unorganized workers are hit hardest and most frequently. The Hoover report states that the average building trades worker loses eighty-six work days annually. Certain industries, such as the manufacturing and mechanical, have the most unemployment, while retail trade and agriculture have the least. Concerns of the large size lay off a greater per cent of their force than the small. Babson states that both in normal times and in depressions, there is a larger per cent of the wage-earning class out of work in the United States

SELECTED ARTICLES

- than in any other country in the world.
2. To the manufacturer, unemployment means idle capital and equipment, interrupted profits and demoralization of production morale.
 3. To the retailer, unemployment means more bad debts, also costly inventory risks, and buyers' strikes—which result from irregular income and purchasing power of the community.
 4. To the farmer, unemployment in the city is an economic menace.
 - a. As a merchant of farm products, it periodically ruins his market. When unemployment reduces city incomes and purchasing power and reduces consumption, over-production of farm products results and prices decline even below bare production cost.
 - b. As an employer, it means inability to retain a steady supply of farm labor, except during the period of factory idleness—when farm help is needed least. Big wages and boom time employment conditions make them less useful for farm work.
 5. To the local citizen, unemployment increases the drain on voluntary charity.
 6. To the consumer, the intermittent production and curtailed supply resulting from unemployment means higher prices, in part to pay for the cost of idle equipment and overhead.
 7. To society and its institutions, unemployment means family deterioration, stunted children, general want and its many psy-

chological, moral, social, and political consequences.

- C. The causes of unemployment are many. Some unemployment is unavoidable, for industry requires a reserve available for employment at its call. Some of it is traceable to the consumer's prejudices and unguided and misdirected custom of buying. The responsibility for the residual is attributed to the management of the individual and to the collective policies and practices of modern business in marketing, finance, production, and personnel management. The National Industrial Conference Board reports that the forces which cause unemployment are entirely beyond the control of the worker. His responsibility is limited to the rendering of efficient cooperation when employment is afforded him.
- D. Definition of issue: A state-wide obligatory unemployment compensation law is but one of many different proposals advanced to meet the unemployment problem. There are various forms of such legislation in operation in other countries. Each scheme, however, has the following essential provisions:
1. Employers (or their insurers) must pay cash compensation payments to employees whom they lay off, who are unable to find other suitable employment. The benefits payable are strictly limited as to amount, as to the time during which payments must continue and to the conditions or qualifications for receiving the compensation payments.
 2. All employers are required to insure their liability for the compensation payments, unless they establish their ability to meet

SELECTED ARTICLES

all possible claims for such compensation for which they are liable.

3. Supervision over the administration of the unemployment compensation scheme is vested in some governmental department which decides disputes between employers and employees, supervises insurance carriers. It has wide discretion to adopt all necessary rules and regulations and conducts a state-wide coordinated employment exchange. Much of the actual work of administration is carried out through these local free employment exchanges, to which the unemployed workman who is an applicant for compensation must regularly report and to which each employer will register his needs for help.
4. Aside from these essential provisions great variations are possible in a scheme of obligatory unemployment compensation, to meet peculiar conditions. The reserve funds may be contributed to wholly by employers, or may be partly met by contributions from employees and the state. These insurance reserves may be controlled by a state fund—a compulsory mutual association of employers—competing mutual and commercial insurance companies; or by combinations of two or more of these plans, as desired. Similarly, the compensation payments and the details of administration can be altered as desired.
 - a. Such a legislative proposal would involve an extension and improvement of existing laws by providing protection against a portion of the wage loss due to involuntary unemployment.

The liability for such part of the wage loss to be apportioned between industry and labor on a basis that will approximate present standards of recognized responsibility.

AFFIRMATIVE

- L. It is necessary; for
 - A. The need exists; for labor, the consumer and the community are all victims of irregular work conditions; for
 - 1. The wage worker's income is insufficient to enable him to bear the loss due to enforced idleness; for
 - a. Even boom time weekly wages (1920) range from 14 per cent to 59 per cent below the amount needed to maintain the "most conservative and most carefully worked-out budget for a family of five on a minimum standard of health and comfort," according to the figures of the National Industrial Conference board report covering twelve industries.¹
 - b. The lowest paid and unskilled workers are forced into idleness most frequently; once without work their large numbers keep them unemployed for longer periods than the better paid and skilled. Machine production is enlarging this vast class.
 - c. Deferred wage plans in the form of various plant benefit and relief schemes are seldom adequate. They are by their very nature limited in

¹ Douglas Hitchcock & Atkins. *The Worker in Modern Economic Society*. Chapter 9.

scope, and at their best may not be permanent.

2. The consumer is made victim through unduly high prices. Prices—which should cover legitimate costs and a fair profit—are inflated to include much of the employer's prevalent costs that accompany unemployment. These costs are passed on to the consumer because they are common to most competing firms, and include such items as the cost of inefficient management, labor turnover and overhead due to under capacity production.
 3. The local citizen is burdened with the cost of charity for the relief of the jobless. This cost bears no relationship to responsibility. Furthermore, the pitiable doles dispensed in this manner demoralize the worker without relieving his distress.
- B. Existing devices have failed, for the pressure of high overhead costs and the profit motive fail to induce general unemployment prevention in industry—even though the merits of prevention are known; for
1. Industry's unemployment costs are not generally appreciated by those who determine the larger business policies.
 2. The inertia of custom, the prevailing tendency of "let good enough alone" and the "can't" attitude thwart improvements in methods and equipment essential to unemployment prevention.
 3. The production of the few establishments that have stabilized employment is insufficient to affect the market price through competition and to eliminate the inefficient

concerns with high unemployment experience.

4. The pressure of high overhead expense from periodic unemployment fails to induce large concerns to prevent as long as the high profits from speculative plunging on a rising market (in good times) are sufficient to care for reserves for capital overhead and as long as they can compel their employees to care for their own overhead.
 5. The consumer is now paying for a large part of industry's unemployment costs, which are included in the price.
 6. To lay off the work force occasionally and close down the factory may be more profitable than continuous production; for such stoppage creates abundance of labor and shortage of finished products, and makes possible high prices and low wages.
- C. Other proposals have failed, for they have not met the problem for which unemployment legislation is designed; for
1. Though they are known generally, they are voluntary—they may or may not be put into practice.
 2. They lack the one incentive universally effective—financial liability.
 3. They are not substitutes for compensation liability. Though they should be encouraged; they serve best as complementary measures to it.
- D. It will bring results; for past *experience* shows that where prevention is reasonably attainable, compensation liability has been corrective of industrial ills rather than punitive in effect on

the employing interests. It has brought about prevention where the prospects of additional profits failed; e.g. :

1. Wisconsin child labor laws were not so generally observed until legislation imposed a triple liability for damages for all injuries to children illegally employed.
 2. Though the possibilities of accident prevention were long known, practically nothing was done by industry until faced with compensation liability. Prevention is generally most effective in those states and in those occupations where the compensation liability is most costly.
 3. Though the possibilities of unemployment prevention were long known, practically nothing was done by industry until faced with compensation liability; e.g.,
 - a. Where trade unions have required a concern or industry to pay out-of-work wages, successful prevention has been effected.
 - b. The recent fear of compensation liability through unionism or legislation have inspired the employing interests sporadically to attempt some prevention.
- II. It is economically sound, for
- A. It will impel employers to cooperate in tackling the whole problem.
 - B. It will organize the labor market, as employers are induced to cooperate in placing the involuntary idle.
 - C. It will reveal information essential to the prevention of unemployment, such as facts con-

cerning the amount, distribution, waste, and causes. It will manifest the hitherto unappreciated expense of unemployment to the employing interests as a distinct cost separate from "overhead."

- D. Where the management practices of an employer have required a reserve of labor in waiting, the obligation to pay for part of its maintenance will impel him to stabilize his production and reduce the reserve to a minimum, thus making available the unneeded surplus for relieving the labor shortage in other industries and localities.
- E. Since competition with concerns in other states will prevent the inefficient employers with *much* unemployment from passing on high compensation costs to the consumer in the form of higher prices, they must face the issue of prevention; for the compensation must be paid either from profits or from economies effected by the reduction of waste, including unemployment.
- F. Where a concern endeavors and *temporarily* fails to eliminate unemployment and must pay compensation, the resulting improved production would more than offset this cost.

III. It is morally just; for

- A. The employing interests are at least in part responsible for existing unemployment. They have it within their power, in dictating business policy, materially to reduce this hazard. The worker and consumer are least, if at all, responsible; still they bear the burden of unemployment.
- B. Where the existence of a reserve of unemployed labor is necessary or advantageous to

the employing interests who control the sources of employment, the obligation to contribute for part maintenance will be but proper compensation for the actual benefits now derived.

- C. The employing interests are able to compensate for the waste of human and capital resources resulting from unemployment. This is proved by the fact that they are now compensating for it, but *only where compelled* by superior power or authority; e.g.,
1. By superior bargaining power, the investors require steady interest income, landlords require rent, staff officers require salaries, etc.—quite regardless of the regularity of production.
 2. By legal authority, public utilities levy a minimum charge—compensation for maintenance while waiting ready to serve.
 3. By bargaining power, some trade unions hold industry liable for a part of wages lost when industry fails to provide steady work.
 4. By legislative authority, industry is now liable for compensation for unemployment due to accidents and occupational diseases—even when industry is not entirely at fault.
- D. In the absence of obligatory compensation legislation, the unemployed worker and the unorganized consumer are unable to shift the burden of the cost of unemployment onto those responsible.
- E. It endeavors to introduce more humanity in industry's labor relations; for it will remedy the impersonal law of supply and demand with

the nobler golden rule based on citizenship rights and obligations.

- F. It asks industry to recognize that the overhead of human labor (maintenance cost) is deserving of some attention similar to the attention paid the overhead of inanimate capital.
 - G. It will protect the unorganized consumer against price inflation and the worker against unjustifiable wage reduction; for
 - 1. If a shut-down is executed, the compensation cost will tend to offset the advantage to employers of the economic effects on wage levels of increasing the reserve of unemployed.
 - 2. It will be more costly to curtail output and supply by closing the factory in order to maintain an inflated price for factory products.
 - H. It will elevate the maintenance of the involuntarily unemployed from the level of poor relief for the abject to the level of citizen's rights—a just payment for a part of labor's overhead cost while waiting ready to render service to industry at its call.
 - I. It is the duty of government to protect its citizens from flagrant iniquities, especially where the iniquities are preventable, and the means of prevention both practicable and profitable.
- IV. It is desirable for industry; for
- A. It will protect conservative concerns against unscrupulous competition; e.g., the “bidding up” and stealing of labor during such periods by unsound concerns whose practices cause irregularities.
 - B. It will reduce many of the risk problems of finance, personnel and production—as the con-

- sumers purchasing power and habits become regularized.
- C. It will reduce production costs thru improved production morale and provide wider spread of overhead without reducing the worker's income.
 - D. It will raise the level of competition and impel employers to cooperate.
- V. It is desirable for labor ; for
- A. It will protect the workman and his family from the physical, mental and spiritual deterioration that result from uncertainty of job tenure while at work, from loss of physique, skill and efficiency while forced to be idle, and from demoralization from being forced to accept charity when work is denied—due to “subjection to interference and petty spying into matters of private life at the hands of well-meaning but unscientific social workers, philanthropists, and uplifters,” and due to uncertainty of amount and duration of voluntary charity assistance.
 - B. It will make possible a better living standard, for
 - 1. It will result in steadier work, hence larger annual money earnings.
 - 2. The inevitable lower prices will mean higher real earnings and purchasing power.
 - C. It undermines industrial czarism and establishes citizenship rights for it will make universal the benefits of, and assure permanency to, the successful schemes for preventing and remedying unemployment now in operation in enterprising individual establishments.

- VI. It is desirable for the farmer; for
- A. It meets the farmer's labor problem; for he needs labor when city business is "good." Now he must reduce his work force during city depressions. As compensation impels industry to spread its work out over the year, the farmer is being protected from a most demoralizing abuse of large concerns. Farm labor deserts him when he most needs them; he is asked to hire the city unemployed that once deserted him, at times when his farm can least afford to take on extra help.
 - B. It lessens the danger of periodic over-production of farm produce as steady city employment creates a more constant demand for farm and dairy products. Now his market is periodically undermined as the city workers change their diet during unemployment—to grain and lentils instead of beef and pork, oleo instead of butter and cheese, and water instead of milk.
 - C. Production and economies in manufacturing will increase and thus bring lower factory products prices and strengthen his weak economic power, as it checks restriction of output by the city manufacturer.
- VII. It is desirable for local retailer and small business; for
- A. It will stabilize local purchasing power; for
 - 1. Since it aims to "iron out" the usual alternating periods of plant shutdowns and rush orders and to encourage continuous local production and employment, it will tend to reduce the risks that grow from bad debts, low purchasing power, violent price changes and inventories, for

SELECTED ARTICLES

- a. It will permit the floating population to settle down, and deter those settled from becoming floaters.
 - b. It will afford steady and larger local incomes.
 - c. It will tend to discourage fickle styles and standardize the form and quality of merchandise.
- B. It will reduce overhead, for future needs can then be predicted enabling operation with smaller inventory, less working capital and high merchandise turnover.
- C. It will insure business against uncertainties that cause buyers' strikes, as they occur on the eve of trade depressions by buying up at the critical time. Consequently it will prevent unemployment in one industry or locality from spreading and infecting the whole nation.
- D. It will discourage the plunging practices of industrial concerns that periodically lure away help.
- VIII. It is desirable for the public; for
- A. It will reduce prices, increase purchasing power and maintain a more steady supply of goods for the consuming public.
 - B. It will encourage industry to keep the plants running more steadily and lengthen the production year to twelve months where reasonably possible. Thus the employment of factories and labor formerly idle will enlarge the total annual product.
 - C. As goods produced that are not dumped into foreign markets must be sold at home, the increased supply of goods offered for sale is bound to drive prices downward, wherever

they are inflated. Thus prices will tend to approximate "legitimate costs" and profits. This reasoning assumes honest competition; i.e., where economic law—supply and demand—will not be tampered with by price conspiracies or illegal restraint of trade.

- D. It will assist economic law to spur on concerns who adopt scientific methods in management, and at the same time drive out those who operate by rule of thumb; for the resultant reduced prices and narrowed per unit profit margins will drive out concerns with wasteful methods, and encourage those concerns with lower costs and superior management who stabilize their business, reduce labor turnover and the idle equipment overhead costs.
- E. Consequently business genius will be inspired to shift its attention away from holding back production and from boosting prices as important profit sources to that of boosting production and economy and to holding down prices in a constructive way.
- F. Where trusts, pools and combinations have held up prices to enable the wasteful and inefficient concerns to profitably exist, the resultant enlarged and constant production will automatically purge the market of them, for these combines depend for their existence upon their freedom to shut down production and restrict output at will.
- G. It will release funds of the retailer and consumer for new uses as speculative hoarding is discouraged by its price stabilizing influence.
- H. Larger production and reduced costs spell increased purchasing power and moderate prices.
- I. By placing on each concern in a state a poten-

tial cost burden that varies with the amount of its unemployment—from practically nothing to a possible $1\frac{1}{2}$ to $2\frac{1}{2}$ per cent of the payroll—it will hasten the elimination of the inefficient concerns with high overhead and unemployment, and accelerate the development of those concerns that afford steady employment. The resultant increases in management economies and improved production morale will increase industry's advantage in competition with other states, and will benefit the workers, efficient concerns, and the consumers; for

1. It will induce the employing interests and labor to render their best to increase quantity, economy and regularity in production as a universal means of securing steady incomes and profits rather than to continue the restriction of output practices.
2. It will reduce prices to levels that more closely correlate with legitimate costs; for prices are set by the comparatively efficient concerns rather than by the marginal or least efficient concerns operating at or near a loss.

IX. It is socially desirable; for

- A. It will relieve the locality of the burden of maintaining the unemployed through public and private charitable measures, local retail credit, etc., and of the demoralizing effect of the continuous influx of transient workers.
- B. It will tend to prevent the growth of industrial conditions that produce unemployables, permanent casuals, migratory hoboos and tramps; for it will create a lasting interest in better job coordination, in vocational training

- and guidance, in sound personnel and management policies and in stable labor relations.
- C. It will remove one of the main obstacles that prevent industrial peace.
 - D. It will increase the number of steadily employed with steady *real* incomes and thus make possible stable domestic life, home ownership, regularity of living standards and thrift—fundamental factors essential to good citizenship, the absence of which makes for revolt, social unrest, crime, child delinquency, disrespect for law and government, etc.
 - E. It will bolster up our economic system at its weakest point by preventing the waste that results from irregular production.
- X. Obligatory unemployment compensation is practicable; for
- A. Unemployment compensation liability legislation is the product of decades of experience in America and abroad both in remedying and in preventing risks peculiar to modern industry:
 - 1. Those unemployment insurance laws prove most satisfactory which hold the employing interests for the payment of a larger portion of the unemployed workers' wage loss.
 - a. There is a general tendency to increase the employer's liability under the obligatory systems.
 - b. Voluntary systems are adding features of the obligatory.
 - 2. While a few pioneer American employers under handicap and on their own initiative have proved what can be accomplished, the great mass of employing interests fail to improve method or to keep

improvements in the absence of a constant spur such as financial liability. Man struggles harder to retain a unit of that which he has than to attain an additional unit.

- a. Meritorious improvements may often be neglected until induced by the prospects of loss.
 - b. The existing economic forces fail to exercise over the employer such vigorous discipline as he now exercises over the employees; i.e., by promptly eliminating the inefficient and neglectful; for
 - (1) Their efficiency and service is subjected to less rigid measurement.
 - (2) The existence of a going concern may often be attributed to some form of monopoly, superior financial backing, conjunctural conditions, booms, growing population and attendant demand, fortune of strategic positions in the market, or to the backwardness of the competitors in the industry in general, rather than to efficient administration.
- B. British and world opinion regards obligatory unemployment insurance as a practicable means of protecting bona fide unemployment; for
1. Various governmental administrations have cooperated in extending its scope and influence, and have never demanded its repeal.

2. Organized labor, organized employers, civic and church bodies equally support it, for it has succeeded in large measure.
 3. Its administration (loading) costs are the lowest of all insurance known.
 4. It has prevented physical deterioration common to previous unemployment periods.
 5. Some American reports of its alleged failure do not express the prevailing British opinion, the general tendencies and experience; for
 - a. They emphasize isolated cases of the abuses early in its experience.
 - b. They fail to make proper comparisons with actual British conditions before enactment, with the probable conditions in the absence of unemployment insurance; and with American unemployment conditions.
 - c. They describe abuses that grew out of local emergency and war workers' and soldiers' relief measures, and not from the regular national unemployment insurance system whose officers assisted in the administration of these measures.
- C. American legislation can be made effective (where the British Act is ineffective) by making over-extension of credit and the usual alternation of rush order booms and factory shut-downs too expensive to be continued, and by graduating a concern's compensation premium cost on the basis of unemployment experience.
- D. Employers' liability for unemployment compensation will serve as an automatic check

against the short-comings charged against the British system; for

1. The payment of fraudulent claims is rare under American accident compensation laws. If extended to include involuntary unemployment, the facility in determining qualifications once defined will eliminate the work-shy.
 2. It will displace the indifference of employers and their negligence in reporting vacancies.
- E. Its enactment will involve merely an extension of existing machinery with little change.
1. Employing interests and bankers are now well organized for various purposes and can assist materially in prevention through greater cooperation and through caution in credit extensions.
 2. Voluntary organizations will insure compensation liability.
 3. Labor is ready to cooperate on any sound program for prevention, for more continuous and efficient production and steady work.
 4. Where existing machinery has failed, compensation liability will coordinate its resources and concentrate its attention on the unemployment prevention possibilities and thus become effective.
- F. Compensation liability legislation is adapted to American conditions and is flexible enough to adjust itself to development or change in conditions.
1. An introductory period with protective devices enables all parties to prepare for prevention.

2. Without formal legislation enactment the administering commission may issue orders with weight of law to meet emergencies and new conditions, in manner similar to the administration of accident laws.
3. Advisory boards and public hearings allay friction and misunderstanding between employers and labor on interpreting administrative detail.
4. By voluntary agreement between industry and labor (or through amendment) improvements may be enacted without disturbing its fundamentals.
5. The principle of mutual non-profit insurance definitely enables American employers to help themselves through constructive cooperation.
6. The cash reward features will make prevention permanently profitable and attractive to better management.

NEGATIVE

- I. It is not necessary; for
 - A. A considerable portion of the volume of unemployment is necessary; for
 1. The capacity of the nation's production equipment and resources must always exceed the usual demands—so at all times to be ready to take care of emergency needs and exigencies, such as defense of the nation, or sudden expansion of domestic or foreign market demands due to political conditions, financial conditions, earthquakes, famines, etc.
 2. Continuous improvements in the technology of production and methods of dis-

- tribution must always force some into the unemployed reserve temporarily in the process of readjustment. These improvements should not be hampered.
3. The constantly changing demand of the consuming public must be satisfied.
 4. Custom dictates the employment period in many cases.
 5. Unemployment is an essential instrument for discipline; for it penalizes demerit.
- B. Present incentives for business to prevent unemployment are adequate; for
1. Unemployment is but one phase of the still larger business problem—the inability of the consumer to take the full product of our much over-developed industries.
 2. Idle organization and equipment mean high overhead cost. The tremendous cost of unemployment to capital investors makes them constantly eager to utilize all available capacity. Full capacity production is the goal of industrial managers.
 3. Profits depend on continuous production.
 4. Employers are rapidly learning the cost of labor turnover.
- C. Additional legislation is superfluous; in the long run the immutable law of supply and demand, as it operates in the open market of free competition, automatically regulates the volume of employment and production to the best advantage of the greatest number; for
1. Changes in the price of a commodity automatically check over-expansion in an industry when there is abundance; for price registers the social need for a commodity. For example

- a. A decrease in price curbs the use of labor and capital in the further creation of the commodity, as the prospects of profits decline. Both labor and capital are fluid and settle where there are opportunities.
 - b. An increase in price tends to expand production, as it increases the prospects of profits.
2. The law of supply and demand operates effectively to drive out costly methods and encourage the most efficient; for
 - a. The inefficient concerns, with their high costs and antiquated methods of management, are automatically culled out. Better equipment and methods are constantly being brought into use. Inefficiency, causing high production costs, results in inability to compete. Thousands are constantly being driven into bankruptcy to make way for the more efficient.
 - b. The law of supply and demand is flexible, and it automatically adapts itself to changing industrial and market conditions.
 3. Any governmental legislation that tampers with immutable economic law restricts the free operation of competition, and thus fosters the survival of the unfit.
 4. Statute law that meddles with the bargaining relations between buyer and seller undermines the tenets of free contract, and substitutes the medieval condition of static society.
- D. Those affected by unemployment are already meeting the problem; for

3. A wide experience of voluntary effort through individual plants and groups.
 - B. It is difficult to calculate the risk of unemployment with actuarial certainty; for
 1. The essentially political nature of governmental appointees who will arbitrate disputes cannot be predicted.
 2. The unemployment statistics are still inexact and incomplete.
 3. The peculiar nature of this risk continually varies with complicated uncontrollable forces.
 4. Individuals differ in their employability.
 - C. It would confiscate, without compensation, industry's economic position in purchasing labor. For example, to organize the labor market (about centralized free employment information exchanges) would remove the present benefits of each employer's having his own reserve of unemployed labor to draw upon.
 - D. Demand and supply will automatically bring about prevention in time. Statute law merely interferes with the natural economic tendencies.
 - E. Since unemployment compensation would accelerate the driving out of the less efficient, it would materially decrease the number of producing concerns, eventually leaving the market in complete control of a few whose sole justification for survival and continued existence would be "efficiency" and unemployment prevention.
- III. It is not morally just; for
- A. The employing interests in industry are not morally responsible for the volume of unem-

ployment; for they cannot control the forces that cause much of the unemployment; for example

1. Conditions in other states and nations, wars and rumors of wars, obviously are too remote for the employing interests to control.
 2. Acts of the elements, fires, floods, earthquakes and the seasons are beyond the control of the employer.
 3. The future cannot be forecast with certainty.
 4. General business conditions and the business cycle are far too complex for the average manager even to comprehend thoroughly—he is still less able to control them.
 5. Certain industries have obvious peculiarities that cannot be eradicated.
 6. The peculiarities of human nature affect market demand. The consumer's demand cannot be controlled and directed with assurance. If one affords steady employment during depression by stocking up the product for future use, he may find that the demand for the particular goods has changed. This would entail sacrifice in prices and even loss, hence unemployment prevention is discouraged.
- B. Obligatory payment for part of the wage loss during periods of unemployment would require the employing interests to compensate the employee as an investor of labor, similar to the steady interest remuneration now paid to an investor of secured capital. Still it would permit the former to leave the job at will, while the latter may not withdraw his capital

- investment until he first gets a substitute investor by transfer.
- C. It would create an additional responsibility for those who employ labor. It would not correspondingly add to labor's responsibility.
- D. It would require the employing interest to compensate for unemployment due to "no work" in a manner similar to compensation now afforded when unemployment is due to injury or occupational disease. Still, the causes of the former type of unemployment are far more difficult to control, while much is positively unavoidable.
- E. It would constitute a punitive encroachment on the employing interests' inalienable rights—on their freedom to hire and lay off employees as they choose.
- F. It would tend to force the employing interests to continue producing regardless of whether there is a profit. Thus it would increase the danger of over-production of factory products and force them to accept ruinously low prices.
- G. It would subject employers' business methods to inspection, interference, regulation, and standardization by governments, "experts" whose decisions would attempt to substitute the "rule of law and science" for the rule of private individual authority. These are prerogatives of employing interests never before tampered with.
- H. "The argument that 'the employing interests are largely to blame for employment, therefore let them pay for part of the cost of maintaining those out of work' savors of bolshevism rather than a sincere attempt to solve the problem."

- IV. It is not desirable for the employing interests; for
- A. It will deprive the employing interests of their competitive advantages due to location and thus drive them to other states and nations; for
 - 1. Capital is fluid and settles where opportunities are the greatest and the most secure.
 - 2. Compensation cost will be too exorbitant and production morals will be so undermined that new industries dare not settle, and old concerns may actually retire or refuse to expand in the states requiring compensation for unemployment.
 - B. To hold the employing interests liable for compensation for their unemployed is tantamount to confiscation and is unjust class legislation.
 - 1. It adds another burden to this already over-legislated class. There are now more statutes that inspect, meddle, prohibit, penalize and regulate acts of the employing interests than any other class in society.
 - 2. The burden of these unemployment costs on employers will inevitably continue to increase; for
 - a. As the unemployed increase in political power they will demand larger compensation payments.
 - b. The volume of unemployment will increase in America as legislative enactment increases the inducements to idle.
 - 3. It will increase business pessimism and enlarge the now appalling number of failures and bankruptcies.
 - 4. It will intimidate business and investors and thus perpetuate business stagnation.

- C. It will tend to stabilize wages and working conditions at the higher levels and prevent their deflation to lower levels, thus intensifying the difficulty in making necessary adjustments that lead to normalcy; for
 - 1. It will deter employers from sharing their prosperity earnings with employees in the form of higher wages; for once an increase is granted, it may not be withdrawn without difficulty.
 - 2. Once a depression sets in, the stabilized high prosperity real wage levels will prevent deflation to normalcy.
- D. Legislation for unemployment compensation will disturb the present existing relations between the employer and employees.
- E. It will subject business to continuous governmental bureaucratic interference, regulation and supervision.
- F. It will force industry to produce even at a loss.
- G. It will make discharge of employees difficult. Still one unemployed may refuse to accept positions of strike-breakers as "unsuitable."
- H. Wherever it may impel one industry to keep running steadily—markets will become glutted because of the inability of the nation's consumers to purchase the enlarged product. Nations purchasing power must first be increased.
- I. As it checks expansion of capital equipment beyond the limits set by the market's ability to buy, it will force large amounts of surplus funds onto the money market unemployed. This will drive down interest rates and other fees paid for capital services while at the same

time maintaining the standards of labor's reward.

- V. It is not desirable for labor; for
 - A. It will tend to increase the volume and lengthen the duration of unemployment; for
 - 1. In boom times, it will be ineffective when the prospects of profits will exceed many times the total cost of compensation liability reserve.
 - 2. In the depressions, the employer's prospect of unsteady work and the consequent compensation liability will deter him from taking on more men to absorb the volume of the unemployment.
 - 3. It will at all times cause more unemployment.
 - B. It will render unequal benefit to unemployed.
 - 1. Workers in the exempt and uninsured classes of employment will be excluded from compensation payments when unemployed, unless their employers elect to compensate.
 - 2. Those who are insured may be favored with the few jobs available in times of depression.
 - 3. As the inefficient workers are first to be laid off, they will derive most benefit from the act.
 - 4. Lengthy "waiting periods" will exclude a large part of the intermittent unemployment from immediate benefits.
 - C. It will undermine habits, making dependent paupers of the self-sufficient and thrifty.
 - D. It will subject American labor to the regulation of numerous official state decrees.

SELECTED ARTICLES

- a. While the retail trade has normally the least unemployment of all industries, in the severe depression of 1921 it laid off almost three of every one hundred employed.
 - b. Ten per cent of each premium dollar paid to the state association to pay the cost of adjusting differences between employers and contestants for unemployment insurance.
 - c. The overhead expense of managing such a state-wide merchant's mutual association will include considerable for salaries and expense of secretaries, organizers, stabilization experts, etc. There is no assurance that the alleged benefits to member merchants will counter this expense.
- C. Membership in the mutual association, which is voluntary for those who employ less than six and compulsory for the unexempt, will subject member merchants to a form of disciplinary control not unlike the leveling forces of unionism upon labor.
- D. As this plan tends to curb violent price changes, it would deprive merchants of inventory profits common to boom periods.
- VIII. It is not desirable for the public; for
- A. Industrial pay role costs will increase, at least, temporarily. Even if this cost cannot immediately be passed on in price, certain dangers more damaging than the temporary benefits of low prices alleged may develop.
 - B. Should unemployment wages so influence economic law as to cause some stabilization in the industries that are not over-developed, the cost

of resultant failures and bankruptcies to the employing interests in the over-developed industries will counter the meagre consumer benefits alleged.

- C. All concerns cannot hope to survive the trial period of intensified competition which will result from the enlarged production brought by stabilization—e.g., due to the abundance of capital, the increasing productivity of labor and the efficiency of machinery, our industries have become so over-expanded that 40 per cent of the mines employing 75 per cent of the workers could supply us with all the coal we need if worked twelve months. Our needs for steel and iron can be supplied in seven months work, window glass in seventeen weeks, and our boot and shoe needs can be supplied by 14 per cent of the factories if operated for twelve months.
1. Consequently many concerns will be compelled to retire from active production, leaving the market to fewer though superior concerns whose *sole* justification for existence will be “low costs and unemployment prevention.” The importance of these objections fade as we realize the importance of having sufficiently large equipment to care for sudden expansion in consumers’ demands. Furthermore, reduction in number of competing concerns increases the temptation to combinations for price fixing purposes.
- D. Should unemployment compensation force firms to manufacture for future demand, standardization and uniformity in style would inevitably result. Hence the tastes that call for

- “something different” and “individual” will have difficulty.
- E. It will eventually create an additional burden to the consumer in the form of higher prices; because
1. The removal of the unemployment fear incentive will necessarily lower morale, decrease efficiency, and increase production costs to the employing interests; and further
 2. The experience premium cost of the unemployment compensation will also be passed on to the consumer, for it increases the production costs of the marginal producer.
- IX. It is not desirable for society; for
- A. The assurance of compensation while unemployed will undermine the independence, individualism, and self-respect inherent in American labor; for
1. It removes the incentive for thrift, self-respect, and individual endeavor.
 2. It removes the fear of privation needed to induce faithful production.
 3. It will create a positive incentive to loaf.
- B. It will increase the volume and lengthen the duration of unemployment.
- C. It will create a permanent class of dependent and casual idlers. This will
1. Increase social unrest.
 2. Demoralize government, morale, business, labor, society.
- X. Obligatory unemployment compensation legislation is impracticable; for

- A. Business will be at the mercy of governmental bureaucratic officials who must stand as arbiters in disputed cases between employers, insurance carriers, and between labor and employers.
- B. It will destroy individuality, the element of human personality characteristic of American business administration, and subject business practices to standardization uniformity as directed by governmental bureaucracy.
- C. Obligatory unemployment compensation legislation will prove too cumbersome in administration and too inflexible to avert abuses, corruptions, and to meet special emergencies.
- D. It will intensify the strife between employers and labor at "advisory board" hearings because of the complications and conflict of interests entailed in determining standards of detail administration of its provisions.
- E. The cost of administration will be too excessive as to justify the meagre amelioration afforded. It will entail endless expense to industry and society.
 - 1. Its administration will require a large army of officers, adjustors, statisticians, actuaries, major and junior executives and clerks.
 - 2. Its administration will require a well coordinated chain of employment exchanges or job information offices for the purpose of placing unemployed and for adjudicating claims.
 - 3. Its administration will require an elaborate inter-insurance organization of mutual insurance associations, entailing the maintenance cost of numerous actuaries, ac-

countants, production and personnel engineers, experts in stabilization, etc. This cost will swell the overhead and hence the premium costs charged employers.

- F. After careful study and observation of European legislative experience and of American conditions, it has been repeatedly rejected by insurance carriers and employers organizations, governmental and civic bodies, for the following reasons:
1. It is positively unnecessary, unsound and impracticable.
 2. It would be a dangerous innovation disastrous in its effects on all whom it directly or indirectly affected.
 3. At best, obligatory unemployment compensation legislation is a mere palliative of doubtful value.
 4. The argument that "industry is to blame, so let industry stand the cost" savors of bolshevism rather than a sincere attempt to solve the problem.

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GENERAL DISCUSSION

A CHALLENGE TO OUR MORAL AND ECONOMIC SYSTEM¹

There is, to my mind, no economic failure so terrible in its import as that of a country possessing a surplus of every necessity of life—with numbers willing and anxious to work deprived of those necessities. It simply cannot be if our moral and economic system is to survive, and it is the duty of this conference to find definite and organized remedy for this emergency. I hope also that you may be able to outline for public consideration such plans as will in the long view tend to mitigate its recurrence.

It seems to me we could on this occasion well give consideration to and expression of the measures that would tend to prevent a recurrence of these acute reactions of economic tides in the future. A crystallization of much valuable public thought on these subjects would be of lasting educational value to the whole American people.

In the other countries that have been primarily affected by unemployment as a result of the war, solution has been had by direct doles to individuals from the public treasury. We have so far escaped this most vicious of solutions that can be introduced into government, and I am hopeful, and I believe you will be, that it is within the intelligence and initiative of our people that we may find remedies against hardship and bitterness that do not, except in exceptional cases, come within the range of charity.

¹ From an address by Herbert Hoover before the President's Conference on Unemployment, published in Proceedings of the Conference.

What our people wish is the opportunity to earn their daily bread, and surely in a country with its warehouses bursting with surpluses of food and clothing, with its mines capable of indefinite production of fuel, with sufficient housing for comfort and health, we must somewhere possess the intelligence to find a solution of the situation in front of us. Without it our whole system is open to serious charges of failure.

THE EVOLUTION OF INDUSTRIAL IDEOLOGY¹

Many of our ideas upon social and economic questions were formed during the early days of our industrial system, at a time when most men lived in towns and villages, each of which was substantially a self-sufficing community, and when almost every man was in some degree, at least, a jack-of-all-trades.

Let me give an illustration from my own experience. As a boy, I spent my summers during the last years of the 19th century at Beverly in Essex County. In the course of long walks and bicycle rides over the country roads I became familiar with the village and rural life of that day. And among my most vivid recollections are the road-side shoe-shops. There, in little one-room houses by the road-side, I saw the shoemaker at work, and alongside I saw his dwelling house, his outbuildings, and hens and domestic animals, and his garden, and perhaps his fish net or implements of some other trade.

If times were dull in the shoe trade, he had his house and garden. He might spend a part of his time in shoe repairing and odd jobs at his trade, and he might spend a part of his time fishing, wood-chopping, working on the roads, or at some other occupation that would at least provide a bare living till he could resume full time work at his trade. For him there was no need of unemployment insurance.

¹ From an article by Henry L. Shattuck, Massachusetts state senator. *American Labor Legislation Review*. March, 1922. p. 47, 48.

Some of the little shoe-shops still stand by the roadside; but the shoemaker has been drawn to the factory town. The factory is controlled by the employer. Machine work has replaced hand work; the machines are controlled by the employer; and the materials are owned by the employer. The employer directs the buying and selling, decides the policy, and assumes the entire function of management.

The employee, on the other hand, is a specialist, working on a machine which performs but one step in the making of the shoe. He has no control over the machines on which he works or over the business policy or any other function of management. He lives in an urban or semi-urban community in which there are many other shoemakers. There is no space for a garden and the keeping of poultry or livestock, and if there were space there would be little time before and after the day's work to give to these things.

If dull times come in the shoe trade, the factory force is cut down or the factory may be entirely closed and our shoemaker and many of his fellows are discharged. Perhaps other factories in the same town are cutting down their help or closing at the same time, and no factory is taking on new help. In the old days our shoemaker might take up wood-chopping or fishing or might engage in some other alternative trade or occupation and thus provide such money as he needed for clothing and such food as he did not produce, and whenever an order came in he could go back to his shoe-shop; and if, as was probable, he owned his house and shop he would have no rent to pay.

No matter how hard the times might be, the old-time shoemaker was never wholly without resources. If the modern shoemaker is thrown out of employment, he has but few resources, except such savings as he has been able to make.

With the disappearance of the old shoemaker and the closing of his roadside shoe-shop at the end of the last

century, one of the last vestiges of the pre-industrial era passed from the stage. What has been said by way of illustration concerning the shoemaker applies to all other industries and trades.

Today we face conditions and problems unknown to the old order of things. The industrial era is in full sway. With it have come a greater volume of lower cost of production and in most respects more comforts, and conveniences for all when times are prosperous. But there have also come with increasing violence waves of over-expansion and over-contraction, of boom and panic, of scarcity of labor and of unemployment.

In boom times the employer largely increases his forces, runs his factory day and night and produces goods at utmost speed. Over-expansion ensues; depression follows. Large numbers of men and women are suddenly thrown out of employment, with no prospect of earning a livelihood. This state of affairs not only creates innumerable cases of individual hardship, but is detrimental to the welfare of the entire community.

It may be said that any scheme of unemployment compensation will destroy the old spirit of independence and self-reliance. We must consider the problem in the light of modern conditions. In this age of machines, of enormous plant investment, and of the division of labor into innumerable specialties, the old independence has gone, and there has come and is coming a greater and greater degree of interdependence.

Many of the problems of life which were once problems for the individual are now charged with a public interest and are problems for the community. . . .

A DEFINITION OF UNEMPLOYMENT

"A person is unemployed who is seeking work for wages, but is unable to find any suited to his capacities and under conditions which are reasonable, judged by

local standards," says Mr. B. Seebohm Rowntree, whose definition of unemployment has been accepted by investigators in America.

If a canvass were made of those not at work, one would find that they group themselves as follows: First, the unemployables—the defective, aged and untrained; Second, the employables, which may be subdivided into voluntary and involuntary. The so-called voluntary group of unemployed includes those cases in which the will of the worker was a factor in effecting the separation from his last job. It is not with these who are out of work of their own choice that students of unemployment are primarily concerned, but rather with the much larger group of the involuntarily (*bona fide*) unemployed who represent the bulk of the volume of unemployment in both "good" and "bad" times.

Since the purpose of unemployment insurance is to mitigate the condition of those involuntarily unemployed, laws and proposed laws must define unemployment in unmistakable terms. To say that one is unemployed generally implies that he must previously have been employed. The definitions of unemployment, therefore, hinge on the reasons for the worker's separation from his last job, and for his failure to obtain another. The British Unemployment Insurance Act and the various American bills clearly define *bona fide* unemployment in their qualifications for the receipt of compensation payments:

A workman shall be deemed to be unemployed when not under a contract of hire, if (1) he has been employed by one or more employers in the given state for 26 weeks during the previous two calendar years, and if (2) he is capable of and available for work, but is unable to obtain suitable employment, and has continued to report at the employment exchange¹ for work from time to time according to the rules prescribed, i.e.,

¹ Efficient administration of an unemployment insurance law requires a state-managed, state-wide system of well-coordinated local employment offices (or job information clearing centers) where employers may report vacancies and where the unemployed may register their desire for work.

by an industrial commission. Suitable employment shall mean employment in the worker's usual occupation, or other occupations in the vicinity of his residence or last place of employment for which he is judged to be reasonably fitted by the codified rulings¹ of an impartial governmental body, usually an industrial commission. But an employee shall be deemed bona fide unemployed if he should refuse employment as unsuitable (a) because the situation is subject to conditions substantially less favorable than the prevailing conditions in his usual employment, or (b) because the situation is vacant owing to the direct participation of the previous occupant in an existing strike or lockout.

A workman shall not be deemed bona fide unemployed (a) if he lost his employment through his misconduct, (b) if he has left his employment voluntarily without reasonable cause, (c) if he has left or lost his employment by reason of stoppage of work due to a strike against or a lockout by the employer at a factory, workshop, or premises at which he was employed, so long as the strike or lockout continues.

These qualifications for receipt of compensation clearly exclude (1) those not able to work, such as the unfit, sick, mentally and physically defective; (2) those unavailable, such as the work-shy and those who fail to report regularly at employment exchange offices where employers will report vacancies; (3) those able to obtain work that is judged by reasonable local standards to be suitable; (4) those who leave employment either (a) by their own volition, possibly hoping to better their condition elsewhere, or (b) at the request of the management in case of misconduct, or (c) where cessation of work is due to labor troubles.

The student desirous of learning the volume of involuntary unemployment, on which he may base estimates of the probable cost of unemployment compensation, will have some difficulty, until such legislation is finally enacted. The few available reports are quite inadequate for this purpose, since certain verifying influences that are now absent will become effective only when such legislation is in operation. First, existing

¹ The British unemployment insurance umpires' decisions define what has been considered suitable or unsuitable work in individual cases. These decisions are published in the Labor Gazette and periodically found in pamphlets. Both may be obtained from His Majesty's Stationery Office, London.

machinery is inadequate; second, there is some dispute as to the percentages of voluntary and involuntary or bona fide unemployment. Existing reports are compiled from individual employers' estimates and arbitrary statements. While these statements give the number of "quits," "discharges" and "lay offs," there is no uniformity in what these terms include. Many now classed as "discharged" may be in fact "laid off," e.g., one may now be reported, after thirty weeks' employment, "discharged for unsatisfactory work." Production standards may vary with the condition of the labor market, or the whims of management. Workmanship considered satisfactory in periods of prosperity, when rush order business must be taken care of, is considered unsatisfactory in periods of depression when there is much unemployment. In the latter periods, the impelling fear of unemployment drives labor to its maximum productivity. Still, it is in these periods that employers' statements show steady increases in discharges for "inefficiency," as well as for other reasons. But the fact that a large number of those "discharged" are not replaced may be evidence that the real cause of dismissal was the limitation of opportunities for work.¹

Unemployment compensation liability legislation vests the involuntarily unemployed worker with a right of action for compensation. In order to know when he is entitled to compensation, the reasons for separations must be defined and classified. There will remain, then, the mere matter of factual proof of reason for separation.

The conflict of interests between employers and employees setting the standards in conference will make

¹ The report of a survey conducted by the National Bureau of Economic Research, *Employment, Hours and Earnings in Prosperity and Depression*, states that "5,033,000 fewer workers were on the payrolls in 1922 than in 1920." Thus the discharged were evidently not replaced. The report further states that "transition from a boom to a depression is accompanied by practically no shift of workers from one industrial field to another. If this is true, employees laid off in an industry must, for the most part, either remain idle or go to work on their own account—often at such casual work as canvassing or peddling." (p. 28-29) "There is no reason to believe that the farmers took on any considerable number of workers whom the factories, mines and railways laid off." (p. 31).

manifest the proportion who are unemployed because they do not want work or for other purely personal reasons, and those who are unemployed because there is a shortage of work. These conferences will be conducted in cooperation with an impartial governmental body. Their findings will be recorded in standard form, published, and circulated.

THE WASTAGE OF MEN¹

Most of us are too far removed from the real workaday world to appreciate the everyday tragedy of human waste. Nobody seems to care particularly that the seven hundred thousand men in our coal mines, for instance, are idle more than half of the time. We do not appreciate the human tragedy concealed in the figures which show that if 25 per cent of our better type of coal mines operated three hundred and six days a year, employing 60 per cent of the men now employed in the industry, they could produce all the coal we could use or export. In other words, an average of two hundred and fifty thousand men in this industry must be out of work all the time, which means that the entire seven hundred thousand are being wasted one-third of the time.

The attitude toward work, the industrial habits, the social conduct, engendered by having only two or three days' work-in the week are a part of the social side of our wastage of men.

A study of the pay-roll data in the manufacturing industries, which employ eleven million of our population, indicates that the fluctuation in volume of employment alone spells an average total of twelve months' unemployment for from one million five hundred thousand to one

¹ From an address by Ethelbert Stewart, United States Commissioner of Labor, before the Association of Governmental Labor Officials of the United States and Canada and the International Association of Public Employment Services of Canada, May 19, 1924. Proceedings, 1924.

million seven hundred and fifty thousand of that total number. Of course, I do not mean that this number of individuals are out of work for twelve months, but the average aggregate of idleness, or the low percentage of full employment in various industries, amounts to about one million seven hundred and fifty thousand persons being idle all the time. This waste is spread, of course, over the entire eleven million employees in American industries.

Sad to say, this does not take account of such short periods of idleness as two or three days, nor does it include the individual loss of time due to sickness, much of which is preventable, nor the enormous loss of time due to industrial accidents, most of which are preventable; nor does it take into account the turnover.

Waste Through Labor Turnover. Labor turnover in industry is very largely, though not entirely, concerned with the unskilled and semiskilled workers. The turnover is the aggregate of individualistic strikes, usually of unorganized men—strikes against wages which are considered inadequate or labor conditions which are considered intolerable. Practically all of the labor turnover could be stopped by humanizing the labor conditions and making some effort to get acquainted with the men. The average loss of time between job and job is two weeks. Most of this seven million weeks of lost time is unnecessary and a pure wastage of men.

THE VOLUME OF UNEMPLOYMENT¹

The labor shortage. A study of unemployment statistics brings out striking facts. First, the number of unemployed in cities of the United States (entirely omitting agricultural labor, for which no reliable data are now available) has fluctuated between one million and six

¹ By Hornell Hart, Ph.D.; from *Unemployment in the United States*. Helen S. Trounstine Foundation, Cincinnati, Ohio.

million. The least unemployment occurred in 1906-1907, and 1916-1917, while the most occurred in 1908 and in 1914 and 1915.

ESTIMATED NUMBER IN MILLIONS OF UNEMPLOYED WORKERS
IN OCCUPATIONS OTHER THAN AGRICULTURE IN THE
UNITED STATES BY YEARS 1902-17:

Year	Average no. in millions	Per cent of total workers unemployed	Year	Average no. in millions	Per cent of total workers unemployed
1902	2.7	14.1	1910	1.7	6.5
1903	1.9	9.3	1911	2.8	10.8
1904	2.4	11.5	1912	2.6	9.6
1905	2.0	9.3	1913	2.6	9.3
1906	1.2	5.5	1914	4.5	15.8
1907	1.4	6.0	1915	4.6	16.0
1908	3.5	14.8	1916	2.1	7.1
1909	2.1	8.6	1917	1.4	4.7

ESTIMATED NUMBER IN MILLIONS BY MONTHS, 1902-17

Month	Per cent	Month	Per cent
Jan.	3.4	July	2.6
Feb.	3.1	Aug.	2.3
Mar.	2.8	Sept.	2.0
Apr.	2.5	Oct.	1.9
May	2.4	Nov.	2.1
June	2.5	Dec.	2.4

The average number of unemployed has been two and a half million workers, or nearly 10 per cent of the active supply.

Much has been written lately of the drain on agricultural labor and the increase in the number of women workers caused by the labor shortage. In 1907 and 1917 the demand for labor exceeded the normal supply, and additional workers were called in. Even at these times, however, unemployment existed. The reason is this: *Urban industries require a working labor-margin of at least 4 or 5 per cent, or a million to a million and a half workers.* These are the men and women who,

though normally employed, are temporarily not working because of sickness, seasonal fluctuations in their trades, changing from one position to another, strikes, shortage of material or transportation facilities, and so forth. Hence, we have the paradox of a million and a quarter unemployed at the same time with an unprecedented demand for labor.

Seasonal fluctuations. Statistics reveal certain marked rhythms of demand. Each year sees more or less pronounced peaks of demand in spring and fall, with a slight depression in midsummer, and a marked depression in winter. For the past sixteen years combined, the average number of unemployed has tended to be greatest in January, averaging three and a third millions, and least in October, averaging less than two millions. This yearly rhythm is due chiefly, either directly or indirectly, to changes in temperature.

CYCLICAL UNEMPLOYMENT, BY INDUSTRIES¹

The extent of unemployment which may arise from a turn of the business cycle is shown by the following table of the United States Bureau of Labor Statistics, giving comparative numbers on pay-roll in March, 1921, in contrast to March, 1920. The returns were supplied by more than eight hundred establishments employing about five hundred and sixty thousand workers, in thirteen manufacturing industries and in coal mining.

Industry	No. on Pay-Roll in March		Percentage of Decrease in	
	1920	1921	No. on Pay-Roll	Wages Paid
Iron and steel	188,007	133,738	28.9	44.2
Automobiles	152,692	70,947	53.5	64.0
Car building and repairing	57,245	48,728	14.9	11.3
Cotton mfg.	60,928	54,494	2.4	20.2
Cotton finishing	12,468	11,401	8.6	12.6
Hosiery and underwear...	32,718	21,574	34.1	45.8
Woolen	52,234	38,831	25.7	33.6

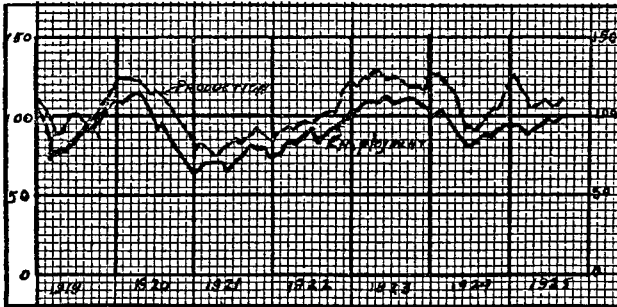
¹ From Monthly Labor Review, United States Bureau of Labor Statistics. May, 1921. p. 100.

SELECTED ARTICLES

Industry	No. on Pay-Roll in March		Percentage of Decrease in	
	1920	1921	No. on Pay-Roll	Wages Paid
Silk	15,414	12,735	17.4	24.6
Men's clothing	31,576	23,881	24.4	29.2
Leather	15,779	10,124	35.8	46.9
Boots and shoes	74,685	55,525	25.7	28.3
Paper making	32,828	27,786	15.4	21.9
Cigar mfg.	17,252	14,539	15.7	23.0
Coal (bituminous)	28,510	25,899	9.2	17.8

Accompanying the decrease in total employment, statistics from the same source point to the even more rapid decrease in total pay-rolls which indicates not only decreasing wages but increasing partial unemployment.

In the words of the bureau, "The figures for March, 1921, when compared with those for March, 1920, for identical establishments, show a considerable decrease in the number of persons employed. The largest decreases are 53.5 per cent, 35.8 per cent, and 34.1 per cent in the automobile, leather, and hosiery and underwear industries respectively. The smallest decrease is 2.4 per cent in the cotton manufacturing industry.



This Chart is compiled from work of Federal Reserve Board and of Dr. W. A. Berridge, Brown University. The index of employment covers 33 lines of manufacturing, distributed both geographically and industrially. The main groups are: Iron and Steel; Non-ferrous Metals; Textiles and their Products; Lumber and its Products; Paper and Printing; Food and its Products; Leather and its Products; Stone, Clay and Glass; Tobacco Products; Chemicals and their Products. The index is expressed as a ratio, the 1919 monthly average = 100. The index of physical production is from the Federal Reserve Bulletin, corrected for seasonal variation.

The total wages paid in these fourteen industries have decreased at a still greater rate. The amount of pay-roll had decreased by 64 per cent in the automobile, 46.9 per cent in the leather, 45.8 per cent in the hosiery and underwear, and 44.2 per cent in the iron and steel industries.

SOURCES OF CYCLICAL UNEMPLOYMENT ¹

A COMPARISON OF THE DECLINE IN THE VOLUME OF EMPLOYMENT FROM THE PEAK TO THE TROUGH (1920-1922) FOR LEADING INDUSTRIAL GROUPS

Industry	Number of Employees Per Concern	Per Cent Decline	Estimated Number of Employees Actually Working August 15, 1920. (ooo omitted)
All Industries	Any number	16.50	29,180,
	0-20	3.08	10,110,
	21-100	13.84	4,630,
	Over 100	28.23	14,440,
Extraction of Minerals	Any number	29.66	1,120,
	0-20	0.00	60,
	21-100	41.2	140,
	Over 100	30.18	920,
Factory Work	Any number	29.97	11,370,
	0-20	8.21	1,360,
	21-100	19.21	1,950,
	Over 100	38.56	8,060,
Building and Construction	Any number	18.92	1,600,
	0-20	14.66	570,
	21-100	15.11	530,
	Over 100	46.93	500,
Transportation	Any number	21.48	3,420,
	0-20	3.72	400,
	21-100	9.80	220,
	Over 100	33.19	2,800,
Commerce and Trade	Any number	2.78	2,600,
	0-20	1.27	1,650,
	21-100	5.81	400,
	Over 100	9.94	550,
Agriculture	Any number	3.18	2,300,
	0-20	2.15	2,120,
	21-100	17.35	130,
	Over 100	25.93	50,

¹ Adapted from Employment, Hours, and Earnings in Prosperity and Depression, National Bureau of Economic Research, Chapters 1 and 3.

UNEMPLOYMENT BY COUNTRIES¹

This table shows the mean percentage of work people in certain trade unions unemployed in each of the years 1904-1913:

Year	New York State (U. S. A.)	United Kingdom	Germany ²
1904	12.1	6.0	2.1
1905	8.5	5.0	1.6
1906	6.8	3.6	1.1
1907	13.6	3.7	1.6
1908	28.0	7.8	2.9
1909	14.9	7.7	2.8
1910	13.6	4.7	1.9
1911	18.7	3.0	1.9
1912	15.2	3.2	2.0
1913	20.9	2.1	2.9
Mean	15.2	4.7	2.1

THE ENGINEERS' ANALYSIS OF
UNEMPLOYMENT³

This report on unemployment and attempts to alleviate it is divided as follows:

- I. Intermittent Unemployment
 - A. Temporary Shutdowns and Layoffs
 - B. Seasonal Employment
 1. Seasonal Industries Employing Skilled Workers
 2. Seasonal Trades Employing Unskilled Workers
- II. Climacteric Unemployment
- III. Residual Unemployment

¹ From League of Nations Report on Unemployment, Item 2 of the Agenda, p. 13. (Washington: International Labor Conference, 1919.) Reprinted in Douglas, Hitchcock and Atkins, *The Worker in Modern Economic Society*.

² By John Koren, Zora Wilkins and Donald G. Ferguson, for the Federated Engineering Societies Committee on Waste in Industry. From *Waste in Industry*, page 265-77, by permission of the American Engineering Council, formerly the Federated American Engineering Societies.

I. INTERMITTENT UNEMPLOYMENT

A. *Temporary Shutdowns and Layoffs*—An element frequently overlooked in the unemployment situation is: what opportunity do workers nominally employed have to work a full week and to draw a full week's pay? For instance, a report of the Connecticut Commission on the Condition of Wage-earning Women and Minors in 1913 showed that for nine hundred and forty-two females in the cotton industry, the weekly earnings were 13.9 per cent less than full-time earnings; in the silk industry, eleven hundred and seventy-five females received 18.2 per cent less than full-time earnings; in brass factories, six hundred and sixty-two females received 14.1 per cent less; and in the metal trades, twenty-five hundred and forty-one females received 13.9 per cent less than full-time earnings. The frequent layoffs for half-days and days in the bituminous coal industry are another case in point.

During 1919 in the paper box industry, four thousand three hundred and eleven employees in seventy-seven establishments averaged 90 per cent of full time; in the women's clothing industry, six thousand seven hundred and seventy-two women workers employed in one hundred and fifty-seven establishments averaged 91 per cent; in the confectionery industry, twelve thousand one hundred and fifty-two workers in one hundred and one establishments averaged 87 per cent; and in the overall industry, six thousand five hundred and forty-six workers in one hundred and twenty-nine establishments averaged 87 per cent of full time. In the brick, chemical and glass industries the percentage of full time worked was 85, 84, and 87 respectively. When this record is examined in detail, it appears that some classes of workers are more frequently put on short time than others. While good finishers averaged 79 per cent of full time, though the average for the women's clothing industry as a whole was 91 per cent.

Laborers in the brick industry work 77 per cent of full time, while the average for the industry as a whole was 85 per cent. Any number of similar examples might be cited.

Causes of Temporary Shutdowns and Layoffs—Among the leading external factors resulting in temporary shutdowns and layoffs are transportation difficulties. The consequences of car shortage are well known in reference to the bituminous coal industry. In other industries delayed deliveries have the same disorganizing effect, frequently resulting in partial or total plant shutdowns for lack of fuel or raw materials.

Restriction of production by the manufacturer in order to secure price control is another cause of temporary unemployment. The present attempt of the Japanese silk industry artificially to maintain prices is an instance in point.

Even when it is the purpose of the management to insure regularity of employment, there are many failures in the performance. The failure of the sales department to secure orders may disturb the continuity of factory operation. In the aggregate a large amount of time is lost through layoffs of men in a single department or sections of a department, through inefficient management manifested by poor stock methods, inefficient routing, neglect of equipment, and the like. The failure to have necessary parts in stock, the irregular flow of material, machine breakdowns and similar accidents, which an efficient organization should eliminate, result in a continual nibbling at the employees' time. Shutdowns for the annual inventory are another survival of the past, which mean a total in all industries of many lost days in the year.

Methods of scientific management have greatly reduced the layoffs resulting from lack of organization. The chief service of scientific management in eliminating layoffs and shutdowns is the removal of the unexpected

through the standardization of all elements in the manufacturing process.

B. *Seasonal Employment*—Seasonal industries may be divided for convenience into two general classes:

1. Those employing a large number of skilled and semi-skilled workers who depend upon the industry for livelihood during the year. Such industries are the building trades, coal mining, the clothing trades, etc.

2. Those employing casual unskilled laborers who travel from place to place as the demand appears, such as farming, lumbering, canning, etc.

Workers engaged in the industries in class 1 either must be paid a wage substantially above that prevailing in other lines of work or must suffer great privation during the periods of unemployment now inherent to the industry.

1. *Seasonal Industries Employing Skilled Workers*

(a) *The Building and Allied Trades*—The building trades form the most important of the industries included in class 1. According to the latest available census figures, there were 1,779,964 skilled workers and 934,909 unskilled workers depending on these trades for a livelihood. The total is 3.8 per cent of the classified population in 1910. Due to war activities this proportion of building workers has possibly increased.

Irregular Employment—"The building trades workman, as shown by actual records, is busy on the average about 190 days in the year, or two-thirds of his time." (Sanford E. Thompson for the Federated Engineering Societies, from *Waste in Industry*, p. 53.)

(b) *Brick and Tile Products*—The manufacture of brick and tile products is more seasonal in character than building as it depends on construction work for its market and is more or less affected by weather conditions.

According to the United States Census of Manufactures, 1914, there were 100,182 workers employed in this

industry. It is estimated that not more than fifty thousand of them are employed in the mid-winter months.

(c) *Coal Mining*—Next to the building and allied trades, coal mining is the most important industry in the first class of seasonal industries. There are over seven hundred and fifty thousand men employed in coal mining who are idle during a substantial portion of the year.

The number of employees and the average number of days worked for a six-year period are reported as follows by the United States Geological Survey.

Year	BITUMINOUS		ANTHRACITE	
	Men employed	Days worked	Men employed	Days worked
1913	571,882	232	175,745	257
1914	583,506	195	179,679	245
1915	557,456	203	176,552	230
1916	561,102	230	159,809	253
1917	603,143	243	154,174	285
1918	605,000	252	147,121	293

During this six-year period anthracite miners worked on an average of two hundred and sixty and a half days out of a possible three hundred and eight, thus losing an average of 15.5 per cent of working days. Bituminous miners worked on an average of two hundred and twenty-six days and thus lost 26.7 per cent of possible working days.

Bituminous Coal Mining—The principal causes of irregularity of employment in bituminous coal mining are the seasonal character of the market and the inadequacy and irregularity of car supply.

The report of the United States Bituminous Coal Commission 1920 says:

The coal industry is a part-time industry. The number of idle days, out of a possible 308 working days, being 63 in 1918 and 115 in 1919. On the average for the past 30 years, the number of possible working days when the mines were not in operation, was 93.

It was estimated that America requires less than five hundred million tons of bituminous coal a year,

while the capacity of the mines in operation is over seven hundred million tons. In regard to foreign consumption, the Commission said:

It is not to be expected that exports of coal will increase sufficiently to absorb a perceptible proportion of the gap between the demand for coal and the capacity of mines, as our shipping-terminal facilities are such that not more than 25,000,000 tons of coal a year can at present be exported.

Means proposed for standardizing coal production include a plan advocated by the miners for an adjustment of work hours and an appeal to industrial consumers and to the railroads to cooperate in bringing about an even demand for coal.

The union miners proposed as a solution a six-hour work day, five days per week, with penal rates for overtime. They claim that the thirty-hour week would be sufficient to produce all bituminous coal needed for the country and that it would tend to distribute production more evenly through the year.

Any plan to regularize the demand for coal involves chiefly increased facilities for storage, not only at the mines, but at railroad terminals and industrial plants.

Anthracite Coal Mining—While the causes of irregularity of employment in anthracite coal mining are not precisely the same as in bituminous coal mining, the degree of irregularity is at least as great. According to the report made to the United States Anthracite Coal Commission by W. Jett Lauck, on behalf of the United Mine Workers of America, the anthracite mine workers have suffered more from irregularity of employment than have the bituminous mine workers. The report says:

During the period since 1881 the anthracite workers had an opportunity to work on an average only 212 days out of the year. This means 92 days of idleness, 30 per cent of the working year, during which they have no opportunity to earn a living wage.

The fundamental cause of irregular employment in anthracite mining has been "no market," according to the report quoted above.

In other words, the equipment and labor force have been more than adequate to produce the supply which the market has been ready to absorb. . . . In order to estimate the probable number of days which will be averaged in future years, it will be necessary to form a judgment as to the probable future of the market in relation to possible production. From this and from data for the last decade, it would appear that the market for anthracite in the future will remain in a state of equilibrium at about the level for the years 1910 to 1916, inclusive.

This will mean that the maximum average days per year to be expected will be about 242, leaving the worker to face unemployment for 20 per cent of the working year.

The problem of car shortage, so important in the bituminous industry, has played a small part in the anthracite industry. Regularization, therefore, depends chiefly on the even placement of orders through the year.

(d) *The Clothing Industry*—The clothing industry has been and still is to a considerable extent a seasonal industry.

From the standpoint of the displaced worker the effect of this seasonal production is very bad. It means extensive unemployment twice a year, which while it averages only 31% may affect 80% to 90% of the workers at the depth of the slack season. No doubt many workers migrate to the tailor-to-the-trade houses or to the other fill-in employments; but with the best they can do, there must be a great loss in earning power. Were these workers only inanimate tools, the waste might stop with that. However, they are living beings with family ties, feelings, anxieties and capacity to suffer.—*Morris Llewellyn Cooke, for the Federated Engineering societies. Waste in Industry. p. 103-4.*

The manufacture of men's clothing employed 173,747 workers according to the United States Census of Manufactures, 1914. The manufacture of women's clothing employed 168,907 at the time this census was taken. There are ordinarily two busy seasons and two dull seasons in the clothing trade. The busy seasons extend from about the middle of June to the first of September, and from the first of December to the latter part of February.

ditions of the clothing industry are found in the seasonal demands by the retail trade. Constant variations in style

The causes of these fluctuations in employment con-

lead to caution in buying until the market is reasonably assured to the retail merchants.

An attempt toward abolishing the seasonal character of the clothing industry in Cleveland is summarized by W. J. Mack as follows:

The distinctive feature of the situation in Cleveland is the system now being installed in the hope of eliminating so far as possible this seasonal difficulty—avoiding on one hand the evils of under-productivity on the part of the workers, and on the other hand the lack of continuity of employment during the slack periods. It provides that the union and the association shall jointly engage and pay industrial engineers who, under the supervision of the Impartial Chairman, shall establish for each of the factories fair and accurate standards of average production for a minimum weekly wage, each worker to receive additional pay for every unit he or she produces in excess of the minimum standard. It has been further understood that the employers will guarantee each permanent worker at least forty weeks' employment and one week's vacation with pay.

The chief efforts to regularize employment conditions in the clothing trade may be outlined as follows:

1. The elimination of the sub-contract system, and the abolition of the "sweat shop."
2. Co-operation among manufacturers in setting standards.
3. The manufacture of plain and conservative models during the dull season.
4. The scientific analysis of trade conditions for the anticipation of market demands.
5. Strict adherence to contracts made by manufacturers with buyers.

The above methods, if effected, would permit the manufacturer to make up a proportion of his products before the actual orders have been placed.

Millinery and Hat Manufacture—The average length of yearly unemployment in the velvet and felt hat establishments ranges from eight to ten months. The rush period comes during the summer in preparation for the autumn trade. The dull season occurs after November. In women's millinery the seasons in flower and feather factories are different, the flower factory season occurring in January to April or May, the feather factory season extending from August to December. The straw hat factories have a busy season of approxi-

mately six months, extending through the late fall, winter and early spring.

Efforts to maintain steady production in the hat industry have been made chiefly from the point of view of factory overhead rather than for the purpose of continuously employing the working force. Many felt hat factories manufacture straw hats in otherwise dull seasons. This however, necessitates a partial reorganization of the work force each year.

Seasonal Nature of all Industries—Although the several industries vary greatly in the degree to which they are affected by seasons, it might be said that practically all industries are seasonal; there are few trades which do not pass through dull periods at regular intervals. The shoe trade, the textile industries, the steel industry, slaughtering and meat packing, etc., all have regular intervals of slack time as well as those resulting from major industrial depressions.

2. *Seasonal Trades Employing Unskilled Labor*

(a) *Canning and Preserving*—The canning of food products is necessarily seasonal because it must be accomplished when fruits and vegetables ripen.

The fish canning industry located on the Atlantic and Pacific sea-boards is intermittent to a less degree than fruit and vegetable canning. Different kinds of fish are handled at different periods of the year, thus permitting a long season. The season at best extends over ten months of the year. Midwinter is the time of maximum employment, a period of idleness occurring in the spring months. The canning season is considerably shorter than the curing and packing seasons. Much of the extra labor taken on in rush seasons is local, and where possible, women are employed.

Fruit and berry canning is largely done in eastern and far western states; vegetable canning, in the central portions of the country. California is the most important state in which fruit and berry canning is undertaken.

Over 55 per cent of the total product is canned within a maximum of eight weeks. Similar conditions exist in the fruit and berry canning industry in the eastern states.

Fluctuations in employment in the canning and preserving industry for the country as a whole have been compiled by the United States Census of Manufactures, 1914. The number employed varied from 27,917 on January 15 to 185,724 on September 15. In the middle western and western states the greatest number are employed in canning in July, August, and September, but in the eastern states during August, September, and October.

Efficient adjustment in the canning of the various products as the season advances has been found effective particularly in California in lengthening the season of employment. The increased use of cold storage also effects a steadier employment condition in the canning industry.

(b) *The Lumber Industry*—The total number of men employed in the United States in 1910 as lumbermen, raftsmen and woodchoppers was reported to be 161,191, by the United States Census. No recent figures have been compiled from authoritative sources covering the whole country. The number of lumbermen, however, has probably increased to a considerable extent.

The greater part of the lumber-cut is made in the winter months. Many woodsmen are found in the wheat belt in summer. Many others might be utilized in other agricultural work. In winter these men could again be recruited for the woods.

(c) *Dock Labor*—The work of stevedores is necessarily intermittent, depending on the amount of shipping in harbor at any given time. To meet the emergencies of rush seasons a large surplus of labor is essential.

Measures looking toward regularization of this work might be undertaken similar to those carried out by the United States Employment Service to meet wartime requirements.

It was agreed that there should be formed an elastic labor pool, and that the United States Employment Service should organize and direct the activities of the new division, and that henceforth men would shift not only from one dock to another nearby, but also from one side of Manhattan to the other, from Hoboken to South Brooklyn, should it be found necessary, and, as one of the representatives of the longshoremen said, from one port to another, making the Atlantic coast one dock.

There were established in New York seven branches of the Stevedores and Marine Workers' Division, with the clearing house for the labor pool located in the Bowling Green Building, New York City. Other branches were established at Philadelphia, Baltimore, Norfolk, Newport News, Charleston, S.C., Mobile, New Orleans, Galveston, Boston, Portland, Buffalo, Seattle, and Duluth.

That the service was a success can be measured by the statements frequently made that the port of New York increased its efficiency at least 30%, by the elastic labor pool for longshoremen and marine workers developed by the Employment Service.

(d) *Employment of Casual Labor in Winter*—The fact that the basic industries of the country, including agricultural and railroad construction work, are absolutely dependent upon migratory workers, points to the necessity of solving the winter unemployment problem of casual labor.

As emphasized by Pigou, the winter months offer fewest employment opportunities for casual labor. Outside of logging, ice cutting and snow shovelling, there is small requirement for this type of supplementary labor. These workers tend to concentrate in the large cities, depending on odd jobs, on charity, and sometimes on crime for a livelihood.

The report of the Commission on Industrial Relations outlined the problem of migratory labor and recommended a national distribution agency:

The movement of these migratory workers at the present time is practically unorganized and unregulated. Workmen in large numbers go long distances in the hope of finding employment on the basis of a mere rumor, and frequently find that there is either no work or work for only a few. At the same time, the demand for labor in a given locality or industry remains unfilled because the workers have failed to hear of the opportunity.

The attempts to regulate the movements of migratory workers by local organizations have, without exception, proved failures. This must necessarily be true no matter how well planned or well managed such local organizations may be.

The problem cannot be handled except on a national scale and by methods and machinery which are proportioned to the enormous size and complexity of the problem.

II. CLIMACTERIC (CYCLICAL) UNEMPLOYMENT

The two main causes of climacteric unemployment are: (1) international dislocations resulting from a great war; (2) the alternation of business expansion and business depression inherent in the complicated modern industrial structure. Remedies suggested for this are numerous and diverse.

The underlying causes of cyclical depressions have been attributed to numerous factors, ranging from crop failures to sun spots. The generally accepted theory seems to be that depressions result from too rapid trade and industrial expansions. That they should be ascribed to over-production of commodities at any given time has been repudiated to economists.

The major industrial disturbances occurring in this country in the last hundred years took place in 1837, 1873, 1893, 1907-1908, 1914-1915, and 1919. Unemployment figures for the country as a whole are not available for the earlier periods of depression. According to estimates of Hornell Hart there were three million five hundred thousand unemployed, averaged by months, in 1908. The greatest number unemployed in this year was four million two hundred thousand in April.

In both 1914 and 1915 there was an average of about four million five hundred thousand idle. The high point was reached in January, 1915, with six million five hundred thousand idle.

Estimates made by the United States Employment Service and by the American Federation of Labor place the number of unemployed in January and February, 1921, at from four to five million.

The total amount of unemployment cannot be attributed solely to the respective periods of depression. The months which show highest unemployment figures are those of winter or early spring when many of the seasonal industries are at a low ebb. In a severe period of depression, however, it may be expected that the normal average amount of unemployment in any month will be about doubled.

While it is not within the province of this report to discuss the fundamental causes of industrial depressions, some suggestions for overcoming, at least in part, periods of economic stagnation are repeated here. Ordway Tead and H. C. Metcalf express themselves as follows:

One of the conspicuous things that happens is that each individual competing plant loses sight of the total real demand, or imagines that it can capture a larger proportion of the demand than it ever did before. The total demand, even if known, is not related to the producing capacity of an entire industry.

A regularization of this point could best be brought about, according to Tead and Metcalf, by the establishment of national industrial councils similar to the English councils established by the Ministry of Reconstruction. Experiments with such councils have been made in the the United States, notably in the printing and electrical trades, and these attempts might be used as the basis for further undertakings.

Another suggestion which bears upon the reduction of the cyclical depression involves a publicity campaign for the education of investors. The too rapid expansion of any industry can be prevented by a careful restriction of capitalization.

At present the country is not prepared to apply more than palliatives to a climacteric unemployment, while the only permanent remedy lies in eliminating the underlying economic causes.

III. RESIDUAL UNEMPLOYMENT

The reports of the New York State Department of Labor show that in the year 1918, employers called for 779,972 workers; that 443,782 applied for employment, and that 283,640 were actually placed. This leaves a surplus of 160,142 applicants who could not find work from the employment offices, in spite of the fact that employers requested approximately five hundred thousand and more men and women from the offices than they obtained.

This permanent labor reserve is largely drawn from certain definite groups, chief among which is that of the casual workers. Among these the unskilled laborers predominate, although there is a certain proportion of skilled men who through fluctuation of employment, or changes in manufacturing methods, or through their own defects of character, have been led into irregular habits of work. Other groups who contribute to the residue of labor are the mentally and the physically deficient.

Experience has repeatedly shown that common laborers are the first to be laid off in dull times and the last to be taken on when business improves. The situation revealed by a survey (1914) in twelve Rocky Mountain and Coast states:

The permanently unemployed are really people who have dropped out of the ranks of industry, broken down by the unsteadiness of employment or other causes. Some are mentally defective or physically incapable or both. Others are "downs and outs" who have lost the habit of working. Still others live by their wits, by begging, or by crime. During the most prosperous times, when labor is in great demand, these same people do not work.

A large number of workers will refuse employment except at their own trade. The fact that there are vacant positions does not help the man who has not the qualifications to fill any one of them. Mechanical inventions and improved methods of management, however much they may contribute to the final progress of our civilization,

have the immediate effect of adding very considerably to the residue of unemployed. The resulting difficulties in securing and holding employment, the declassed feeling which the skilled man experiences when he can no longer obtain a position worthy of his training, and the irregular life and uncertainty of earnings tend to destroy the inclination for steady work. It is among the unskilled that unemployment is always most acute, and all additions to this class make the problem more serious. A witness before the New York Commission on Unemployment in 1911 testified :

I have very many cases which I could cite of men, intelligent, capable fellows, who have become virtually tramps because of their continued search for work, and trying to readapt or re-adjust themselves to changed conditions.

A still larger proportion of the casual laborers who form the residue of unemployables have never received training for a definite job. This group is continually re-enforced by incoming immigrants, a large proportion of whom are qualified to work only as common laborers. For instance, only 14.5 per cent of immigrants entering this country between 1910-1914 and only 16.3 per cent entering in 1920 were classified as skilled workers.

To reduce unemployment among casual workers restriction of immigration is the remedy usually proposed by the trade unions. The present Commissioner of Immigration, and others, advocate distribution of immigrants to work on the land, placing them in small farm communities.

The excessive turnover among juvenile workers also indicates the difficulties of the untrained. Many children enter blind alley occupations and find themselves at eighteen or twenty years of age unqualified for any position.

Among the physically incapacitated are the victims of industrial accidents and soldiers disabled in the war. While these handicapped workers were formerly rele-

gated to the human scrap of industry, at present comprehensive efforts for their vocational rehabilitation are being made through cooperation of Federal and state agencies. The sum of \$750,000 was appropriated for this purpose by Congress for 1920 and \$1,000,000 for each of the three succeeding years. The minimum allotment to a state is \$5,000 and each dollar of Federal funds must be matched by the state. Several states had already undertaken reeducation of handicapped workers previous to the passage of the Industrial Rehabilitation Act.

Increasing attention is being turned toward mental deficiencies as an element in the employment situation. One labor manager has estimated that 90 per cent of turnover is due to mental causes. Investigation of the record of a young man suffering from paranoid dementia praecox showed that he had held one hundred and twenty-three positions with one hundred and three firms in thirty-three different occupations during a ten-year period. Important as is their relation to labor turnover, the usual place of mentally abnormal workers is among the permanently unemployed.

THE KEY TO INDUSTRIAL GOOD WILL¹

Unemployment, by the events of recent years, has challenged industry. Industry looks back upon the yesterday of the war period, rubs its eyes and wonders whether it is actually true that industry was unable to secure sufficient labor to meet its demands. Industry was then driven to study the problem of conserving its labor supply.

In a night a mushroom growth of the science of labor management appeared with the express purpose of preventing unnecessary separations between the workers and

¹ From an article by Herbert F. Johnson, President of the S. C. Johnson and Son Company, Racine, Wisconsin; from the Wisconsin State Journal. May 13, 1923.

employers, whether due to the worker's quitting or to ill considered discharge by the foreman. Industry, in self-defense, sought to reduce the turnover of labor and so to prevent avoidable unemployment. The feverish industrial activity, characteristic of the war period, continued until the peak of business prosperity was reached in the early summer of 1920. Following this over-expansion came the break resulting in business depression and much unemployment.

In a turn of the wheel, the employment situation was reversed. Instead of a labor shortage, an over supply of labor appeared. Instead of vacant jobs calling for workers, unemployed workers were seeking jobs at a time when there were not enough jobs to go around. The startling and sudden change from business activity to stagnation, from over-employment to unemployment, has challenged leaders in the industrial world. It has led them to analyze the unemployment problem.

America is a growing nation. We are no longer a nation of small business folk. The economy of large scale production has often compelled the one man shop-keeper to close his shop to become an employee in a huge factory. He now works for wages. The great volume of the nation's product now comes from the bigger business establishments. They seem to be growing still larger. A social menace is developing here.

Reliable investigations report that the establishments of the larger size have the most severe unemployment. Babson states that America already has more unemployment than any other industrial country in the world. As industry grows, we may expect the volume of unemployment to likewise further increase. Thus the security of the worker is lessened. There is room for much study and improvement here. . . .

The personal interest of old, when the employer personally attended to the problems of the employee, is lacking today. The owner of large industry has now

become stockholder. The management problems are handled by representative officers, often indirectly chosen. These stockholders are seldom, if ever, called on to decide problems affecting the worker. The owners of industry have grown out of touch with the workers and their problems. When unemployment creeps on, the workers, in a body, are forced to leave their jobs—their only source of livelihood. They are embittered, and naturally so. They have nothing to say. They may be ever so efficient and loyal. Still they must go. "Orders from above" so direct.

It is generally conceded that the job is a powerful factor in building character for workmanship. The quality of the worker often reflects his jobs. The uncertain irregular job makes its own type. Frequently the length of his job is not dependent upon loyalty and efficiency alone, for unemployment sweeps all types before it. It hits the lowest paid the hardest.

We often charge that the wage-earner today fails to save; he does not provide for the future; we urge him to own his own home. There is no doubt that home ownership is the worker's desire. When we ask "why does he fail," let us look at his future. His future is uncertain. It depends on the job which may end any moment. If he contracts to pay years of installments on a home, he may be compelled to change his residence because the job failed to last.

The outlook, however, is very hopeful. The business executive can do much to correct this condition. But it must be handled wisely. We must revive the personal—the human interest and social viewpoint in industry. The worker must be assured some measure of security in return for his loyal service to industry. Once this principle is established the road to good-will in industry is clear and the end to industrial warfare is in sight. The National Industrial Conference Board, the most important single employer's organization in the

country, was among the first to take up this challenge of unemployment. From their investigation they conclude, "The frequency with which serious and widespread unemployment has recurred and the increasing number of persons who have become adversely affected by seasonal variations in production and by industrial depression, have placed unemployment in the first rank among important problems." Unemployment, they find, exists under normal conditions and is due not merely to business depression; instead, *it is due to factors which are constantly present in industry.* Among the causes of unemployment they place high production costs, faulty sales policies, inadequate labor administration leading to unnecessarily large labor turnover, seasonal fluctuations, introduction of too much new machinery, wasteful systems of commodity distribution, business depression and finance.

Unemployment due to all these factors may be reduced in a measure by intelligent planning within the plant, while that due to some factors may be reduced to the minimum by the individual establishment. For example, unemployment due to unnecessary hiring and firing of workers may be eliminated by proper personnel administration. Where workers are thrown out of work because the sales policy is not planned to provide continuous production, modern methods will reduce unemployment due to this cause.

Not only can this be done, but it has been done. For example, the success of the Dennison Manufacturing Company, manufacturers of tags, and other paper novelties, in stabilizing a highly seasonal specialty industry is known throughout the country. The Dennison Company aimed through a reorganized sales policy to obtain orders well in advance so that it might distribute production evenly throughout the year. As an additional help to give continuous employment, it has introduced new lines which can be made in the otherwise slack periods. It

also manufactures ahead, "to stock," so that workers may be kept employed even though no immediate order for the particular goods has been received. It plans its own requirements so that they may be made when commercial orders are at a minimum.

Unemployment prevention is sound business policy. First of all as the employer is aware, regular production means that the plant is not idle, that the money invested in plant and machinery is not tied up in idle equipment. There is a more obscure, but equally important effect of unemployment on industry. When workers are unemployed, they receive no wages. When wages cease, workers are forced to economize and so they refrain from buying the new coat, the new shoes or the new furniture. The loss in wages, due to unemployment among workers, as estimated by the National Industrial Conference Board, amounts annually to something between one and two billion dollars. The National Bureau of Economic Research reports that the depression of 1921 cost six billion dollars in wages alone. If it were not for the unemployment, industry might be able to sell each year between one and two billion dollars more of its products. Unemployment may be properly described as a "brake on business."

The loss of wages by the unemployed worker affects not only the manufacturer; it affects the railroad which transports the goods, the wholesaler and the retailer who finally sells the goods to the worker. In the chain of business, all alike have their prospective profits curtailed because of lessened buying power of the worker. Lessened profits along the whole line of business activity means a smaller purchasing power among these groups which, in turn, lessens the demands, so keeps down the level of employment. Unemployment breeds unemployment.

The unemployment problem is peculiarly a field for industrial statesmanship; managers of industry must

take the lead if a real contribution is to be made to the welfare of the workers and to the stability of industry itself. The first step, that of reducing unemployment, has been demonstrated by experience to be a practical one, advantageous alike to industry and worker. All that is necessary is that the gospel of unemployment prevention shall be more widely adopted by employers. The second step grows out of the first. If an industry or a plant finds that it cannot abolish unemployment, that it actually needs a reserve of labor, it should recognize the fact and it should be prepared to carry the necessary reserve of labor at its own expense.

The principle of payment for "readiness to serve" has been adopted by telephone, water, gas and electric companies. They make a minimum monthly charge, even though their services may not be used during the month. Just as capital is paid for its willingness to serve the public, so the workers should be paid for their readiness to serve industry. Where industry has taken this step of paying for the labor surplus, it is the universal experience that it stimulates management to further unemployment prevention. For example, Swift and Company after it has guaranteed its stock yard employees a minimum of hours with pay weekly, successfully undertook a reduction of the unemployment time due to shipments of stock, a source of unemployment, over which it had previously supposed that it could exert no influence.

In the S. C. Johnson Company we have sought to stabilize our production. This required some reorganization of production, sales, finance and personnel. With little difficulty we accomplished this with the aid of William Baum, industrial engineer.¹ We have dispensed with the theory that the fear of discharge brings out big production. We work on the basis of good-will. A fair day's work is expected. We always get it. In return we assure labor a steady income when thrown out of employment through no fault of theirs.

¹ President, William Baum Co., Milwaukee.

Funds are set aside regularly. Since the installation of this plan of insuring our employees against the hazards of unemployment, we have taken particular notice of its influence on the employees. It has improved the morale of the plant. We are getting better production today than we ever got before. Unemployment prevention insurance has proved to be an investment as well as a potent and wholesome incentive for our management. We are compelled to plan more carefully. We do all that is possible to prevent a lay off. By preventing unemployment, our company saves the insurance fund and at the same time, we are getting superior production. What is more valuable in industry today than high morale, and the love for efficient workmanship!

THE INCREASING BURDEN ON INDUSTRY AND PROGRESS¹

During the last fifty years the industrial activity and wealth of the United States have increased much faster than the population. With each succeeding year, this desirable disparity is accentuated. In such a country there should be no problem of unemployment, yet we not only have a vast army of unemployed practically all the time, (the so-called "labor reserve") but we are cursed with more frequent and more severe unemployment crises. This fact is forcing itself into the consciousness of the American people and demanding a solution.

The American business man is as definite a type as the medieval artist, priest, or feudal lord; as distinct from his fellows as the professional soldier or courtier of the dynastic period; as disparate as the colonial explorer or pioneer. From 1850 on, the business man has been building America. His restless energy, aggressive

¹ By J. Read Bain, Ph.D., economist. *The Commonwealth Review of the University of Oregon*, January, 1922. p. 22-6.

ambition and fabricating mind have touched and changed every phrase of American life. He has been its tone-giver and pace-setter. Directly and indirectly, he has dominated it in all fields. On the whole, his effort has been constructive and beneficial.

And yet many social maladjustments in American life are due to the business man's failure to foresee the social results of his activity. The business system develops spontaneously and unconsciously as a result of meeting concrete problems by specific innovations. The business man is thus often caught in the wheels of his own machine. The industrial system is so all-inclusive, ramifying, and all-engrossing that many unintended results occur. They may be good or bad. Experience has to test them out. Without the assistance of an analyzing and evaluating social science, the business man is blind. In the beginning of the business man's career, there was no social science worthy of the name; in the more recent past and largely in the present, he has failed to utilize it; in the future, the business man must forecast social effects as accurately as he does financial effects, if all is to be well. In business, profit is the primary motive and profit is the chief measure of success. It is not strange that in the complex process of modern business, certain undesirable by-products should escape social attention for awhile. The business man should not be condemned for the appearing of industrial ills; he should be condemned for permitting them to exist after they are known. He must not attempt to justify and maintain them when they have been condemned by scientific social opinion.

Usually, the business man recognizes the evils as soon as anyone else, but he is so bound by the necessity of making profits for absentee stockholders that he is helpless. Therefore, just as soon as society prescribes a rule of conduct which equalizes conditions between the humane and the heartless employer, the

business man eliminates the condemned practice as nearly as it can be done. Fortunately, he has found by experience that in the long run it pays to do this. Child labor, sweat-shop labor, cheap labor, accidents, industrial sickness and disease, low morale, labor unrest, monotony and fatigue are the costliest forms of inefficiency. When all employers see that the loyal, intelligent, healthy, well paid, steady, enthusiastic workman is the best source of business profits, the labor-capital conflict will be over.

The purpose of this paper is to present unemployment squarely to the American business man as an essential problem of his business and to rely upon his intelligence and initiative to work out the solution. All of his industrial problems are intimately bound up with this one master problem. Its solution may be the key which will unlock the door of permanent, progressive industrial peace and prosperity.

Statistics on the amount of unemployment are scarce and questionable but there is some evidence for the conclusion that it is increasing rather than diminishing. The statistics from New York are most satisfactory. An average of the percentage of the trade unionists who are unemployed on the last day of the twelve months of 1902 was about 13 per cent. This rises to 23.8 per cent in 1915. Unemployment decreased very gradually from 1902 till hard times of 1907-8 when it jumped to 29.7 per cent, the high water point for the period. Then there was a decrease till 1912, after which the rate rose till 1915. The monthly figures show not only a seasonal fluctuation, but also a very decided cyclical movement. The war interfered with the culmination of the movement which began in 1912, but we are at a peak of unemployment at the present time. The whole period, 1902-15, shows a general tendency of unemployment to increase. However, any such statement should be qualified by the shortness of the period and

the insufficiency of the data. Massachusetts has kept statistics since 1908. That year showed 14.2 per cent. Then there was a slight decrease till about 1911 (corresponding with the New York cycle) and an increase thereafter, reaching 13 per cent in 1914 and 11.2 per cent in 1915. In 1900, the census showed there were about three million people out of work seven months during the year, and three million more for lesser periods; thus, 1900, 1902, 1908, 1909, 1913, 1914, 1915, and 1921, have been "bad" years for labor during the last two decades. (*Americana*, Volume 27, page 278). At present, three and a half to five and a half million are out of work with many more than that number dependent upon them. This is our evidence for saying that the unemployment crises are becoming more frequent and severe. Yet during these twenty years, our industrial life has out-stripped our population very decisively.

What are the results? Lessened production; higher prices; lowered standards of life; loss of morale; loss of skill; loss of wages; increase of vice, crime, disease, shiftlessness, industrial strife, demoralizing, philanthropy, pauperism, prostitution, and misery in all its forms. And capital is idle, too. It rusts out, creates no wealth; gets antiquated, produces no profits. When the "upward trend" begins, the employer tries to recuperate his losses by exploiting a labor supply made helpless by hard times; by speculative enterprises; "price wars," rebates, and other forms of "knifing competition;" by business reorganizations and capital (financial) manipulation; by fighting any movement which tends to reduce immediate returns; in short, by engaging in that rampant, heedless, myopic commercialism which will inevitably bring another crises and depression.

No wonder Justice Brandeis replaces the old trinity of scourges of humanity, *war*, *pestilence* and

famine with these newer, more insidious and wide spread, evils, *unemployment, low wages* and *drink!* But *drink* is on the way to destruction; juster systems of taxation, increased skill, intelligence and organization among workers, and a new generation of more democratic employers are rapidly bringing about a more equitable distribution of the social income; but little is being done to reduce unemployment. . . .

THE RISKS OF LABOR¹

The four continuous evils which confront the wage-earner through life are: loss of earning power by sickness, loss of earning power by accident, loss of earning power by unemployment, and the loss of earning power by old age. These are the four permanent pitfalls which show in their depths an enormous proportion of all the poverty and misery that exists in the world today.

For the assuagement of these universal social ailments there is a social remedy recognized by scholars and statesmen, namely, automatic compensation provided for by industry, for then every member of society contributes to its eradication and relief.

The greatest of the four permanent pitfalls which confront the wage-earner is unemployment, for like the assassin's dagger it appears suddenly by reason of some mysterious force over which the wage-earner has no control.

It, therefore, becomes the duty of society—the state—to provide a remedy by law for a recognized social wrong perpetrated on the wage-earners for which they are not responsible and cannot prevent as long as the private profit system exists in society.

¹ By Frank J. Weber, founder and former president of the Wisconsin State Federation of Labor; General Organizer, Milwaukee Federation of Labor.

THE COST TO CIVILIZATION OF UNEMPLOYMENT¹

The economic, social, moral, and psychological effects of unemployment have received much attention and study.

In approaching the discussion of the economic security of the worker's life, we come to that condition of modern industry contributing to industrial unrest more than any other.

I do not think that employers generally have in the least realized how heavily a sense of insecurity weighs on the worker's mind. Of the three main sources of insecurity, unemployment, illness, and old age,—the first is the one that causes the worker the greatest concern.

But the evil of unemployment engenders a deep sense of injustice. It drives the iron deeper into the heart of the worker than any other evil that besets him. There is profound bitterness in the thought that his labor (and therefore himself, since he cannot be separated from his labor) is mere chattel to be bought and kept while needed, and, when no longer needed, to be thrown away like an empty tomato tin. That thought makes the promises of the revolutionist orators sound inviting and is the chief cause of industrial unrest.

Effective steps to deal with the menace of unemployment must be taken before peace can be hoped for in industry. We must, as a community, adopt every possible means of lessening the volume of unemployment.—When the utmost has been done to lessen the volume of unemployment, there will still be a considerable portion of it to deal with; and the problem of removing the menace of unemployment from the minds of those for whom work cannot be found can only be met by some scheme of unemployment insurance.²

Vivid recollection of a personal unemployment experience, supplemented by contacts with thousands of men who had reached the lower levels of respectability, has given the writer firm convictions on this point. In his opinion, the largest single factor in the physical and moral deterioration so often observed in an unemployed man is the damage done to his sense of upstanding self-importance within the group in which he moves.

When society refuses participation in its organized activities of production, the parish of industry, as he regards himself, usually responds in one of two ways. If his personality be weak, he accepts the social verdict of his uselessness to the world. He sinks into a hopeless and listless indifference to his own future and the needs of industry. He becomes one of those

¹ From *Stabilization of Industry*. Woodlock and Goebel. p. 3-6.

² By B. Seebohn Rowntree. *Atlantic Monthly*. April, 1922.

drifting individuals who are the despair of every social agency and employment manager. If his personality be strong, on the other hand, he seeks mental compensation for his wounded pride and incessant rebuffs of job-hunting. He finds it in refusing to accept society's codes of conduct. He becomes a rebel.

A similar, though less explicit, injury is wrought upon the personality of the wife and mother. Humiliation at the family fortunes and the shabbiness they entail, the realization of her husband's failure, the indignity of tasks and make-shifts regarded as beneath her—these things are not soon to be wiped off her account with the world.

Can the children escape infection in such an atmosphere? Many life-long attitudes are formed in childhood. If bitterness, fear, and humiliation surround the early years of the coming generation of workers, we cannot expect industrial relations in the future to be orderly and kind.¹

The Federal Children's Bureau of the United States Department of Labor, after studying the effects of unemployment on child welfare, reports:

Besides the deprivation of material needs, there is the suffering that perhaps can be understood only by those who have themselves been the victims of the dread uncertainty and fear that besets a workingman's family when the father is "laid off." The most important feature of unemployment is its effect on the family morals—the father idle about the house, unsettled, disheartened; the mother going out to work if she can secure it, and using up every bit of her strength in the double task of providing for the family's maintenance and caring for the household and the children; the children suffering from the depression and uncertainty of what the future may mean, which is even more to be dreaded than the discomforts of the immediate present.

Unemployment, then, because it means lowered family standards, anxiety and dread, the loss of savings, and the mortgaging of the future, has a direct and disastrous effect upon the welfare of children. While communities are usually able to organize their resources so that children are not removed from their own homes because of poverty caused by an industrial crisis, these resources have not been sufficient to prevent very real suffering in family groups stricken with the misfortune of loss of work by the father.²

Few households can pass through the privations of unemployment without suffering a severe drain upon vitality and

¹ By Stuart A. Rice, Columbia University; from his report on "The Effect of Employment upon the Worker and His Family." *In Business Cycles and Unemployment*, p. 108, 109.

² From *Unemployment and Child Welfare*. United States Department of Labor. Children's Bureau Bulletin No. 125.

health. Many families still show the strain upon their domestic life that accompanies unemployment; anxiety depresses energy, causes an increase in irritability, and accentuates any incompatibility that may exist between husband and wife, or between parents and children. The sharing of one house by two or more families, which the lack of income forces, jeopardizes morals and tends to lower the whole tone of family life, with results that cast their shadows over succeeding months and years.

One can see a picture of months of unemployment accompanied by growing debt, and of a return to a lower wage with its consequent reduction in the standard of living. Here is a situation to invite sickness, domestic troubles, and all the ills to which human kind is subject.¹

Capitalism has been concentrated into trusts and monopolies. It has become a state within the state. In many instances it has fixed monopoly prices; *limiting production to suit its own profits* as against the common interest, holding the community daily and hourly under its oppressions. This has tended to produce great masses of men having no sense of individual liberty, content to drudge for a bare living, and to die pretty much where they were born, or a crowd spurred on at times to scramble for work only by the fear of starvation.²

One of the main causes of unrest and inefficiency on the part of labor is the fear and the experience of unemployment. In this way, unemployment becomes a charge upon industry. There is little doubt also that wages have to be higher than they otherwise might be, to make up for idleness. The supreme example of this is the coal industry. Furthermore, the State faces a continual charge as a result of unemployment. When a country comes to the pass that we reached in 1921, with millions of people out of work—so that a national conference on unemployment came into being naturally, and spontaneously—the topic needs no apology. It is not, however, in abnormal times that this thing appears. In *normal times the United States is the worst unemployment country in the industrial world. We have become accustomed to greater extremes of activity and of idleness than would be tolerated elsewhere.*

There is, therefore, no wonder that unemployment prevention and compensation has come to the front as one of the live issues of the time. *It is almost beyond question that some state will, in the near future, pass an unemployment insurance act. Clients should be prepared for this and understand what it means.*³

¹ From *The Aftermath of Unemployment, Annual Report, 1922*. By the Philadelphia Society of Organized Charity. p. 5-7.

² By J. Ramsey MacDonald, Ex-Prime Minister of England.

³ By Roger W. Babson, of Babson's Statistical Organization. *Babson's Reports*. February 27, 1923.

EVIL EFFECTS OF UNEMPLOYMENT ON
MOTHERS AND CHILDREN¹

How an unemployment crisis strikes at the well-being of the children—the future citizens of the nation—in a way to leave permanent ill effects, as well as bringing privation and suffering into the home of industrial wage-earners, is impressively brought out in a recent report of the Federal Children's Bureau.

The report contains the results of an investigation, made by Emma O. Lundberg, director of the social service division of the bureau, into the effects upon child welfare of the industrial depression of 1921-1922. This most recent survey fully confirms the earlier findings of the American Association for Labor Legislation as a result of its unemployment survey of 1921.

Two cities—Racine, Wisconsin, and Springfield, Massachusetts—were chosen for intensive investigation, these cities being representative of different sections of the country with different industrial back-grounds, both having a serious unemployment problem, and both making generous expenditures for relief work.

What unemployment means for the families studied—mostly families of self-respecting, fairly prosperous skilled workmen, more than two-thirds of whom had been out of work for more than a year and what it meant for the children concerned, may be summed up in the following findings of the report:

In normal times more than nine-tenths of the men studied had been earning between \$100 and \$175 per month. During the period of unemployment the complete family resources in four-fifths of the families of these same men amounted to between \$25 and \$100 a month. This included not only wages of father, mother, and children, but also savings, loans, food and other

¹ From an article in *The American Labor Legislation Review*. December, 1923. Vol. 13.

necessaries purchased on credit, and public or private relief. One-fourth of all the children studied were in families having an average income of less than \$50 monthly.

The fathers made desperate efforts to earn money by doing work of any sort. All but four had been able to earn something through emergency work provided by the cities or through other short-time jobs. The amounts earned, however, were usually pitifully small in comparison with normal earnings.

Forty-five per cent of the families had accumulated savings during prosperous times. The majority had exhausted all their savings before the time of the inquiry in the effort to supply the necessities of living. Savings amounting to \$51,635 had been spent by one hundred and fifty-eight families while the father was unemployed.

Eighty-three per cent of the families had gone into debt because of the father's loss of work or were unable to continue payments for which they had obligated themselves while the father was working. Sixty-six per cent of the families had gone into debt for food; 35 per cent for medical attendance; 23 per cent for rent; 20 per cent for payments on houses, taxes, and interest; 16 per cent for fuel, gas and light; 15 per cent for insurance premiums. Only 1 per cent had gone into debt for merchandise.

Sixty-three per cent of the families reported illness or disability during the unemployment period. In nearly one-fourth of the families a baby had been born or was expected during the period of the study. A large number of families had to go into debt for medical service. Many others were failing to get the medical attention they should have had because of lack of money.

Over one-half of the families had received charitable aid during the father's unemployment.

The only conditions appearing beneficial to children

was the shortage of work for them and the consequent decrease in child labor and increase in schooling.

Serious retrenchment in food was reported by a large number of the families interviewed.

Grace Abbott, chief of the Children's Bureau, in transmitting the report to Secretary of Labor Davis, urges the adoption of measures for the prevention of unemployment for the sake of the welfare of the children of the nation. She writes: "Large groups of children suffer not temporary but permanent losses as a result of a period of industrial depression. Those who are interested in raising the standard of our citizenship through better care of the children of the country cannot regard as outside the field of their concern, proposals for preventing unemployment and, failing in a program of prevention, measures which are necessary for safeguarding the children during a period of unemployment."

CAPITALISM'S GREATEST WEAKNESS¹

The serious point of the so-called conflict of capital and labor during the last hundred years has been unemployment. The older economists held that the elasticity of modern business was provided for in the rise and fall of prices through the law of supply and demand. But they assumed that capital and labor were fluid, so that everybody was employed practically all the time and all commodities were on the markets and were being bought and sold all the time.

If commodities in some directions were abundant then their prices would fall, which meant that the prices of other commodities would rise. Then the disparity would equalize itself by capital and labor shifting from the low-

¹ By J. R. Commons, Professor of Economics, University of Wisconsin, from *Unemployment Insurance*, published by the Wisconsin Association for the Prevention of Unemployment, Madison, Wisconsin.

priced and over-supplied industries to the high-priced and under-supplied industries. The rise and fall of prices through oscillations of demand and supply made the system elastic and harmonious.

Seventy years ago Karl Marx came upon the scene with exactly the opposite interpretation. He rejected the law of demand and supply, with its oscillation of prices, and held that the elasticity of modern capitalism is found in the reserve army of the unemployed: Just as modern business must have a reserve fund in the banks and a reserve stock of goods on the shelves and in the warehouses, in order to provide elasticity, so it must have a reserve army of that other commodity, labor, which it can draw upon in periods of prosperity and then throw upon its own resources in periods of adversity.

It was seventy years ago, also, that modern trade-unionism started in England and America. It started on the same hypothesis of unemployment but it retained the economists' doctrine of demand and supply. There is not enough work to go around, because the wage fund is limited, and therefore the workman must string out his job; must go slow; must restrict output; must spread out the work; must limit apprenticeship, must shorten the hours, must share his work with the unemployed in order to take up the slack of unemployment and make the work go round.

Trade unionists differ from unorganized labor in that they have power to put into effect what the others would if they could.

And who shall say that they are not right. Three years ago business men, newspapers, intellectuals, were calling upon the laborers to work harder, their efficiency had fallen off a third or a half; they were stringing out the jobs. Then suddenly several millions of them were laid off by the employers. They had produced too much. The employers now began to restrict output. Where labor restricted output in 1919 and 1920 in order to raise

wages and prolong jobs, employers restricted output in 1921 in order to keep up prices and keep down wages.

SECURITY THE CARDINAL ISSUE

We may condemn the fallacy of making work by restricting the amount of work. It is doubtless true that labor and capital never can produce too much to supply our wants. But laborers and capitalists know that they do produce too much to pay wages, interests, rents and profits.

Thus the two great forces, socialism and trade unionism, have arisen to attack the supremacy of capitalism, and each is based upon the greatest defect of our capitalist system, its inability to furnish security of the job. We are accustomed to look upon capitalism as a product of the industrial revolution.

It is the business revolution of the seventeenth century that established our credit system, and our credit system is nothing more or less than confidence in the future.

Modern capitalism overthrew feudalism because it furnished to investors security of investments. Without the credit system people would not trust their commodities out of their own hands. We might have production of wealth without the credit system, but it would be the hand-to-mouth production which would turn us back to feudalism or Russia.

Why is it that many workingmen in all parts of the world have gotten the idea that they can manage business better than the business man? Socialism in Europe, Guild Socialism in England, the Plumb plan in America, all agree on this; that the workers on the job can manage the production of wealth better than the business men, the bankers and the financiers in the offices or on Wall Street. Why has this idea spread so widely?

It is partly this mistaken theory as to what it is that produces wealth. They think that it is machinery and labor and the engineering profession that produce wealth. They do not see that it is the credit system. Laborers can produce wealth, but they cannot produce it in the enormous abundance, and cannot conduct industry on the enormous scale required to support modern populations, unless backed up by a banking system that furnishes security of investments.

Our capitalist system results in great inequalities, and even enlarges the natural inequalities among men. It gives enormous power to those who control the credit system of the country. Workingmen, taxpayers, farmers, are helpless before it. Power brings responsibility—responsibility for inflation, responsibility for the collapses that follow inflation. The credit system is founded on the responsibility of business management to the widows, orphans, workingmen and retired business men who have put their savings into industry.

But capitalism has failed to give the wage-earner that security of the job which it has given to the investor in the security of his investments. The wage-earner and the investor are much alike. They are passive. They work and wait. They want wages, interest and security.

But the business man is the dynamic factor. He initiates, plans, overcomes risks, takes responsibilities. He is the captain of industry. The law makes him responsible for the security of investments but does not make him responsible for the security of jobs.

In the times past it was important to get people to save, and to get them to trust their savings to business men. Now we find that that is less important. Business accumulates a large amount of involuntary savings out of the margin between wages and price. Today it is becoming more important to get the willingness of workers than the willingness of investors.

As our industrial system grows in size, wage-earners

who have little or no investments except their labor power are becoming a dominant part of the nation's population. In England perhaps four-fifths of the population are wage-earners and their families. In America they are probably one-third. England and Europe waited too long before they tried to establish security of the job, and now, in the last predicament, when the wage-earning population is the bulk of the population, they find themselves menaced by the insecurity of jobs.

AMERICA SHOULD TAKE ITS LESSON EARLY

It might recognize that, while this credit system and liberty to get rich are the foundations of prosperity and must be preserved at all hazards, yet, on the other hand, it is this very credit system, and this liberty to get rich by buying and selling, that is the cause of the disastrous cycles of prosperity and depression of the last one hundred years. The cycle moves around every eight or ten years. The business cycle is probably a cause of wars more than it is a result of wars.

Prices rise; profits swell; wages follow; everybody is confident and over-confident; speculation over-reaches itself; the future looks more assuring than it is; too many buildings and factories are constructed; then the inevitable collapse. Hundreds and thousands of workmen are laid off. Business establishments go into bankruptcy or liquidation. The credit system breaks down. Then the cycle repeats itself.

Many workmen and farmers, at the present time, are of the opinion that our sudden disastrous slump of 1920 was brought about by a conspiracy of financiers. Workmen believe it was a conspiracy to destroy their unions. Farmers believe that it was a conspiracy to rob them of their property. Yet it does not seem possible that any conspiracy could have produced this collapse out of a clear sky.

Financiers might hurry it up or delay it a few days, but could not arbitrarily produce it. The causes must be found by going back to the year 1919 when the inflation of credit was going on. There was no conspiracy at that time. It was the over-expansion of 1919 that caused the collapse of 1920. Hence any improvement that looks to the prevention of unemployment must go back to the period of inflation and prevent the over-expansion that caused the unemployment.

A MANAGEMENT PROBLEM

The three main causes of unemployment are the labor turnover, the seasons and the credit system. The labor turnover as a cause of unemployment is not a serious matter. Rather it is a good feature of modern liberty. Liberty means labor turnover; it means that the worker can quit one job and go to another; it means that the employer who is dissatisfied with the inefficiency or misconduct of the employee can dismiss him and he can look for a job for which he is better fitted.

The question of labor turnover may not be considered a serious feature of the unemployment problem. It has other evils, however. It is expensive to the employer. Better for him is a steady force of good and willing workers, who feel that his industry is a place where they want to stay for life. Yet there are establishments that go on the other policy. They consider it is better for them to have a procession of floaters than it is to have steady workers. This is a matter of choice, largely, with the management.

The summer and winter seasons are not the most serious problem of unemployment. They are a cycle which comes regularly every year. Certain industries have a busy period in the summer, others in the winter. Consequently with a regularly recurring cycle, both the firms and the workmen learn to adjust themselves. In some cases the adjustment is made by hiring men by the

year on a salary basis; in other cases by dovetailing industries, such as the coal and ice business.

If that is not accomplished, then there remains the alternative; pay the worker higher wages during the busy season so that he can tide himself over until the following busy season, which can be calculated upon. The leading example is in the building trades in northern sections. The building workmen receive high wages, say \$1 an hour, but as they work only about eight months of a year, that \$1 an hour is equivalent to only about 65 cents an hour through the year.

The building trade mechanic ordinarily does not have any other occupation that he can dovetail, so that in the busy season we pay him \$1 an hour, 65 cents of which is wages and 35 cents of which is a kind of insurance in order that he may be on hand the next season when we want to open up business. Yet there are large building contractors who are learning how to spread their work over the year.

Modern business can stabilize seasonal employment if it is deemed worth-while, and can even stabilize the credit cycle. Mr. Redfield, former secretary of commerce, has cited his own case, in the metal industries, where since the year 1890 they had not laid off a man on account of lack of work.

In the hard times of 1893 to 1897 it was skating on thin ice, and they had great difficulties, but they succeeded. It was accomplished through division of labor on the part of the management. It was the business of the sales department to adapt itself to the work of the production department.

This idea is well recognized. The sales department must be subject to the production department, so that rush orders are not taken on that cannot be delivered except by an over-expansion of the business with a certainty that the men must be laid off after the rush orders

have been finished. The cycle of unemployment is the cycle of rush orders.

When credit is good and prosperity is around, people will not wait. The business man thinks then that he must expand his factory; he must take on more laborers, he must get out his orders quickly or somebody else is going to get those orders.

SERVICES OF BANKERS PARAMOUNT

But more important than the employer is the banker as the stabilizer of employment. During the recent over-expansion a certain manufacturer applied for a loan of \$250,000 in order to enlarge the plant. The banker turned the application over to the bank's industrial engineer, recently added to the staff, and he showed the manufacturer how, by better economy and better labor management, he could get along without that loan of \$250,000.

The banker put the screws on the manufacturer. Six or eight months afterward, when the collapse came, the manufacturer was profuse with thanks to the banker. The service of refusing him credit in order to prevent expansion was much greater than would have been the service of furnishing him credit.

The banking system, which is the center of the credit system, more than the business man who is the actual employer, can stabilize industry, and, in stabilizing industry, stabilize employment. The difficulty is that no one individual can do it alone; no bank can do it by itself; no one business man can do it by himself; it is a collective responsibility and collective action is necessary.

If one person is trying to stabilize his industry by not over-expanding and not taking too many rush orders, he simply knows that his competitors will get his business. But if all the business men, who are competing with each other, know that the banks are treating the others in the same way, then stabilization might be expected to work. So that the inducement to stabilize employment in order that it may be really effective must not only take

the example of those manufacturers who have pioneered the way themselves, but must interest the entire banking system of the state or nation in the plan.

NEW PRODUCTION INCENTIVES FOR OLD¹

A study of modern labor management reveals two distinct and opposite types of incentives to the expenditure of human effort. Fear, which has always been considered the most effective of all incentives, is still used to control the laborer in many of our industrial organizations. The slave feared the lash; the serf feared the power of his overlord; the modern workman is forced, in many cases, to fear discharge and the stoppage of his family income.

The feudal system and the institution of slavery have died out as the belief in the integrity of personality has developed, but many employers today consider fear of unemployment the greatest incentive to quantity production. As a matter of fact, however, the fear of unemployment does not result in quantity production at the times when industry most needs it, but is the greatest incentive to restriction of output. A comparison of the production records of any industry for periods of depression with those for boom periods will clearly show that the fear incentive has failed. As Dr. John R. Commons so clearly puts it:

Everybody knows that in good times working people "lay down" on the job, no matter whether organized workers or not. People do not work so hard in good times as they do in hard times. We have the curious paradox that in good times, when we ought to increase the output, labor restricts the output; and in hard times, when we don't want people to work so hard and increase the supply, production, then they work the hardest. . . . We have been going on the theory that in order to get efficiency, in order to get output, in order to get laborers to work, there must be some kind of a penalty held over the workingman—the penalty of unemployment, the penalty of being discharged if he does not work, if he does not do his duty,

¹From an article by Elsa Jennings Forsberg, reproduced in *The Stabilization of Industry*. Woodlock & Goebel, p. 7-9.

if he is not on the job. . . . Our method has been the rough method of disciplining labor by the penalty of unemployment.

That penalty does not work in good times; it works too much in hard times. In good times the workman is not afraid of unemployment. . . . If he is discharged, he can go across the street and get another job. In hard times, when we don't want so much produced, then he works hard because he is afraid of unemployment and cannot go across the street and get another job. . . . We cannot understand the problem of dealing with labor unless we understand that fundamental fact of insecurity of employment. It is just as vicious in good times as it is in hard times. In good times the workingman's high wages are an injury to him; he gets too much money, and he does not know what to do with it and spends it extravagantly,—burns it up,—and when the hard times come he has nothing to fall back upon. The fluctuations of earnings—great earnings in good times, falling off in hard times—is demoralizing to the character of working people.

If we have to depend upon the rough method of discharge for getting efficiency, then we are going to keep labor continually unstable and uncertain, and the character of the workingman will not rise to the occasion of modern industry.¹

The average modern American workingman has been brought up on the principles of democracy. He has probably had from six to twelve years of public school training. He is self-conscious about his rights as a citizen. He feels keenly the injustice of industry's superior position and resents the inconsiderate, not to say unscrupulous, use of it. To be continually harassed by the fear of unemployment outrages his self-respect, his personal dignity.

Mr. Seebohn Rowntree, the English manufacturer says:

Popular education and political democracy sealed the doom of industrial serfdom, and the war put the last nail in its coffin. The attempt being made by some employers to take advantage of the present industrial depression to "teach the workers a lesson" suggests the short sighted cunning of the opportunist rather than the wisdom of the statesman.²

Responsibility, loyalty, and the sense of stability and self-respect engendered by the assurance of steady em-

¹ From *Trade Unionism and Labor Problems*, p. 6-7.

² *The Human Side of Business Administration*. *Atlantic Monthly*, April, 1922, p. 467.

ployment prove to be, after all, a more effective and constant incentive than the fear of unemployment among a democratic and increasingly intelligent laboring class, certainly more conducive to conscientious workmanship.

The progressive and socially conscious employer is coming more and more to realize the value of this second type of incentive. He endeavors to remove fears from the mind of the worker, knowing that he is thus releasing energy and effort that will result in more and better production. It is this type of discipline that Mr. Roger Babson preaches in his human relations service to industry. He advises the employer not to take advantage of the worker's temporarily weak bargaining power; for it may cost industry many times more than the amount saved by the few temporary slices in wages—losses which appear in the form of costly turnover when labor is needed most, arbitrary wage demands, disloyalty and ca'canny. The laborer resorts to unionism when industry threatens to deny him what he considers a just recompense.

The progressive employer successfully meets this problem of labor psychology by organizing his business on a basis of steady employment. This policy of stabilization is evidence to the workman that he cannot "produce himself out of his job" by improving his speed or quality. The future is made secure and his mind is free from the paralyzing fear of "no job." When employers learn to use incentives that can bring out a man's sense of loyalty, self-respect, and respect for the organization in which he works, production will increase and efficiency prevail.

THE ECONOMIC COST OF UNEMPLOYMENT¹

How great is the loss of wealth caused by the impairment of the worker's efficiency on account of deterio-

¹ From an article by N. I. Stone, labor manager, Hickey-Freeman Company, Rochester. *American Labor Legislation Review*. Vol. XI, No. 1, March, 1921.

ration of his physique, the loss of regular habits of work, and, most of all, through the "laying down" on the job caused by the fear that by working efficiently he will be merely working himself out of a job, it is impossible to estimate even approximately. From personal investigations in industry, confirmed by the experience of industrial engineers generally, I can state that a loss of production of from 10 per cent to 50 per cent is due to the "laying down" process alone.

Apart from individual efficiency, there is plant efficiency: all engineers, as well as practical manufacturers, are familiar with the loss of momentum caused by the gradual shutting down of a plant and the difficulty of bringing it up to normal in starting up after a shut-down. If all these factors could be accounted for, the additional loss of wealth would run into billions and greatly swell, if not double the \$3,000,000,000 estimate. The havoc wrought by unemployment may, therefore, be said to rival in magnitude that caused by war. But there is this difference: wars are necessarily of more or less brief duration and are followed by long periods of peace and recuperation, while unemployment adds its cumulative destructive effect year by year.

Once this condition is realized, no effort will be thought too great, no measure too ambitious which will hold out the promise of an effective cure of this greatest of our economic ills, carrying in its train social and political evils.

THE RUSH ORDER, A MENACE TO RETAIL BUSINESS¹

When workers in industry are thrown out of employment, it works havoc to many. A great injustice is forced upon the small business man and especially the retailers. Unemployment slackens the buying of the nation's consumers, and it brings uncollectable credit accounts.

¹ By Herbert F. Johnson, president of the S. C. Johnson and Sons Company, Racine, Wisconsin. United Press. April 15, 1923.

In 1921 unemployment cost more than \$6,000,000,000 in wages alone. No job means no income to the wage-earner today. This spells less business for the retailer, the wholesaler, and the railroads. Their prosperity, in fact, is measured by the volume and the steadiness of the consumer's income—his job. Unemployment reduces the purchasing power of a nation over a billion a year, according to the National Industrial Conference Board.

Unemployment is the product of the American way of doing business. Labor shortage and job shortage reappear in turn, as if they were permanent necessities to industry. This is especially true of the larger establishments. The cause of this unsteadiness in business can be directly traced to the "rush order," the "big contract order"—so common to larger firms.

High prices compel the big buyer to wait, often too long. When orders come, they come in bunches and for quick delivery. Idle factories must speed up. New machinery must be installed to "catch up" with this rush business. Over-expansion begins.

Suddenly, wages are boosted to attract workers from other employers, from other cities, and from off the farm. Labor is lured to leave the steady job with the small employer to help rush thru these big orders. As soon as the rush is over, the worker is thrown into the street. They are thrown back onto their former employers, onto charity, and onto the farm—only to desert them again when the large factory receives more rush orders.

Here lies the essential difference between the French and the American way of doing business. The French manufacturer would refuse to take on the "rush order." He knows how it demoralizes his organization. To hire and fire a great number of men shows its effects, even upon the regular employees' morale. Morale is a most valuable asset. The rush order must wait its turn. The Frenchman insists upon keeping his help steadily em-

played. This explains why France has so little unemployment.

Rush orders are often the result of waiting too long, insufficient planning or foresight, and too high prices. If the manufacturers in a body would insist the rush order wait its turn, the balance of the community would be forced to adjust itself to the condition, beneficially as it has in France. This would head off over-expansion and would spread prosperity over a longer period.

THE COST OF UNEMPLOYMENT TO BUSINESS¹

Unemployment, affecting as it does the continuity of both production and distribution, concerns manufacturer and merchant as vitally as the wage-earner and the public.

The *lessened buying power* represented by the unemployment of a million and a half wage-earners means no slight subtraction from the total demand for goods supplied by American producers and dealers. At an average rate of pay, which is purposely placed low in order not to over-estimate its volume, it amounts to a loss of between \$6,000,000 and \$8,000,000 a day, or between \$1,500,000,000 and \$2,500,000,000 for the two hundred and fifty to three hundred days of the working year. If to this be added an equal amount for wages lost through part-time employment, the total cannot be less than from \$3,000,000,000 to \$5,000,000,000. Even in normal times, therefore, the unemployment of sixteen million industrial wage-earners for a period of sixty working days in the year represents a loss of no small volume.

Three or five billion dollars less in the tills of merchants means a correspondingly smaller volume of

¹ By Ernest S. Bradford, Ph.D., member Economic Advisory Committee, President's Conference on Unemployment. *Industrial Unemployment*, Bulletin No. 310 of the United States Bureau of Labor Statistics. p. 45-6.

orders for factories. The employed are active consumers. When consumers are unemployed and stop calling for goods, factory wheels cease turning. When these factories close, more men are out of work and without purchasing power from current earnings. The more unemployment, the less the demand for goods; the less the demand, the more factory shutdowns, the more unemployed, and the less the demand for goods. So it goes around in a vicious circle, unemployment causing a reduction of buying power and demand, which in turn produces further unemployment.

The effect of this reduced buying power is very evident. The workman who had become a consumer of good shoes and collars, a buyer and reader of newspapers and magazines, a user of many non-luxury conveniences not previously afforded, ceases on account of lack of income to be able to include these things among the products which he commonly buys. His standard of living for a time drops back to lower levels than before, and recovery is very slow. The lowering of the demand level and the standard of living of thousands of workers which accompanies a severe depression such as the present one means fewer comforts in regular demand by the wage-earner and less future business for all.

It is thus to the interest of the entire business community to maintain a reasonably high level of general well-being. To this end workmen should be kept employed with reasonable steadiness at fair wages; this is only good business.

Further, idle men as well as idle machinery, for so much of the time as they are idle and not producing goods, must be "carried" and provided for by those who are busy—either other wage-earners or the consumer who eventually pays the bills.

A further question which is always present, and which is peculiarly pertinent at such a time as this, is whether it is good policy to permit the human machines,

which are so much more than mere machines, to deteriorate. Unemployment means a lowering of physical vitality through less adequate sustenance, the reduction of industrial initiative, and a lessening of self-respect. A struggle for a bare existence replaces comfortable living for the family of the unemployed, even such existence being made possible by the aid of friends and, as a last resort, assistance from relief organizations. These considerations constitute the human aids of the unemployment problems. Is it sound public policy to let either the health or the morale of the workers go to pieces?

Because unemployment is both a social and a business problem, the elements composing it have been presented in considerable detail in order to see at what point they offer the most promising solution.

THE HOOVER REPORT¹

The report of the Committee on the Elimination of Waste in Industry of the Federated American Engineering Societies is the result of an intensive investigation. The nine main points of the report are set forth as follows:

1. The average method of management is far behind standards which have demonstrated their practical value.
2. Billions of dollars are tied up in idle equipment.
3. There is a large additional waste through maintenance and depreciation charges.
4. Manipulations in raw material result in serious losses.
5. Present sales policies are a contributing cause of irregular production.
6. An evil in some instances is the practice of cancellations and returns.

¹ From *Eliminating Waste*, the Hoover Report. *Industrial Management*. Vol. 52. No. 1. July 1, 1921.

7. High labor turnover is a rough index of one of the commonest wastes in industry.

8. The waste of time and energy and money through duplication of estimates and bids in the building trade runs into millions every year.

9. Quantity figuring by all bidders is a duplication of effort and a source of waste in construction work.

On restriction of production the committee found:

1. Maintenance of high prices on the part of the owners influences the situation.

2. Collusion in bidding as frequently practiced in the building trades is a restriction.

3. Legitimate restrictions are frequently practiced by owners of patented, copyrighted or trademarked articles.

4. The amount of a day's work is restricted by labor in the building trades.

5. Restrictions of apprentices in many cases seems extreme and unfair.

6. The restriction of the output of machines by limiting the number one man can operate is a charge against the unions.

7. The practice of craft distinctions that members of one craft union shall not encroach upon the work of another results in large waste and little benefits.

8. Labor union interference with the method of wage payment often restricts production.

The report calls upon the government, the public, labor and the engineers to cooperate in the task of eliminating industrial waste. The government program includes:

1. A national industrial information service should be established to furnish more timely, regular, and complete information covering (1) current production, (2) consumption, and (3) stocks of commodities.

2. A national statistical service should be established covering employment requirements.

3. A national policy regarding public health should be fostered and encouraged.

4. The national program for industrial rehabilitation should be encouraged and should offer opportunities for education and placement of those having physical defects as well as those handicapped because of industrial accidents.

5. A nation-wide program of industrial standardization should be encouraged in conjunction with industrial interests.

6. The government should recognize the necessity for a revision of such Federal laws as interfere with the stabilization of industry.

7. A body of principles should be accepted which could be developed for the adjustment and settlement of labor disputes.

Organized labor is urged to develop a policy for increasing output. The banking interests are urged to encourage the stabilization of industry. The engineers of the country are asked to make more thorough research into the following problems:

(a) Collective bargaining; (b) hours of labor; (c) methods of compensation; (d) means of preserving and stimulating the creative instincts and the pride of craftsmanship of industrial workers; (e) a standard labor and management terminology; (f) common principles for the methods of management; (g) the measurement of production standards.

Power says:

What is needed in this country is not more labor, but a better direction of what we have, a publication devoted to the power problems of all industries. Although this country leads the world in applying machinery to man's service, we are one of the most wasteful nations of the world.

Much has been done toward remedying this condition, but there still remains an appalling waste, not only in materials, but also in human endeavor. Yet some of our industrialists would have the bars against immigration lowered to flood the country with cheap labor so that the old order of waste may continue.

In some industries our wasteful methods make it necessary

to use twice as many workers as would be required if properly employed. Furthermore, in some cases conditions are getting worse instead of better.

IMMIGRATION AND UNEMPLOYMENT¹

Whenever there is a considerable amount of unemployment in the United States, immigration automatically falls off, but by many it is not regarded as a sufficient check. Organized labor in this country consistently favors a restrictive policy in regard to immigration at all times, while employers in some industries which are in constant need particularly of unskilled labor, advocate "the open door." Besides, there are sentimental and other reasons leading many to advocate unrestricted immigration.

A large proportion of immigrants to this country are unskilled laborers or persons without a definite occupation. The following table classifies the arrivals to this country, by occupation, for the year 1920 with comparative figures for 1910-1914.

NUMBER AND OCCUPATIONS OF IMMIGRANT ALIENS

Occupations	Number 1920	Per cent of total	
		1920	1910-1914
Professional	12,442	2.9	1.2
Skilled	69,567	16.3	14.5
Farm laborers	15,257	3.5	24.3
Farmers	12,192	2.8	1.1
Laborers	81,732	19.0	18.4
Servants	37,197	8.7	11.7
Other Occupations	28,081	6.4	2.7
No occupation (including women and children)	173,133	40.3	26.2
Total	403,001	100.0	100.0

There are two major reasons why the influx of large numbers of unskilled workers, and to some extent

¹ By John Koren, Zora P. Wilkins, and Donald G. Ferguson for the Federated Engineering Societies Committee on Waste, from Waste in Industry, p. 298-300. Reprinted by permission of the American Engineering Council, formerly the Federated American Engineering Societies.

of the skilled, inevitably tends to increase the unemployment situation: (1) the new arrivals largely concentrate in the large industrial centers where the employment situation is most acute; (2) unskilled immigrant labor, as a class, is, for obvious reasons, more subject than the native to the hazard of unemployment or irregular employment.

It is one question to restrict immigration and another to afford the immigrants the best possible chance to enter useful fields of employment. In past years the distribution of incoming aliens has largely been in the hands of private agencies, which naturally find the industrial centers, where a labor surplus may be desirable, the most fruitful fields for their activities. Little concerted effort has been made to direct these immigrants from the peasant class to the land. This lack of adequate means of distribution tends to swell the ranks of the unemployed and increase the already large class of casuals who are out of work during a considerable portion of the year. . . .

The future of immigration to this country no man can safely predict. Whatever measures of restriction are adopted by Congress and European governments, it is likely that at most times enough immigrants will reach our shores to affect the question of employment. The outstanding lack at the present time is competent distributing agencies which will place the newcomers to the best advantage for employment, and particularly to help them to agricultural pursuits so that they may not swell the labor surplus at industrial centers.

MACHINE PRODUCTION AND UNEMPLOYMENT¹

That the discovery of new processes of manufacture are causing men to be displaced from industry at every

¹ By Wm. L. Leiserson, Ph.D., economist, Professor of Economics, University of Antioch, formerly impartial chairman, Rochester Clothing Market, New York.

step is so commonplace that it is likely to be overlooked. Ordinarily we should expect the number of wage-earners employed in our industries to increase with the growth of the population. Yet in the five years between the manufacturing censuses of 1900 and 1905, out of sixty-one leading industries in the state of New York, nine suffered actual decreases in the number of their employees which might be traced to the introduction of machinery. The decreases in the number of wage-earners are accompanied by an increase in the value of machinery, tools and implements employed.

In some industries the contrast is striking. For instance the manufacture of men's furnishing goods, in which New York ranks first among the states, the value of machinery used increased almost 17 per cent, while the number of wage-earners decreased 23 per cent. In the leather gloves and mittens industry the value of machinery increased over 17 per cent, while the number of employees decreased 43 per cent. A smaller working force often goes hand in hand with expansion of industry. Comparing the census figures of 1900 with that of 1890, we find that ten of the leading industries in this state showed an increased amount of capital invested accompanied by a decreased number of workers. In the men's clothing industry, for example, capital increased from \$46,000,000 to \$51,000,000 or 11 per cent, the value of products increased from \$96,000,000 to \$126,000,000 or 30 per cent, while during the same decade the wage-earners employed fell from fifty-four thousand to forty-one thousand three hundred, over 13 per cent. Shirts, worsted goods, carpets, slaughtering and cheese, butter and condensed milk show similar changes.

There is no doubt that while some trades are thus taken away by machinery and changed processes, others are developing, but that is of little help to the unemployed man who does not know where to look for the

new work, and who has not the training for it if he finds it.¹

INFLATION'S CHALLENGE TO MANAGEMENT²

Inflation and its effects is a taboo subject. To a majority of business men it is just a word that is too easily and too often mouthed by the economic minded. When anyone exposes such an uncurbed bent toward theories as to mention inflation, large numbers of men, particularly those who delight in being called "old timer," turn restless and boldly yawn. And right there rests the reason why the army now being recruited will win victories. Let's, then, vivisect their theory—if you happen to prefer to think of it as a theory—of inflation. Inflation is a germ. Like many other germs, its name is newer than its existence. Business management set up a natural resistance against the ravages of the disease long before it was familiar with the real cause. In fact, not until the evils of the last plague had subsided did the cause become plainly evident. However, today, as they look back, business men are collectively and individually willing to admit that the troubles and the losses of 1920 and 1921 were due to the microbes of inflation.

But how many of these same men would have admitted, during those prosperous days previous to these losses, that business was diseased with inflation? And how many can you find who will admit that the germs of inflation are even now marshalling another attack? Carefully analyzing inflation, we find that one of its most insidious characteristics is its deceptiveness. Like sleeping sickness, as it thrives, the victims become less conscious of its effects.

¹ See also Statements of Sec. of Labor James J. Davis. *Monthly Labor Review*. January, 1926.

² From an article by Aaron M. Jones, chairman Cambridge Associates, Boston. *Management*. September, 1924.

When inflation is gnawing at the vitals of business, its existence is least suspected. In fact, business then appears to be most prosperous. But the seeming glow of health is the flush of fever. The great mass of the uninitiated cannot distinguish between inflation and real prosperity. Review, for instance, the optimism and the signs of health which were so abundant in 1918 and 1919. But why should a reminder of inflationary possibilities be injected into business discussions at this particular time? The answer reposes in the fact that the unprecedented supply of credit at low rates is by far the most important factor in the present business situation. And, be it fully realized, excessive credit is the food on which inflation feeds.

Never in economic history has any country enjoyed such bounteous credit facilities as are now available to American business. As a generally recognized authority expresses it, "In the credit situation there is room for a boom in business which would exceed even the preposterous bubble of 1919 to 1920." That sounds serious. Of course this plethora of credit, like green apples, can do no harm as long as it hangs on the tree. Perhaps a better comparison is that the supply of credit now existing is like a bomb. The fuse to that credit is the desire to use it, and the match which would ignite the fuse is the control of this desire.

One of the arguments which is used most frequently against any dangers of this bomb exploding is that these dangers have been existing for over a year and nothing has happened yet. But a careful perusal of economic factors reveals signs that something is beginning to happen. This something is the increasing acceptance, by business, of the fiat invitation, expressed by the Federal Reserve Banks in continually lowering the rediscount ratio, to make use of existing credit. By this action they have been saying, "Here it is. Come and get it." Evidence that the invitation is being more widely accepted is found in the extraordinary reversal

of business sentiment within the past two months. Business has been, and is, depressed. Industry is running at low speed, with considerable unemployment, and with production at depressed levels in the basic industries of iron, steel and textiles. Nevertheless, a wave of optimism has lifted sentiment, and a long list of commodities have been advanced in price, rather because men are confident that better business lies ahead, than in response to any real increase in demand.

Advancing prices, unless due to a long accumulated demand, are evidences of the working of the yeast of an over-abundant credit supply. They make business look and feel more prosperous. But they are signs that the germ of inflation is getting in its work. Assuming that inflation is not only possible but highly probable, just what should a look-ahead business management do about it? Paradoxical although it may appear, if management is fully aware of the possibilities of inflation, and carefully measures its advance, little else need be done about it. Certain it is, that inflation need cause no paralyzing fears. Inflation is but a going up process—a soaring above the normal level of operations. The danger of inflation is not in the going up, but in the coming down. At its worst, a realized inflation can do no more than complicate the usual run of administrative problems. For the manufacturer, each new height of elevation will require a more skillful supervision of labor and materials. As inflation runs its course, inventories must be tapered off. The higher inflation carries business, the less efficient will labor grow. At the same time it will be more insistent on wage advances.

On the distributive side of business, inflation lulls initiative and aggressiveness. Selling appears easy. Easy selling makes sales organizations flabby. Among the saddest pictures of the 1920 and 1921 depression were the evidences of decay into which sales organizations had lapsed. We wallowed longer than necessary in the mire of inactivity because of sales organizations gone

stale. If inflation comes, the prevention of a repetition of this situation would be one of the important problems before administration and management.

THE NEED FOR AN UNEMPLOYMENT PROGRAM¹

Capitalism is to blame because it has not offered, as yet, to labor that security of the job which it has offered to the investors in the security of their investments. Capitalism is threatened because it has not furnished the working people a similar security to that which it has furnished the investors.²

How many have ever noticed this striking and inhuman contrast? Probably not one in ten thousand. When the average man thinks of the differences between employer and employee, he has in mind only or mainly their respective incomes. He knows that the employer gets \$5,000, \$10,000, \$20,000, \$50,000 per year, while the employee must be content with \$3, \$5, \$7, \$10 per day. He realized that the former lives on a considerably higher plane than the latter, as regards housing, food, clothing, education, and amusement. Rarely does he reflect upon the differences with reference to *security* of income and of livelihood. And yet this difference points to one of the most fundamental defects in our industrial system, one of the most distressing conditions of our industrial life. . . .

As now operated, our industrial system, not only deprives the worker of elementary security, but makes him the victim of hypocritical mockery. Its champions calmly inform him that capital takes all the risks of industry. Bitter experience tells him that he is exposed to the greatest of all human risks, namely, periodical, if not continuous, uncertainty of subsistence for himself and his family. Compared with this supreme hazard, all the risks taken by the capitalist are of trifling signif-

¹ By Rev. John A. Ryan, D.D. Director Department of Social Action, National Catholic Welfare Council. The Wisconsin State Journal, November 25, 1924.

² John R. Commons in Trade Unionism and Labor Problems. p. 88.

icance. Let us glance briefly at the elements of the contrast.

Substantially all investors in any kind of industrial bonds obtain a degree of security which is as nearly absolute as anything can be in human affairs. If the business fails, they have prior claim upon the assets. Consider now the case of the investor in corporate stocks, and the independent business man. Their security against the loss of their investments, is, indeed, smaller than that of the owner of bonds; but their opportunities of gain are correspondingly larger, and the opportunity for indefinite profit is regarded by themselves as sufficient insurance against the dangers of loss. To be sure, many of them are mistaken. Even when a long period of years is taken into account, many business men do not obtain the normal rate of interest, while many others lose a greater or less part of the principal. Very few of them, however, suffer such losses that the decline to the status and the uncertainty of the average wage-earner. Only rarely is the livelihood of the capitalist put in jeopardy.

The great majority of wage-earners have no adequate security against loss, or at any rate the great impairment, of their livelihood. Among those outside the laboring class there exists a comfortable theory that the workers can obtain sufficient security through savings. When we consider the wages of the great majority, we realize that this assumption is contrary to the facts.¹

¹ A well known association of employers (known as the National Industrial Conference Board) made a careful study of wages paid in the principal industries in 1918 and 1920. This study lists the average weekly wage actually paid *when employed*. In computing the yearly income no allowance was made for unemployment, sickness, etc. The comparison of these conservative figures with the annual amount needed to maintain the American family at a standard of life that assures health and decency (\$1,637), as estimated after exhaustive studies by the Philadelphia Bureau, reveals the fact that prevailing wages are wholly inadequate for voluntary provision against the risk of unemployment.

The amount of earnings of male employees in leading industries in the best of boom times reported by the National Industrial Conference Board, 1920, as compared with the amount needed to maintain the standard

It might be urged, indeed, that the difference of security between the investment of the capitalist and the livelihood of the laborer is a matter of degree, since we all live in a world of uncertainties. Nevertheless, the magnitude of the degree is such as to make all the difference between fairly comfortable existence and a state of perpetual and paralyzing fear. The National Industrial Conference Board declares that "normally, approximately one-eighth of the wage-earners in the manufacturing industries are out of work, and unable to buy their normal quantity of commodities." Professor Watkins estimates that about 5 per cent of the industrial wage-earners of the country are unemployed during normal times.¹ In 1921 the number of persons out of work in the United States was variously estimated as from four to six millions. There was another severe period of unemployment in 1914-15, another in 1907-08, and a much longer one at the middle of the last decade of the 19th century.

of health and decency as established by the Philadelphia Bureau of Municipal Research are shown in the following table:

¹ TABLE OF WEEKLY WAGES

Industries	Average actual weekly earnings	Yearly earnings, if employed 52 weeks	Amount needed to bring full time yearly earnings to minimum	Percentage increase needed to bring full time yearly earnings to minimum
Boots and shoes.....	\$28.70	\$1,492	\$399.00	26
Furniture manufactures.....	22.81	1,189	696.00	59
Hosiery and knit goods	27.65	1,437	447.00	31
Leather	30.18	1,569	316.00	20
Metal manufactures	29.79	1,549	336.00	22
Print and publishing	31.67	1,647	338.00	14
Wool manufactures	28.70	1,492	393.00	26
Cotton manufactures	24.89	1,293	592.00	46

In perfecting permanent plans for prevention, public education and understanding of industry should be stressed. The proper handling of credit and regularized consumption would do much to avert cyclical depressions and speculative business. The shift of labor as a result of seasonal industries could be handled by the employment service, and effective results accomplished by dovetailing jobs. Elimination of excessive turnover would necessitate cooperation of industry, education of the public, and organized labor market. The educational system, which after all is the stepping stone into industry, should be more closely coordinated with industry to the betterment of both, with much room for vocational guidance, as the most outstanding loss in industry is the lack of personal efficiency of workers. Statistics prepared by Charles T. Clayton on seven million workers in the manufacturing industry show that these workers produce about one-third of their potential capacity and that three out of every four produce less than the average of the four.

By the remedies of regularization of industry, public education, handling of credit, vocational guidance and perfection of the educational system, minimizing the turnover and facilitating the shift of labor through an organized labor market, communities will have handled unemployment most effectively by preventing a large measure of it, but there will still be a minimum due to shifts of industry and unpreventable causes that should be rightly borne by industry itself as a part of the cost of production, and most easily covered by it as any other risk, by unemployment insurance. It is a community responsibility in adequately caring for all its members to see by proper legislation that this residue of unemployed that seems attendant on industry is borne by industry as a just charge on it rather than on the worker, who is out of employment through no fault of his own and who is least able to bear the cost.

THE COMMUNITY RESPONSIBILITY¹

The well being and prosperity of a community depend on the well being and prosperity of its individual members. The basic well being and prosperity rests on their economic status or their ability to earn a livelihood for themselves and families. To those in a community with the responsibility of directing both public and private enterprises it is not directly apparent what it means for the essentials of life, in the way of food and shelter, to be jeopardized.

Only when unemployment crises are upon us is the crust of indifference broken and community consciousness awakened to the fact that the well being of its members is threatened. Even so, as the years have repeated themselves in recurring unemployment periods thought and action are stirred up too late to be of value, for immediate preventive and remedial action is needed to prevent and alleviate the misery of countless workers out of employment through no fault of their own. As has been aptly said, "Now that the unemployment crisis is upon us again there will be time for conference lunches and dinners to discuss the problem, and in the meantime the unemployed will starve."

OBLIGATORY UNEMPLOYMENT INSURANCE²

St. Gall.—Is compulsory unemployment insurance possible? From the year 1897 until within recent years, the answer to this question was almost unanimously in the negative, because the St. Gall, Switzerland system of compulsory unemployment insurance had been tried and had proved a failure. (A similar plan was proposed

¹ By Azile Howard. *The Commonwealth Review*. January, 1922.

² From the Memorandum of Information and Selected List of References Respecting Unemployment Insurance, prepared by the Department of Labor of the Dominion of Canada. p. 11-21.

but rejected by referendum at Zurich, 1899.—Editor)

Great Britain.—During the next ten years or so, although many proposals were made for compulsory unemployment insurance, the various commissions appointed to investigate the question all decided against compulsion on the ground that this method had been tried and had failed. In 1911, however, certain British statesmen saw “the necessity, as well as the possibility of taking a step in advance of existing precedents,” and on May 4, 1911, Mr. Lloyd George, then Chancellor of the Exchequer, introduced in the House of Commons a National Insurance Act, part 2 of which provided for compulsory insurance against unemployment for workmen in certain specified industries.

The principles on which the unemployment insurance measure was based were set forth as follows by Winston Churchill in 1909 in connection with the proposals relating to employment exchanges:

If you adopt a voluntary system of unemployment insurance, you are always exposed to this difficulty. The risk of unemployment varies so much between man and man, according to their qualities, character, circumstances, temperament, demeanour towards their superiors—these are all factors; and the risk varies so much between man and man that a voluntary system of unemployment insurance which the State subsidises always attracts those workers who are most likely to be unemployed. That is why all voluntary systems have broken down when they have been tried, because they accumulate a preponderance of bad risks against the insurance office, which is fatal to its financial stability. On the other hand, a compulsory system of insurance, which did not add to the contribution of the worker a substantial contribution from outside, has also broken down, because of the refusal of the higher class of worker to assume unsupported a share of the burden of the weaker members of the community. . . . Our insurance scheme will present these four main features. It will involve contributions from the workpeople and from the employers; those contributions will be aided by a substantial subvention from the State; it will be insurance by trades, following the suggestion of the Royal Commission; and it will be compulsory within those trades upon all, unionists and non-unionists, skilled and unskilled, workmen and employers alike. The Hon. Member for Leicester (Mr. Ramsey McDonald) with great force showed that to confine a scheme

of unemployment insurance merely to trade unionists would be trifling with the subject. It would only be aiding those who have, thank God, been most able to aid themselves, without at the same time assisting those who hitherto under existing conditions have not been able to make any effective provision. *Parliamentary Debates. House of Commons. May 19, 1909. p. 507-8.*

The unemployment insurance proposals were withheld in 1909 in order to enable the newly created exchanges to develop effective methods before having additional duties placed upon them. The importance of an efficient system of public employment offices to the success of an unemployment insurance scheme cannot be too strongly emphasized. Mr. Churchill in the speech already referred to declared that Labour exchanges are indispensable to any system of unemployment insurance, or, indeed, I think to any other honourable method of relieving unemployment, since it is not possible to make the distinction between the vagrant and the loafer on the one hand and the bona fide workman on the other, except in conjunction with some elaborate and effective system of testing willingness to work such as is afforded by the system of labour exchanges. —*Ibid.* p. 503.

The extension of the unemployment insurance scheme had been widely advocated ever since its introduction in 1911. In fact, during the time when the bill was before Parliament, the government was urged many times both in the House of Commons and in the press to make the scheme universal. The government felt, however, at that time, that in view of the experimental nature of the scheme, "It would be foolhardy . . . to launch out with a universal scheme of compulsory insurance."—*Parliamentary Debates. House of Commons. May 25, 1911. p. 497.*

After the act came into force there continued to be many demands for its extension to other trades and resolutions in favor of the universal application of the act were passed by the Labour Party at its Conference in February, 1914. . . .

Opinions in favor of a further extension of the act continued to be expressed. The account of the unemployment insurance scheme contained in the "Labour Year Book, 1916," concludes with an enumeration of

certain defects of this scheme, the first of which is that "the government's compulsory insurance is very far from being universal—applying, indeed, at present only to one in six of the wage earners and to hardly any women."—*Ibid* p. 680.

In the re-construction program issued by the Labour Party, in 1918, it was declared that "the extension of State Unemployment Insurance to other occupations, especially in the case of badly paid women workers and the less skilled men, whom it is difficult to organize in Trade Unions, should be at once undertaken. But the weekly rate of the State Unemployment Benefit needs, in these days of high prices, to be considerably raised." *Labour and the New Social Order*. p. 11.

Early in the same year a sub-committee of the Civil War Workers Committee, forced to consider the problem of unemployment insurance in relation to persons engaged on war work and war substitutes, reported in favor of a general scheme of unemployment insurance "designed to cover the whole area of employment."—*Second Interim Report of Civil War Workers Committee*. 1918.

When the armistice came, however, no such scheme of general insurance had been devised and *instead a scheme of out-of-work donation was adopted as a temporary measure*.

Early in 1919 in view of the widespread industrial unrest, a National Industrial Conference was called in Great Britain. A joint committee of employers and employees was appointed by this Conference to consider the question of unemployment. This committee reported as follows, regarding the maintenance of unemployed work-people. "The committee was unanimous in their view (Unemployment) Act. They think, however, that what that the normal provision for maintenance during unemployment should be more adequate and of wider application than is provided for by the National Insurance

ever may be the basis of the scheme ultimately adopted, it should include provisions for under-employment (part-time) as well as for unemployment."—*Report of Provisional Joint Committee, appointed by National Industrial Conference, 1919.*

From the outset the out-of-work donation scheme received a great deal of criticism and the government has promised on various occasions that a new unemployment insurance scheme would be introduced as soon as the measure could be completed. On December 23, just before Parliament adjourned, an unemployment insurance bill was formally presented in the House by Sir Robert Horne. After the recess, the measure was again brought before Parliament and on February 25, on the second reading of the bill, the Minister of Labour explained that the principles upon which it was based. After a debate of considerable length the bill was referred to a standing committee of the House. . . .

United States.—The desirability of introducing compulsory unemployment insurance has been under discussion for a number of years in the United States and a concrete project has recently been brought forward in the Wisconsin Legislature. The bill, which has been referred to the Committee on Judiciary, is partially modeled on the British law. . . . It contains, however, certain features which should be noted. The risk of unemployment is apparently regarded by the framers of the bill as an industrial hazard analogous to the risk of industrial accident or disease. Thus "unemployment-compensation" is payable to an unemployed person fulfilling the requirements of the act by his last employer. Employers liable for the payment of compensation for employment are required to insure or otherwise provide for such liability in the same manner provided for workmen's compensation.

Belgium.—As previously noted the Ghent System is in operation in Belgium. The Government, however, is now considering the establishment of a compulsory system of unemployment

insurance. The Minister of Industry and Labour has officially requested the Belgian section of the International Association for the Prevention of Unemployment to prepare a Bill for this purpose. The Committee of the section with this object in view has added to its personnel representatives of trade unions and of employers and also a number of the administrators of communal unemployment funds.—*International Labour Office. Official bulletin. February 2, 1919. p. 160.*

OBJECTIONS TO COMPULSORY INSURANCE

There are two main objections which have been made to compulsory insurance against unemployment. The first is the broad and fundamental one that it is not generally desirable to exercise coercion in social matters since "such coercion does not make for ultimate progress, does not make for the growth of that sturdy initiative and self reliance which are essential if social vigor and democratic control are to flourish together." (I. G. Gibbon. *Op. Cit.* p. 248.) This individualistic point of view, however, does not seem justified under present economic and social conditions. The case for the compulsory principle has been well stated by Mr. Potts, Insurance Inspector of the State of Illinois. He says:

Extreme individualists take exception to the compulsory features which are necessary to make a success of any branch of welfare insurance, but above all, as necessary in unemployment insurance. It is absolutely useless to expect that any form of unemployment insurance will be taken advantage of or benefit a large part of the classes most needing it, unless it is made compulsory in character The reasons for compulsory welfare insurance are the same as those for compulsory education, compulsory sanitary measures, compulsory food inspection and compulsory fire precautions, and are no more an unwarranted interference with the liberty of a citizen than are those and other compulsions to which every good citizen willingly submits because they are for the benefit of the whole community, including himself.

As the density of population and complexity of civilization increases, certain limitations of liberty of action become absolutely necessary under even the freest and most democratic form of government that can be devised. Under even the most attractive and secure plan of voluntary unemployment insurance,

and also of other branches of welfare insurance that could be devised, there would be a large proportion of thoughtless spend-thrifts who would fail to take advantage of it to make provision for themselves, or their families. There should be no reluctance for the state to apply compulsion to those so wanting in foresight and sense of parental responsibility as not to make provision for themselves and families, and such a course would not, I believe, offend the strong individualistic characteristics of the people of the United States when once the true purpose and immense advantages of welfare insurance are understood by them.—*R. M. Potts. Addresses and Papers on Insurance. 1917. p. 107-108.*

The second important objection which has been made to compulsory insurance is that it is impractical. Until recent years, this objection carried great weight owing to the failure of the compulsory insurance scheme which was attempted at St. Gall. At present, however, it is seldom brought forward since a system of compulsory unemployment insurance on a comparatively large scale has been a successful operation in Great Britain for the past eight years. In fact it is notable that most of the writings in support of the Ghent in preference to a compulsory system antedate the British experiment and that the present trend of opinion is toward compulsory insurance against unemployment.

ADVANTAGES

The chief advantages of the compulsory system over other schemes of insurance may be summarized as follows:

- (1) Every person within the scope of the scheme is bound to make provision against unemployment, whereas under a voluntary system the very persons for whom provision is most necessary are generally not reached.
- (2) A compulsory scheme acts as a preventive measure by making it to the financial interest of those contributing to promote regularity of employment.
- (3) A system of compulsory unemployment insurance secures a knowledge of employment conditions

which will give a more complete and reliable groundwork for a comprehensive public policy dealing with unemployment than could be obtained by any other methods. As Mr. Gibbon expresses it, "Through a system of compulsory insurance, the state can easily keep its finger on the pulse of industry."—*Insurance Against Unemployment*, p. 33.

The theoretical claims for compulsory unemployment insurance are very strong, while British experience has proved that when operated in connection with an efficient system of public employment offices a compulsory scheme is administratively practicable.

SUMMARY

The foregoing pages may be briefly summarized as follows:

1. It is desirable that provision should be made against unemployment through some form of insurance.
2. When unemployment insurance is carried on by the unassisted efforts of trade unions, although claims can be effectively checked and the solvency of the fund is not endangered by a preponderance of "bad risks," the financial burden on the workers is heavy, and, moreover, the lower paid unorganized workers are not reached.
3. Provided insurance schemes have proved a failure. They attract very few workers and those few generally belong to industries particularly subject to unemployment so that the financial security of the fund is endangered. Such schemes are costly, are apt to become relief rather than insurance measures.
4. The Ghent system has been widely adopted and has been successful within certain limits. It has the advantages of trade union insurance noted above in paragraph (2) and the state subsidy lessens the cost to the workers and encourages their organizations to establish

out-of-work benefits for members. The number of persons insured, however, under the Ghent system is comparatively small and in practice almost all insured persons are trade unionists. Thus the Ghent system, too, is limited in scope and fails to help the workers most in need of assistance.

5. Compulsory unemployment insurance is administratively practicable and is now in operation in Great Britain, Italy and Austria. The chief objection to compulsory insurance at present is a fundamental dislike on the part of many persons to compulsion. In the existing state of civilization, however, certain limitations of liberty of action are absolutely necessary and compulsion is not as objectionable as the suffering which arises from lack of provision against unemployment. Compulsory insurance has the great advantage of covering all workers in the industries to which the scheme applies; it acts as a preventive measure and it furnishes accurate statistics upon which to base public policies dealing with the problem of unemployment.

OFFICIAL HISTORY OF THE BRITISH UNEMPLOYMENT ACT¹

1. I have the honor to present a report on the workings of the unemployment insurance scheme, now in force, together with some account of the out-of-work donation scheme, which was in operation for a period after the armistice.

2. A report on the first year's working of the original and more limited scheme of unemployment insurance as instituted in 1912 was published in 1913.

¹ Being the summary prefatory note introducing the Report on National Unemployment Insurance to July 1923, with a Short Account of the Out-of-Work Donation Schemes (November 1918 to March 1923) to H.M. Ministry of Labour. p. 3-16.

Since that date the pressure of current administration has prevented the issue of any connected account of the subject. Inquiries made from time to time, both in this country and from the dominions and abroad, indicate the need for a comprehensive description of the present scheme, and such a description may not be without its value for the purpose of the examination of future policy with regard to unemployment insurance.

3. During the past two and a half years the unemployment insurance scheme has been the principal means of coping with a volume of unemployment unprecedented in the industrial history of this country. One hundred and twenty-eight million has been paid in benefits in that period. Of this large sum three-fourths has been provided by, or will be a future charge upon, insured workpeople and their employers; not more than one-fourth is provided by the taxpayer.

4. The contributions from employers and employed are paid by means of unemployment insurance stamps purchased by the employer from the Post Office and affixed by him, week by week, to "unemployment books" issued to his workpeople; he may then deduct the worker's share of the contribution from the wages of the latter. The benefit is paid in weekly sums to unemployed workpeople falling within the scheme. Ordinarily payment is made at the employment exchanges, but in some cases trade unions or other associations of workpeople pay out the state benefit together with an additional sum provided out of their own funds.

5. It is of the greatest importance that the employment exchange or other organization paying benefit should be in a position to test the genuineness of claims by the offer of suitable employment in as many cases as possible. It is for this reason that an effective system of employment agencies, whether called employment exchanges or by any other name, is an essential part of a scheme of unemployment insurance. Employers in

the insured trades, who are large contributors to the funds have it in their own hands to protect their own and the public interests by letting the exchanges know of any work they have to offer, and it is most important that they should do so if the unemployment fund is to be effectively safeguarded from abuse.

EXPERIMENTAL SCHEME OF UNEMPLOYMENT INSURANCE—JULY, 1912

6. Compulsory insurance against unemployment was introduced for a few trades by Part II of the National Insurance Act, 1911; contributions first became payable on July 15, 1912, and benefit on January 15, 1913. Previously the weight of expert opinion had been against such insurance because no effective way was seen of preventing the bad risks from exhausting the funds. The scheme of 1911 guarded successfully against this danger by making the periods of benefit proportionate to the number of weeks of employment and contributions paid and by linking up the payment of benefit with machinery for testing the genuineness of claims by the offer of employment through a national system of employment exchanges or through trade unions. Being an experiment, the scheme was limited to certain selected trades—building, engineering and shipbuilding—covering about two and one-half million workpeople in the United Kingdom. The weekly benefit for adults was 7*s.*, and the joint weekly contribution from employers and employed was 5*d.*—half from each—to which the state added one-third, or 1 2/3*d.*

EXTENSION TO CERTAIN OTHER TRADES—SEPTEMBER, 1916

7. In 1916 the scheme was extended to certain other workpeople, who were thought to be most likely to suffer from unemployment immediately after the war. No change was made in the weekly rates of benefit or

contributions. The extension covered all munition workers not already insured, and also the whole of certain trades, the chief of which were the metal, chemical, leather, rubber and ammunition trades. The total number of workpeople insured against unemployment in the United Kingdom at the end of 1916 was about three and three-quarter millions.

8. In the years 1913 and 1914 employment in the insured trades had been fairly good; during the war unemployment in these trades almost disappeared. Consequently the income of the unemployment fund was much greater than its expenditure. At the date of the armistice in November, 1918, the unemployment insurance fund had a balance in hand of about £15,200,000.

OUT-OF-WORK DONATION AFTER ARMISTICE

9. At an early stage of the war the government had decided and announced (December 14, 1915) that ex-service men who were employed in the period immediately following their discharge from the forces would have a free grant of "out-of-door donation," *i.e.*, unemployment benefit not dependent on payment of contributions. Shortly before the armistice it was decided that, as the unemployment insurance scheme covered only a small proportion of civilian workers three and three-quarters out of fifteen million out-of-work donation should be granted to civilian workers also in the change-over from war to peace.

10. In the result out-of-work donation was paid during unemployment both to ex-service men and women and to civilian workers from November 25, 1918, to November 24, 1919; for ex-service men and women (and certain classes of merchant seamen) it continued up to March 31, 1921, and in a few cases even later. The weekly rates of donation, apart from certain minor variations, were as follows:—

<i>Ex-Service Men and Women</i>	Basic Rate		Other
During the first twelve months after demobilization of the individual concerned 26 weeks	Men	Women	Allowances
	s.	s. ¹	
	29 ^a	25 ^a	} 6s. for the first dependent child and 3s. for each additional child.
13 "	20	15	
Subsequently	20	15	

<i>Civilian Workers</i>			
November 25th, 1918 to May 24, 1919	29 ^a	25 ^a	} 6s. for the first dependent child and 3s. for each additional child.
May 25, 1919 to November 24th, 1919	20	15	

11. No part of the money paid in donation came from the unemployment fund created under the contributory unemployment insurance scheme. All out-of-work donation, together with the cost of administration, came out of the Exchequer. The total amount paid was approximately

Ex-service donation	£ 39,934,000
Civilian donation	21,725,000
Total	£61,659,000

The cost of administration may be put at about £4,400,000.

12. The greatest number of persons on donation at any one time was six hundred and forty thousand males and four hundred and fifty-three thousand females on May 2, 1919.

13. Unemployed workpeople belonging to the trades insured under the acts of 1911 and 1916 were in practically all cases entitled to donation during the twelve months ending November 4th, 1919. They were not allowed to draw both donation and unemployment (insurance) benefit, and they naturally chose the former, as the rate was higher. Consequently during this period of twelve months very little (unemployment insurance)

¹s. is the abbreviation for shilling.

² From November 25 to December 12, 1918, the rates 24s. and 20s.

benefit was paid. The same thing happened in the subsequent period up to March 31, 1921, in the case of unemployed ex-service men belonging to insured trades—they claimed donation instead of benefit, and the unemployment (insurance) fund was correspondingly relieved, although it is to be noted that ex-service men brought in by the act of 1916 would usually have been entitled to little benefit, since they could have paid but few contributions. The balance in the unemployment (insurance) fund, which was £15,200,000 in November, 1918, had increased to £22,200,000 in November, 1920.

PROPOSALS FOR EXTENSION OF UNEMPLOYMENT INSURANCE

14. Meanwhile opinion had been gradually crystallising in favor of a wide extension of the (unemployment) insurance scheme. Proposals for such an extension had been made during the war, but the extension of 1916 to trades largely engaged in making munitions was probably the widest which industrial opinion would then have supported; there was a general belief that, owing to the depletion of peace supplies, all trades making such supplies would be fully employed for a number of years after the termination of hostilities. After the armistice the out-of-work donation scheme set a precedent for a general scheme of benefit—but on a non-contributory basis, the whole cost falling on the Exchequer. A special committee of employers and employed, appointed by the Industrial Conference in February, 1919, recommended unanimously that there should be a general extension of unemployment insurance, but the representatives of employers and employed differed on a vital point of detail, the former advocating a contributory scheme and the latter a non-contributory scheme.

GENERAL EXTENSION OF UNEMPLOYMENT INSURANCE —NOVEMBER, 1920

15. The Unemployment Insurance Act, 1920, which came into force on November 8, 1920, extended the

contributory scheme of unemployment insurance, with certain exceptions, to all manual workers, and also to all non-manual workers earning not more than £250 a year. The chief exceptions were those of persons employed in agriculture and private domestic service and certain classes of permanent employees, *e.g.*, permanent civil servants, pensionable teachers, and (subject to a certificate from the Ministry of Labour) permanent employees of local authorities and railway companies. The total number of insured persons in the United Kingdom was about eleven and three-quarter millions.

RATES OF BENEFIT

16. At the outset the weekly rates of benefit were 15s. for men and 12s. for women (and half these rates for boys and girls between sixteen and eighteen). For a short period (March to June, 1921), the benefit was raised to 20s. and 16s. for men and women respectively, but since June, 1921, the 15s. and 12s. rates have again been in operation. Additional grants for certain dependants have been paid since November, 1921—5s. for a wife or invalid husband (or for the "housekeeper" of a widower or unmarried man with dependent children), and 1s. for each young child; thus the weekly rate of benefit for a married man with a wife and two young children would be 22s.

RATES OF CONTRIBUTION

17. Originally the weekly rates of contributions were 8d. for a man, and 6½d. for a woman (approximately one-half falling upon employer and employed respectively). The rates for boys and girls were 4d. and 3½d. The contribution from the state—that is, from the taxpayer—was about one-fourth of these figures, or one-fifth of the total contributions from employers, employed and the state. Owing to the great sums required by an expanded scheme of benefit (see

below, paragraphs 32 and 34), these contributions were largely increased in July, 1921, and a further addition was made in November, 1921, on account of the grants then instituted for dependents, while the state contribution was increased to about one-third of the joint contribution of employer and employed. The weekly contributions at the present time (July, 1923) are:—

	Employer <i>d.</i>	Employed <i>d.</i>	State <i>d.</i>
Men	10	9	6¾
Women	8	7	5¼
Boys from 16 to 18	5	4½	3¾
Girls from 16 to 18	4½	4	3½

18. These rates of contributions are to remain in force until the unemployment (insurance) fund has paid off its debt, amounting at June 30th, 1923, to £15,600,000 (see below paragraph 32), and has accumulated any necessary reserves. Thereafter the contributions are to be substantially reduced, and the state contribution is to fall to one-fourth of the joint contributions of employers and employed (or one-fifth of the total).

19. In addition to the contribution referred to above, the Exchequer is liable to pay any administrative expenses in excess of an amount equal to 12½ per cent of the annual revenue of the unemployment fund. Up to this amount these expenses, which at present include about 95 per cent of the total cost of the employment exchange service, are charged to the fund and, as is explained below (paragraph 43), no charge under this head has fallen on the Exchequer since April, 1922.

CONDITIONS FOR RECEIPT OF BENEFIT

20. The main principles of the earlier scheme were continued in the extended scheme. Periods of benefit were to be proportionate to contributions paid, and a test was applied to the genuineness of claims to benefit by the offer of suitable employment through the employment

exchanges or through trade unions or other associations of workpeople. Persons who lost their employment owing to a stoppage of work due to a trade dispute (strike or lockout) at the establishment at which they were employed were disqualified for benefit, as also were those who lost their employment through misconduct or left it voluntarily without just cause. The position of insured contributors was safeguarded, as under the earlier scheme, by the worker's right to appeal, direct or through an association, against disallowance of benefit, to a local court of referees, and in certain cases from the court of referees to the umpire, an independent authority appointed by the Crown, whose decision is final.

METHOD OF PAYING BENEFIT

21. Ordinarily payment of benefit is made weekly at the employment exchanges. Workpeople belonging to an association or society which has made an arrangement with the department for this purpose may draw their benefit from the association or society, which subsequently obtains a refund from the department together with an allowance for administrative expenses. In order to qualify for an arrangement the association or society among other things must provide a certain amount of unemployment benefit out of its own funds in addition to the state benefit.

22. At one time there were two hundred and ten associations or societies with a total membership of about four million the great majority of which were trade unions with arrangements of this kind. At present one hundred and forty-one associations or societies with about one million members have arrangements. The chief cause of the reduction in numbers has been the depletion of trade union funds during the long period of abnormal unemployment and the consequent inability of a number of unions to continue payment of benefit out of their own funds.

COURSE OF UNEMPLOYMENT SINCE NOVEMBER, 1920

23. When the act of 1920 came into force (November 8, 1920) the great depression in trade had already begun to reveal itself. The following table indicates the rapid growth of unemployment in the six months from November, 1920, and the subsequent course of the figures. The numbers are those of persons registered at employment exchanges in Great Britain and include a proportion who were not insured, but this does not invalidate the comparison between the figures:—

End of	Wholly unemployed	On systematic short time and claiming benefit not available	Total percentage insured unemployed
November, 1920	494,106		
December, 1920	701,179	421,012	
January, 1921	988,363	595,086	
March, 1921	1,310,568	795,815 ¹	9.1
May, 1921	1,992,171	1,132,139 ¹	
June, 1921	2,044,655	776,986 ¹	18.2
September, 1921	1,322,434	295,910	12.5
December, 1921	1,776,131	297,334	16.2
March, 1922	1,637,376	205,475	14.6
June, 1922	1,405,293	106,235	12.5
September, 1922	1,319,912	58,904	11.7
December, 1922	1,357,981	54,670	12.0
March, 1923	1,243,424	55,292	10.0
June, 1923	1,189,059	60,177	8.0

EFFECT ON UNEMPLOYMENT INSURANCE SCHEME

24. These figures are without parallel in the worst years of pre-war unemployment of which there is a record. Had the unemployment insurance scheme remained as it was framed in the act of 1920, the strain thrown upon its resources would have been serious but by no means insupportable, for under the rules, and particularly the rule that periods of benefit are proportionate to contributions paid, the new entrants would have

¹ Dispute in the coal industry 1st April to 3rd July, 1921.

been entitled to little or no benefit and many even of those who had been insured since 1911 or 1916 would have run out of benefit, during the long period of depression, without exhausting the resources of the unemployment fund.

25. Such a position, however, though strictly defensible on insurance principles, would have been a most unsatisfactory one. There would have been very large numbers of unemployed persons nominally insured but unable to draw benefit because the scheme had not been in operation at a time when they could have paid contributions. The remedy adopted was to graft on to the original scheme of what may be called "covenanted" benefit (*i.e.*, benefit drawn as of right by virtue of contributions) a system of "uncovenanted" benefit. Uncovenanted benefit was allowed as a discretionary grant to unemployed persons who were normally wage-earners in insured trades and were genuinely seeking whole-time employment, but who had exhausted their rights derived from payment of contributions, or who even, in exceptional cases, had paid no contributions at all. The history of the unemployment insurance scheme from 1921 onward is largely that of passing of one act after another granting further extensions of *uncovenanted benefit* on account of the very large numbers who remained unemployed.

26. At the same time the "covenanted" rights of insured persons who had contributions to their credit were strictly preserved and were in some respects considerably enlarged.

UNCOVENANTED BENEFIT

27. The procedure adopted with regard to uncovenanted benefit has been to create what are called "special periods" of from five to nearly twelve months in duration and to authorize payment of uncovenanted benefit for a specified maximum of weeks in each special period; this number of weeks has tended more and more to

approximate to the full number of calendar weeks in the special period, but has never quite reached this figure (*i.e.*, benefit has never been payable continuously to persons unemployed for very long periods). At the present time the fourth special period, lasting from November 2nd, 1922, to October 17th, 1923, is in operation, and a maximum of forty-four weeks of benefit may be drawn during the fifty calendar weeks of which it consists.

28. In accordance with a practice adopted for the grant of out-of-work donation, claims to unconvenanted benefit are decided in almost all cases on the recommendations of the local employment committees acting under general directions issued by the Minister with whom the decision finally rests. These committees are local and unpaid bodies consisting mainly of representatives of employers and employed. The work they have done has been extremely heavy—since March, 1921, they have dealt with something like eleven million claims—and the help the committees have given toward the smooth working of the unemployment insurance scheme cannot be over-estimated. The department owes a debt of gratitude to the many members of these committees who have given their services ungrudgingly for a period which—including the period of operation of the donation scheme—now extends over nearly five years of almost incessant labor.

INSTITUTION OF DEPENDENTS' GRANTS—NOVEMBER, 1921

29. In November, 1921, a new feature was introduced into the unemployment insurance scheme in the form of an increased rate of benefit for unemployed persons with dependents. In addition to the ordinary weekly rate of 15s. or 12s. for men and women respectively, 5s. a week was allowed for a wife or invalid husband (or for the housekeeper of a widower or unmarried man with dependent children) and 1s. for each dependent child

under the age of fourteen years (or sixteen years if in full-time attendance at a day school). A special contribution from employers, employed and the Exchequer was levied in order to pay for these allowances.

30. Originally these allowances were made for a period of six months only. It was found by experience that, although the amounts were not large, they were a most welcome assistance to married men and widows with children, and in not a few cases they enabled respectable and industrious men and women to avoid having recourse to the Poor Law. Accordingly the allowances were continued after the six months were over, and the special contributions levied in respect of them were added to and amalgamated with those previously payable for unemployment insurance.

31. At January 27th, 1923, out of a sample of 148,018 claims in respect of which dependents' benefit had been authorized, 48,939 (or 33 per cent) were in respect of adult dependents only, 8,861 (or 5.9 per cent) were in respect of children only, and 90,418 (or 61.1 per cent) were in respect of both adults and children. The average number of children was about nine to every four men drawing allowances for children.

FINANCIAL PROVISIONS

32. The grant of uncovenanted benefit necessarily imposed a great strain on the financial resources of the unemployment insurance scheme. It amounted to paying out very large sums of money which were not provided for in the original finance of the scheme. The balance in hand, which had been £22,200,000 in November, 1920, was reduced to £1,000,000 at the end of June, 1921, at which time the weekly payments of benefit were about £2,000,000 as against a weekly revenue of about £340,000. To deal with this situation various measures were taken. In particular the rates of benefit for men and women, which had been raised to 20s. and 16s. in

March, 1921, were restored to the previous figures of 15s. and 12s., substantial increase was made in the weekly rates of contribution, and power was taken to borrow up to £20,000,000 (a figure which was subsequently raised to £30,000,000). Owing to the extensions of uncovenanted benefit these borrowing powers have been used, but not to anything like their full extent. The money borrowed by the fund has been at one time (March, 1923) rather more than £17,000,000; at June 30th, 1923, the loan was £15,600,000, but this, though a large sum, is not at all disproportionate to the resources of the unemployment fund, which has at present an annual revenue of over £47,000,000. Interest is paid on the money borrowed, and the rates of interest have varied between 6 and 4 $\frac{7}{8}$ per cent, the latter being the rate for the most recent borrowings.

SPECIAL LIMITATIONS ON UNCOVENANTED BENEFIT

33. In order to reduce as far as possible the charges on the unemployment (insurance) fund, while at the same time avoiding refusals of benefit which would cause hardship, special limitations upon the grant of uncovenanted benefit have been applied in the period since March, 1921. These limitations relate particularly to claims to uncovenanted benefit made by single men and women residing with relatives, married women residing with their husbands, persons working short time, and aliens. Special attention has also been paid to the point that uncovenanted benefit should not be allowed to persons for whom any reasonable opportunity of employment on fair terms and conditions is available. In the case of both covenanted and uncovenanted benefit precautions are taken with a view to ensuring that payment is not made to women or girls who may reasonably be required to accept positions in domestic service; ordinarily a domestic servant is not insured and, therefore, is not entitled to bene-

fit, but difficult questions arise in the case of industrial workers for whom there is no prospect of employment in their ordinary occupation but who might possibly be able to obtain domestic work.

AMOUNT OF BENEFIT PAID

34. The total amount of unemployment benefit, covenanted and uncovenanted, and of allowances for dependents paid in the period from November 8th, 1920, to June 30th, 1923, is about £128,304,000. This sum of £128,304,000 has been paid in separate weekly amounts, ranging ordinarily from 12s. to 22s. each, and it is estimated that something like one hundred and seventy million separate payments have been made. Since March, 1921, there have never been fewer than 1,122,845 persons on the registers in Great Britain in a particular week, and when it is remembered that each claim to benefit has to be carefully scrutinized when first made and watched subsequently week by week, the amount of labor thrown on the employment exchanges and the other parts of the administrative organisation can be realized.

35. The proportion of the total paid as uncovenanted benefit is not precisely known, but it may safely be put at more than one-half of the total.

SPECIAL SCHEMES AND SUPPLEMENTARY SCHEMES FOR INDUSTRIES

36. The act of 1920 introduced a new principle by allowing separate industries, under certain conditions, to set up special schemes of unemployment insurance for themselves and thus "contract out" of the general scheme. The action taken under this provision is described in detail in a report published last April, so that only a brief reference need be made here. For various reasons, the chief of which was the great depression in trade, only one special scheme, that for the insurance in-

dustry, covering about eighty-five thousand insured, persons, has so far been set up, and one other scheme, that for the banking industry, is under consideration. The formation of other schemes is not permissible at present owing to the suspension by the act of July, 1921, of the power to form new special schemes as long as the unemployment (insurance) fund remains in debt. On the general question of the possibility of extending unemployment insurance by industries the Minister on November 28th, 1922, addressed a letter and memorandum to the National confederation of Employers' Organisations and the Trades Union Congress General Council, and is awaiting a reply from these bodies.

37. The act of 1920 also permitted an industry to adopt a supplementary scheme under which additional contributions might be levied compulsorily on employers and employed in the industry in order to supplement the benefit under the general scheme. No action has so far been taken under this provision, which, however, still remains open for use, if desired.

IRELAND

38. Up to December 31st, 1921, there was a single unemployment insurance scheme for the whole of the United Kingdom, administered first by the Board of Trade and then by the Ministry of Labour. On January 1st, 1922, the Minister of Labour for northern Ireland took over its administration within this area, and on April 1st, 1922, the Ministry of Industry and Commerce under the provisional government assumed responsibility for its administration in the Irish Free State. At the present time, therefore, there are three separate schemes in operation in Great Britain and Ireland.

39. The number of persons insured in Ireland is about half-a-million.

RATIO OF ADMINISTRATIVE EXPENSES

40. The ratio of administrative expenses to revenue under the unemployment insurance scheme at the present time compares not unfavorably with those of other insurance systems, as will be seen from the following figures given by the president of the Board of Trade in answer to a Parliamentary question on April 24th, 1923:—

(1) *Public Health Insurance*.—The total expenses of administration of National Health Insurance are met in part from contributions under the Acts and in part from moneys provided by Parliament. The former represents 7.7 per cent, and the latter 5.3 per cent of revenue; in all 13 per cent.

(2) *Unemployment Insurance*.—All costs borne on the Votes for the Ministry of Labor or other Departments, including the expenses of paying Unemployment Benefit and the costs incurred in placing insured workpeople in work, amount to 8.3 per cent of the revenue.

(3) *Workmen's Compensation*.—The average total expenditure for the year 1921 is 37.04 per cent, made up of commission, 11.93 per cent; other expenses of management, 25.11 per cent.

(4) *Industrial Assurance Collecting Societies*.—The average total expenditure for the year 1921 is 43.6 per cent, made up as follows:—

	Per cent.
Office salaries	9.1
Agents' and collectors' remuneration.....	29.5
Other expenditure	5.0

(5) *Industrial Assurance Companies*.—The average total expenditure for the year 1921 is 41.9 per cent, make up as follows:

	Per cent.
Commission	22.7
Other expenses or management	19.2

41. The administrative expenses of the unemployment insurance scheme for the purposes of this ratio cover not merely the organization required for collecting contributions and assessing and paying benefit, but also the whole cost of the employment exchanges as placing agencies so far as they deal with insured persons; in other words, 95 per cent of the whole cost of the exchanges is at present paid for out of the unemployment

fund. It should be clearly understood also that all expenses are included, whether incurred by the Ministry of Labour direct, or by other departments, such as the Office of Works, Stationery Office and Post Office, on behalf of the Ministry.

42. Prior to April, 1922, the highest ratio of administrative expenses was about 23 per cent in 1912-13 and 1920-21, the years of inauguration of the original and extended schemes, and the lowest 12.4 per cent in 1919-20. In 1922-23 the ratio was 10.3 per cent, the reduction in these two years being partly due to the increase in rates of contributions.

43. Up to April, 1922, 10 per cent of the annual revenue of the unemployment (insurance) fund was applied to the payment of administrative expenses the balance being borne by the Exchequer. Subsequently power was taken to use up to 12½ per cent of the annual revenue for this purpose, and, as the ratio of expenses to revenue has been below 12½ per cent, no charge has fallen on the Exchequer under this head since April, 1922.

RELATION OF BENEFIT TO POOR LAW RELIEF

44. The relation of the unemployment insurance scheme to the system of Poor Law relief deserves a brief mention. The obligation of the Poor Law system is to relieve the destitute; that of the unemployment insurance scheme is to pay benefit to unemployed insured contributors in accordance with what may be described as a statutory contract based on payment of contributions by insured contributors, their employers and the Exchequer.

45. Uncovenanted benefit has certain features resembling those of Poor Law relief. It is claimed not as of right on account of contributions paid, but as a discretionary grant; moreover, in the exercise of his discretion to allow or refuse uncovenanted benefit, the Minister, acting through the local employment committees, takes

carefully into account whether refusal of benefit would cause hardship. Nevertheless the distinction remains that only persons who are normally insured can draw uncovenanted benefit; this benefit is, in fact, in the nature of an advance made on the faith of future payment of contributions. In other words uncovenanted benefit cannot be allowed as a compassionate grant to persons, however deserving, who are not within the insurance scheme.

46. Figures with regard to the numbers of persons in receipt of outdoor relief and their dependants are published in the quarterly Returns of the Ministry of Health as regards England and Wales, and in the Annual Reports of the Scottish Board of Health as regards Scotland. During the year 1922-23 £10,400,000 was paid in England and Wales in outdoor relief to persons ordinarily employed and their dependents (of which sum £9,450,000 was paid to persons falling within the unemployment insurance scheme and their dependents); the corresponding figure for Scotland was £1,500,000. The proportion of persons in receipt of unemployment benefit who are also drawing outdoor relief is not precisely known; from an analysis made at Birmingham it appears that of the persons on benefit at January 27, 1923, about 17.3 per cent were also drawing relief, but this proportion cannot safely be taken as typical of other areas.

47. It will be obvious that heavy as the burden has been upon the Poor Law authorities during the last two or three years, it has been greatly lightened by the unemployment insurance scheme; that scheme has provided by far the greater part of the assistance needed by the able-bodied unemployed.

CONTRIBUTORY PRINCIPLE OF INSURANCE

48. There appears to be a widespread belief that unemployment benefit, or, at any rate, so much of it as is "uncovenanted," is provided by the taxpayer—as witness the common use of the question-begging epithet of

the "dole." In truth—and the fact cannot be too strongly emphasized—one-fourth, and no more, of the sums now being paid in benefit and of the cost of administration falls upon the taxpayer, and this represents at the present time the whole of the Exchequer contribution to the unemployment insurance scheme; three-fourths of the benefit and administrative costs fall upon the insured workpeople and their employers.

49. The total contributions from employers, employed and the Exchequer from the initiation of the scheme in 1912 to 1st July, 1923, are as follows:—

Employers	£48,000,000
Employed	44,600,000
Exchequer	31,500,000

In addition £2,670,000 was received from the service departments in respect of men discharged from the forces after July 31st, 1920.

50. As the revenue during the last two years has not been equal to the outgoings, money has been borrowed from the Treasury, but this loan, amounting at June 30th, 1923, to £15,600,000, has been borrowed at interest, and the whole of the loan and interest is repayable by employers, employed and the state approximately in the proportions indicated. The existence of this debt, therefore, does not in any way constitute a grant from the taxpayer.

PRACTICABILITY OF UNEMPLOYMENT INSURANCE

51. Experience has shown that compulsory insurance against unemployment is entirely practicable. The extended scheme of insurance has passed successfully through the crucial test imposed by an immense volume of unemployment, unprecedented both in intensity and duration and has continued with little abatement for the past two and a half years. The unemployment fund has provided benefits vastly greater than those originally con-

templated. It has done so, it is true, at the expense of largely increased contributions and of a considerable debt; but the debt is not so large that it cannot be paid off in a comparatively short space of time as soon as trade revives, and the financial stability of the scheme is not open to serious question.

52. These results have not been achieved without heavy labor and they would not have been possible at all without a large measure of support from employers and employed in the insured trades. Reference has already been made to the invaluable assistance given voluntarily by the local employment committees. Some part of the burden has also been borne by the associations of work-people which have undertaken the payment of state benefit in conjunction with benefit paid out of their own funds. But nothing would have availed to meet the strain without the devoted services of the departmental staff, who may fairly claim to have played no small part in successfully bringing the unemployment insurance scheme through the many and varied difficulties of the period since November, 1920.

FUTURE POLICY

53. It remains to profit by experience in order to fashion a wise policy for the future. The great depression in trade has profoundly affected the whole outlook of the insurance scheme. So long as the depression continues—and unhappily the horizon is still dark—it may not be possible to do more than meet current problems as they arise. But the time has almost come for taking stock of the situation in all its aspects and deciding upon the line of development which may appear to offer the best chance of reaching a solution of the permanent problem of fluctuating demand for labor. In November, 1922, the Minister took the first step by consulting representative organizations of employers and employed on the possibility of a wide extension of

unemployment insurance by industries. The replies of these organizations will, it is hoped, be made at no distant date, and, if it should then be thought that a comprehensive examination of the whole matter would be of advantage, the way would be open to undertake it.

BRITISH UNEMPLOYMENT INSURANCE AND EMERGENCY RELIEF MEASURES¹

COVENANTED AND UNCOVENANTED BENEFIT

258. As already stated the abnormal volume of unemployment has led to a profound modification of the benefit provision made by the act of 1920. To the "covenanted" benefit obtainable as of right, subject to prior payment of the requisite number of contributions and satisfaction of certain other statutory conditions, there has been added a temporary system of "uncovenanted" benefit allowed as a discretionary grant to persons who are potentially within the unemployment insurance scheme but for the time being are not entitled to covenanted benefit. Moreover unemployed persons have needed to be, and have been allowed to be, continuously on benefit for much longer periods than was contemplated by the act of 1920. The rates of benefit (and of the additional allowances now payable for certain classes of dependents) are the same for covenanted and uncovenanted benefit.

259. The conditions for the receipt of the two kinds of benefit are largely the same; the differences between them are chiefly these:—

1. To establish an initial qualification for covenanted benefit it is sufficient if the claimant has the requisite number of contributions to his credit, unexhausted by previous receipt of benefit. The applicant for uncovenanted benefit being unable to rely on contributions must

¹ From the (British) Report on National Unemployment Insurance to July, 1923. British Ministry of Labour. p. 99-120.

show initially that he is normally employed in a insurable occupation, is genuinely seeking whole time employment, and is unable to obtain it.

2. Covenanted benefit is claimed as of right by those who satisfy the statutory conditions. Uncovenanted benefit is always a discretionary grant and is only to be paid if the Minister is satisfied that it is expedient in the public interest to grant it in the particular case.

RATES OF BENEFIT

260. The weekly rates of benefit under the original scheme of 1911 had been 7*s.* for men and women and 3*s.* 6*d.* for boys and girls. From December 25, 1919, these rates were raised by the Unemployment Insurance Act, 1919, to 11*s.* and 5*s.* 6*d.* for adults and for boys and girls respectively.

261. Under the Unemployment Insurance Act, 1920, the weekly rates of benefit were 15*s.* for men, 12*s.* for women and half those rates for boys and girls. By the Unemployment Insurance Act of March, 1921, the rates were raised to 20*s.* and 16*s.* for men and women respectively (half rates for boys and girls), and remained at these figures from March 3, 1921, to June 29, 1921. As from June 30, 1921, the 15*s.* and 12*s.* rates were restored by the Unemployment (No. 2) Act, 1921, and these rates have since remained in operation. As from November 10, 1921, in addition to the basic rate of 15*s.* or 12*s.*, an allowance has been payable of 5*s.* for a dependent wife (or invalid husband) or the housekeeper of an unmarried man or widower with dependent children, and 1*s.* for each dependent child under fourteen (or under sixteen if in full-time attendance at a day school), see below, paragraphs 305 to 308.

PERIODS OF BENEFIT

262. The number of weeks of benefit that may be drawn is limited in two ways:—

1. In the case of covenanted benefit not more than one week of benefit may be drawn for every six contri-

butions paid. . . . Since November 8, 1920, the application of the rule to covenanted benefit has been modified temporarily in certain respects. . . .

2. In the case of both covenanted and uncovenanted benefit, only a limited number of weeks of benefit may be drawn during a specified period of the calendar; in other words, benefit cannot be drawn continuously for an indefinite period. Under the earlier scheme of 1911, fifteen weeks of benefit and no more could be drawn in twelve months. . . . The Unemployment Insurance Act, 1920, allowed fifteen weeks in an insurance year, and the Unemployment Insurance Act, 1921, increased the fifteen weeks to twenty-six. Under existing legislation (Unemployment Insurance Act, 1923) the limitation will be, as from October 18, 1923, twenty-six weeks in a "benefit year" (mid-October to mid-October).

From March, 1921, to the present time, the limitation in actual operation has been applied, not to a calendar year, but to a "special period." The interval from March 3, 1921, to October 17, 1923, has been divided into four special periods, in each of which a certain maximum number of weeks of benefit have been allowed. . . .

263. For the purposes of benefit only complete days of unemployment can be taken into account. No day can count as a day of unemployment on which the insured person follows any remunerative occupation. . . . The only exception to the general rule now operative relates to subsidiary employment; a person who has ordinarily followed an occupation in addition to and outside the usual working hours of his usual employment, and whose remuneration from the subsidiary employment does not exceed the rate of 3s. 4d. a day, may continue this subsidiary employment and, nevertheless, draw benefit, when not employed at his main occupation. . . .

WAITING PERIOD

264. It is an important part of the unemployment insurance scheme that benefit is not payable for the first

few days of a spell of unemployment—the “waiting period,” as it is termed. . . . Its importance lies in the fact that it reduces the amount of benefit paid in the relatively large number of cases in which the contributors are unemployed for quite short periods. . . .

265. The waiting period was reduced by the 1920 act to three days in place of the six-day waiting period which applied under the earlier scheme. By the Unemployment Insurance (No. 2) Act, 1921, however, the six-day waiting period was restored as from June 30, 1921.

CONTINUOUS UNEMPLOYMENT

266. Benefit is payable to insured persons who prove that they are “continuously unemployed,” subject to the satisfaction of the waiting period. . . . It was realized that such a requirement would be unduly harsh in the case of persons normally working in casual employments, and a special interpretation of the term “continuously employed” was included in the act of 1911. Shortly the rule was that two periods of unemployment of not less than two days each which were separated by not more than two days of employment might be regarded as one continuous period of unemployment. Similarly two periods of unemployment of not less than a week each, separated by a period of employment of not more than six weeks, might be linked together and treated as one continuous period of unemployment. By this means the necessity for a fresh waiting period after spells of employment falling within the rule was avoided.

267. This rule was retained in the act of 1920. . . . That act, however, brought for the first time into insurance against unemployment considerable numbers of casual workers, in particular dock workers, and many representations were made to the department that the rule operated harshly in these cases. . . . A new rule was introduced . . . by the Unemployment Insurance Act, 1923. The new rule is that any three days of unemploy-

ment, whether consecutive or not, occurring within six consecutive days, may be treated as a continuous period of unemployment, and any two such periods may be linked together, provided that the interval between them is not as much as three weeks.

CONDITIONS AND DISQUALIFICATIONS FOR BENEFIT

268. The conditions and disqualifications for covenanted benefit as laid down by the 1920 act are substantially the same as those prescribed in the original scheme of 1911. Save where otherwise stated, the conditions and disqualifications described below apply both to covenanted and uncovenanted benefit; the special conditions for uncovenanted benefit are described in paragraphs 280 to 304.

269. The claimant must make application for unemployment benefit in the prescribed manner and prove that since the date of his application he has been continuously unemployed. . . . (*See* above, paragraphs 266 and 267.)

270. The 1920 act followed the earlier scheme in providing that a period of unemployment could not be deemed to commence until the claimant had made a claim in the prescribed manner. This led to hardship in certain cases where there was a good excuse for delay in making the claim. The Unemployment Insurance Act, 1923, accordingly empowered the Minister to make regulations authorising the ante-dating of claims in proper cases. . . .

271. The claimant must be capable of, and available for, work, but unable to obtain suitable employment. . . .

272. A claimant is not to be deemed to have failed to fulfil the condition that he is unable to obtain suitable employment by reason only that he has declined—

1. An offer of employment in a situation vacant in consequence of a stoppage of work due to a trade dispute: or

2. An offer of employment in the district where he was last ordinarily employed at a rate of wage lower, or on conditions less favorable, than those which he habitually obtained in his usual employment in that district, or would have obtained had he continued to be so employed; or

3. An offer of employment in any other district at a rate of wage lower or on conditions less favorable than those generally observed in that district by agreement between associations of employers and of employees, or failing any such agreement, than those generally recognized in that district by good employers.

273. An interesting addition to the conditions for the receipt of benefit is contained in Section 7 (1) (v) of the 1920 act, which enabled the Minister, after consultation with the Board of Education, to make regulations empowering an insurance officer to require a claimant to attend a course of instruction. Regulations have been made under this sub-section and have been applied so as to require the attendance of boys and girls under the age of eighteen at the juvenile unemployment centers which have been in operation for certain periods at a considerable number of places.

274. A claimant who has lost employment by reason of a stoppage of work which was due to a trade dispute at the factory, workshop, or other premises at which he was employed, is disqualified for receiving benefit so long as the stoppage of work continues, except in a case where he has, during the stoppage of work, become bona fide employed elsewhere in the occupation which he usually follows or has become regularly employed in some other occupation. . . .

276. A claimant who loses his employment through his misconduct or voluntarily leaves his employment without just cause is disqualified for receiving benefit for a period not exceeding six weeks from the date when he so lost or left his employment. . . .

277. A claimant is disqualified for receiving bene-

fit while he is an inmate of any prison or any work-house or other institution supported wholly or partly out of public funds or while he is resident, whether temporarily or permanently, outside Great Britain or, up to 1922, outside the United Kingdom.

279. The following conditions apply to covenanted benefit only:—

1. As an initial qualification for benefit twelve contributions must have been paid.

2. Section 8 of the 1920 act provides that, if no contributions are paid during a whole insurance year (for reasons other than sickness), the claimant shall be disqualified for receiving benefit until he has paid twelve more contributions; and that, if no contributions are paid during a period comprising five insurance years, the claimant shall lose all rights in respect of contributions previously paid. . . .

3. The act of July, 1921, provided that if twenty contributions had not been paid in respect of a claimant since the beginning of the last preceding insurance year he would not be entitled to receive benefit in respect of any contributions standing to his credit, unless he complied with two of the requirements applicable to uncovenanted benefit, namely, that he proved that he was normally employed in insurable employment and that he was genuinely seeking wholetime employment but unable to obtain it.

The object of this provision was to prevent the payment of benefit to persons who were, during the war or in other past periods, engaged in insurable employment, for which contributions had been paid, and who sought to receive benefit in respect of these contributions, although they were no longer normally engaged in insurable employment and in some cases had no intention of again taking up any kind of employment. If the claimant could not show that he had paid twenty contributions within a recent period, there was *prima facie* reason to believe that he was not normally em-

ployed in insurable work. In the exceptional circumstances of the period since 1920, however, he might have been genuinely unable to obtain such employment, and accordingly he was required to make good his case before the local committee. . . .

DETERMINATION OF CLAIMS TO BENEFIT

309. Claims to covenanted benefit are determined by the insurance officer, subject to certain statutory rights of appeal to the Court of Referees and the umpire. As explained above, uncovenanted benefit, strictly speaking, is in all cases a discretionary grant, and the question whether it is to be granted or not is decided by the Minister (acting ordinarily through the local employment committees); in practice, however, so far as the conditions for uncovenanted benefit are the same as for covenanted benefit, the machinery of the insurance officer, Court of Referees and umpire is used for uncovenanted benefit also.

INSURANCE OFFICER

310. In the case of covenanted benefit, and also of uncovenanted benefit where conditions applicable also to covenanted benefit are in question, the decision is given in the first instance by the insurance officer, who is required to give his decision, as far as practicable, within fourteen days from the date of submission to him of the claim. One or more members of the staff at each employment exchange has a limited authority to act as insurance officer. All cases presenting any doubt or difficulty, however, are referred to the Chief Insurance Officer. This centralization secures effective coordination of the decisions on claims arising in the same or similar circumstances in different localities. The more routine functions are, however, extensively decentralized so as to secure immediate decisions on claims raising no point of difficulty. The following table shows the number of cases referred to the Chief Insurance Officer and the nature of his decision:—

Period	Number of cases forwarded for adjudication	Allowed	Disallowed
Nov. 8th, 1920, to July 3rd, 1921....	214,201	49,449	164,752
July 4th, 1921, to July 2nd, 1922....	356,052	80,671	275,381
July 3rd, 1922, to July 1st, 1923....	292,768	76,891	215,877

COURTS OF REFEREES

311. If benefit is disallowed by the insurance officer, the claimant (or his association, if he has claimed through an association) has a right of appeal to a Court of Referees. The right must be exercised within twenty-one days, but the Minister may grant an extension of this time for special reasons. . . .

314. The number of cases considered by the Courts of Referees is as follows:—

Period	Allowed	Disallowed	Total
Nov. 8th, 1920, to July 3rd, 1921....	15,589	24,705	40,294
July 4th, 1921, to July 2nd, 1922....	29,469	46,041	75,510
July 3rd, 1922, to July 1st, 1923....	26,228	43,975	70,203

315. . . . The largest class of cases is that of persons alleged to have left their employment voluntarily without just cause. Over all the cases the percentage of disallowance by the court is about 60 per cent.

UMPIRE

316. There is a further right of appeal in certain cases to the Umpire, who is a judicial authority independent of the Ministry of Labour and appointed by the Crown. The Umpire's decision is final and conclusive.

329. In the exercise of their functions the committees are required to have regard to the directions of the Minister with whom the right of decision lies. Such directions were originally embodied in regulations, which have been supplemented by memoranda from time to

time as necessity arose. The original regulations indicated in some detail the circumstances which it was desired the committees should keep in mind in dealing with claims. Special attention may be called to the following points:—

1. In the case of claims by ex-service men at least one member of the committee is, if possible, an ex-service man.

2. No application is refused without giving the applicant an opportunity of attendance.

3. No application is allowed if the applicant who is summoned fails to attend without good cause.

4. An applicant is expected not merely to register at an employment exchange, but to make other efforts independantly to obtain employment, and must have reasonable qualifications for the work he seeks and be prepared, if necessary, to accept other suitable employment. Committees may require applicants to produce documentary evidence of their efforts to obtain work.

331. Recommendations of local committees for the grant of uncovenanted benefit, or covenanted benefit under Section 6 of the second act of 1921, and dependents' benefit, and the allowances of such benefit by local officers are subjected to test checks at more or less regular intervals by selected officers attached to divisional offices who visit the various local offices in rotation. The principal objects of this scrutiny are to secure uniformity of practice in the application of the rules governing the grant of such benefit and to bring to light any recommendation or decision which, on the facts available, does not appear to conform to those rules. Any case of doubt may be referred back to a committee for reconsideration or to headquarters for a ruling, according to circumstances.

332. In the five months ended May 31, 1923, about one hundred thousand individual claims to benefit were so examined, involving over sixteen hundred visits to local offices. Queries were raised in regard to commit-

tees' recommendations in fourteen hundred and thirty-seven cases (or 1.43 per cent of claims examined). Benefit was not ultimately disallowed in all the cases so queried, and the small proportion of queries raised testifies to the thoroughness and care exercised by committees in this connection.

VERIFICATION OF CONDITIONS FOR RECEIPT OF BENEFIT
REFERENCE TO CLAIMS AND RECORD OFFICE

335. Particulars of the claim are despatched to the Claims and Record Office at Kew which supplies, ordinarily by return of post, a statement of the number of days of benefit (if any) to which the claimant's ledger account shows him to be entitled. The centralization at Kew of the contribution records—which, it will be remembered, was first instituted in 1917—has been found to operate successfully.

336. While the proof of the claimant's financial title to benefit is thus obtained for the most part centrally, the proof of the other conditions for the receipt of benefit must necessarily be obtained locally.

338. Under a scheme of unemployment insurance proof of unemployment is, of course, of the first importance. Under normal procedure claimants residing within two miles of the local office have to attend daily. The requirement of daily attendance is relaxed only in the case of persons residing over two miles from the local office; if the claimant resides between two and four miles, he is required to attend on alternate days only; if he resides between four and six miles, he is required to attend only once a week, which may be the occasion of payment; while, if he resides more than six miles away, he may be excused altogether from personal attendance and allowed to prove his unemployment by documentary evidence. . . . these requirements have been temporarily relaxed owing to the abnormal volume of unemployment.

VERIFICATION FROM LAST EMPLOYER

341. The exchange communicates with the claimant's last employer in order to verify the fact and period of his employment and to ascertain the circumstances in which he ceased to be employed. Under procedure adopted in May, 1922, the employer's reply, if it appears to indicate a ground of disqualification for benefit, is communicated to the claimant or his association in order that they may, if they wish, put in a counter-statement.

343. In the administration of a scheme of unemployment insurance, one of the things which it is most important to verify is that the unemployment of the person claiming benefit is involuntary, that is, that he or she is genuinely seeking and unable to obtain suitable employment. The only way of effectively testing this point is by means of agencies whose business it is to obtain notification of vacancies for employment and to endeavor to fill them by suitable unemployed persons on their registers. The national employment exchanges are agencies of this kind and, as they also receive the claims to benefit and in most cases make the actual payment of benefit, there is a close link between the payment of benefit and machinery for testing the genuineness of claims by the offer of employment.

346. Moreover each exchange is linked up with every other exchange in the country for the purpose of transferring workpeople, when this is necessary and practicable, from one district to another. If a vacancy cannot be filled by the exchange to which it is notified, the surrounding exchanges are first applied to, and then, if necessary, a wider area, and finally the vacancy may be circulated over the whole country by means of the National Clearing House Gazette, an official list of unfilled vacancies for national circulation, which is issued once a week and kept up to date by supplementary sheets issued daily. For the purpose of transfer from one district to another, the worker's fare may be advanced

by the exchange and, if he is entitled to benefit, half the fare in excess of 4s. may be paid outright out of the unemployment fund.

347. From this it will be apparent that employers in the insured trades, who are large direct contributors to the unemployment fund, can help materially to prevent abuse of the fund. If employers notify vacancies to the employment exchange they thereby give the exchange an opportunity to test the *bona fides* of those claiming benefit, while at the same time assisting the process of bringing men who want jobs into early touch with jobs that need men. There is no obligation on the employer to engage an applicant unless he considers him suitable—although it is to be borne in mind that suitable applicants for almost any situation in the insured trades are likely to be found at the exchanges—but for the purpose of safeguarding the unemployment fund the primary essential is that vacancies should be notified.

348. It is worthy of remark that during the great depression in trade which has continued since the autumn of 1920, the test afforded by the offer of work, though by no means non-existent, has been available to a much less extent than it is likely to be in normal times. Staffs have been reduced wholesale, and in a great many cases employers have a waiting list of former employees. If they have had work to offer at all, they have simply re-engaged one or more workpeople from the waiting list. Moreover, owing partly to the lack of housing accommodation and partly to the widespread unemployment, transfer of workpeople from one district to another has been much reduced; ordinarily there are unemployed workpeople to be found on the spot for almost any vacancy, and, if there are not, the absence of living accommodation often makes it impossible to introduce workpeople from elsewhere.

349. In connection with the offer of employment as a test of the *bona fides* of a claim to benefit difficult questions often arise on the point whether the employ-

ment offered is "suitable." As stated elsewhere, it is a condition for the receipt of benefit that a claimant should be unable to obtain suitable employment, and the rules laid down by statute have been set out in paragraph 272. These rules have been interpreted by the Umpire in numerous decisions.

350. In general, claimants with definite skill and experience who are qualified for covenanted benefit are held to be entitled to benefit for a reasonable period in which to look for work in their normal occupation. What is to be regarded in each case as a reasonable period must depend upon a number of circumstances, for example, whether a claimant's normal occupation involves specialization in certain operations; the degree of skill and experience possessed by the claimant; his age; prospects of other employment, etc. Consideration is also given to age or health. Claimants who have definite domestic ties which make their presence at home essential are also entitled to a reasonable time in which to find work not involving residence away from home. Every claimant must, of course, be available for some work, and benefit could not be allowed to a claimant who could not leave home at all even for local work. The case of domestic work is of particular interest at the present time. Unmarried claimants accustomed to domestic work, or for whom domestic work is apparently suitable, are not allowed to remain unemployed at the expense of the unemployment fund if there are resident vacancies available for which they could be suitably submitted.

351. Other methods of ensuring that the conditions are satisfied are adopted in suitable cases, *e. g.*, reference to approved societies to ascertain whether the claimant is in receipt of sickness benefit; to local old age pensions officials to ascertain whether a claimant is in receipt of old age pension; to local war pensions committees to ascertain whether he is in receipt of treatment allowance; and so on.

PAYMENT OF BENEFIT

354. Benefit is normally paid once a week, usually on Friday, in respect of the pay week ending on the previous Wednesday. Claimants residing more than six miles from the local office may receive payment by post. Benefit must be authorized by an officer appointed as an insurance officer under the act, who is responsible for satisfying himself that all the requirements are complied with. The system for the computation and payment of benefit has been carefully developed as the result of experience in order to ensure the greatest possible degree of efficiency combined with financial safeguards. The need of efficient safeguards will be appreciated when it is mentioned that at many exchanges a sum of £4,000 or more is paid out week by week in benefit, and that the annual sum paid out in total is between £40,000,000 and £50,000,000.

UNEMPLOYMENT INSURANCE LEGISLATION¹

The experience of England with compulsory unemployment insurance, under conditions both favorable and highly adverse, has not supported the argument of those who had predicted it would be unworkable. By the creation of adequate machinery and by coupling the insurance scheme with a comprehensive system of employment exchanges, unemployment can for practical purposes be defined and fraud and evasion largely eliminated. Rules can be laid down and enforced which define unemployment in consonance with the customs and practices of the country in which the scheme operates. The whole history of the functions of the insurance officer, the Courts of Referees, and the Umpire make it entirely

¹ By the National Bureau of Economic Research on behalf of the President's Conference on Unemployment, from *Business Cycles and Unemployment*. p. 340-1.

clear that the interpretation of statutory rules can proceed along lines that commend themselves to the common sense of the community.

So far as unemployment insurance is designed to afford relief to the unemployed, the English system has also revealed the possibilities of compulsory insurance. The benefits, to be sure, have been small; Englishmen and foreigners have complained of this mere pittance; but conditions in England doubtless have been considerably better than they would have been in the absence of the insurance. Workmen, moreover, who have received unemployment benefit have been made aware of the difference between benefits and doles. The opposition to compulsory state insurance that characterized the debates preceding the adoption of the act of 1911 has in large measure subsided. Little is now said of paternalism and of unwarranted state interference with private enterprise. Criticism of the scheme of unemployment insurance is, to be sure, as widespread and as vigorous as it ever was. But the terms of the criticism are not to any considerable extent concerned with general opposition to state insurance but rather with opposition to particular features of the system. Employers find the cost of administration too high. They condemn what seems to them an undue laxity in the payment of benefits. The employment exchanges are not as efficient as they might be. The trade unions and workingmen's groups, on the other hand, find the benefits too little to be satisfactory. They would like industries to assume a greater share of the responsibility for unemployment and, in some instances, they recommend a differentiation in the rates of contributions. After the manner of the proposed American legislation, they would impose the total cost of unemployment benefits on the industry and would require no contributions from workingmen. Thus the experience of ten years in England has shifted discussion from

opposition to a principle to scrutiny of specific administrative devices. With all of its possible shortcomings, it is probably no exaggeration to conclude that compulsory insurance against unemployment has become a permanent feature of English economic life.

It is with regard to the problem of unemployment prevention that the English scheme has made its smallest contribution. Yet it is just at this point that progress is most necessary. Once or twice timid steps in the direction of prevention were made through the British scheme, but, for one reason or another, they soon came to naught. Bills introduced in American legislatures have put their emphasis on penalizing unemployment to the extent of promoting prevention, and if these should be passed in the near future, as their supporters hope, America will be the first to have this type of legislation. The bills pending in Wisconsin, Pennsylvania, and Massachusetts represent the outlines of measures that stress prevention. In them, as in our workmen's compensation legislation, the compulsory payment of benefit is coupled with a premium rate structure that penalizes unfavorable experience and rewards the favorable. In theory, at least, the incentive to prevention is provided. It will not do, however, to become too sanguine over the probable effects of this type of insurance, sound as it seems in principle. An insurance premium does not exercise its full preventive influence just because there are differentials advantageous to some insurers and disadvantageous to others. No matter what the differentials, prevention will probably not be accomplished until the premiums are in absolute amount at a very high level. As E. H. Downey has pointed out in his discussion of workmen's compensation legislation, prevention is achieved when the cost of non-prevention becomes greater than that of prevention. Unemployment, likewise, will probably not be reduced substantially through insurance if it is cheaper

to pay the insurance premium than to take the measures necessary to reduce unemployment.¹

UNEMPLOYMENT PREVENTION THROUGH COMPENSATION INSURANCE²

Legislative interest in unemployment insurance has a history of more than twenty-five years behind it. This history is marked by a consistent evolution corresponding to the changing conceptions as to the responsibility of the worker, the state, and industry for unemployment, and to the possibilities for its prevention.

This evolution is marked by four definite stages. The first stage was that in which the burden of unemployment was assumed by the workers alone. The second was that in which the public shared with the worker part of the expense of unemployment provision. The third stage is marked by the participation of the employer in the insurance plans, and the distribution of the cost among the workers, the employers and the state. These first three stages have a common purpose, that of assisting in a dignified manner the worker when unemployed through no fault of his own.

The fourth stage is marked by a new approach to the problem. In this stage unemployment insurance is conceived as a stimulus to unemployment prevention. Unemployment prevention, which is the American contribution to unemployment insurance, is the central idea in the Huber Unemployment Prevention Bill.

¹ We have given much lip service to the principle of industrial responsibility but our practice has fallen far short of our professions . . . prevention is much short of what would be attained under an adequate scale of benefits. . . . Effective safety engineering costs money. . . . To reduce the fatality rate from three to two per million tons of coal is perfectly feasible, but when the saving represents only one-quarter cent per ton it does not pay. If the average cost per death were raised from \$2,500 to \$10,000 much would become practical which is now deemed visionary." Downey, E. H., American Compensation Laws. American Labor Legislation Review. March, 1922. Vol. XII, No. 1. p. 55.

² By Mrs. Wm. Kittle, state chairman of the Legislative Committee, Wisconsin Consumers' League, and state chairman of Women in Industry, Department of the League of Women Voters. Wisconsin State Journal. March, 1923.

The first stage of unemployment insurance legislation placed the entire burden upon the workers. This plan of St. Gall, Switzerland, dating from 1894, was based upon the idea that unemployment is an individual matter for which the worker should make his own provision. The plan, therefore, aimed to compel workers to make the provision for unemployment which prudence dictated. Public relief would be diminished as a result. The conception of unemployment as primarily a problem of relief is further attested by the administration of the plan by the local poor law authorities.

Following this stage, a system of voluntary insurance subsidized by the government has developed in some countries. The Belgian city of Ghent in 1901 was the first public body to recognize the duty of society to cooperate in the provision for out-of-work benefits. In order to encourage workers in their efforts to provide unemployment insurance for themselves, the city council offered to subsidize unemployment provision made by the workers.

Since 1907 the Belgian government has also voted a subsidy for this same purpose. Following the application of the Ghent principle in Belgium, it has been adopted by individual cities in Germany and Switzerland and has been applied on a national scale in Norway, France, Denmark, Holland, Spain, Finland and Czecho-Slovakia.

An inherent weakness in this plan in which the employer plays no part, is that it offers industry no new incentive for unemployment prevention. Thus in Holland recent official opinion has pointed out that an adequate system of unemployment insurance should furnish employers a fresh stimulus for reducing unemployment.

The adoption of obligatory unemployment insurance by Great Britain in 1911 marks the beginning of the third stage. The British legislation recognized for the first time that industry has some degree of responsibility for unemployment and so that industry, therefore, should

bear part of the cost. It continued, however, the older continental tradition of assessing part of the expense upon the workers and the state.

But while the British act is based on the recognition of unemployment as an industrial problem, it aimed primarily at the relief of the unemployed. Although the British act has not led to unemployment prevention, it must be admitted to have filled a need in Great Britain, as is evidenced from the mere fact that the act has been steadily extended.

Unemployment insurance, modeled upon the British plan, has been adopted in Italy, Austria, Switzerland, Queensland (and Poland). Even in Belgium, the home of voluntary subsidized insurance, the government had called for the preparation of more comprehensive unemployment insurance plans which recognize industry as a responsible factor in unemployment.

Leaders among American employers recognize that unemployment is an industrial problem. Thus the National Industrial Conference Board, the most important single employers' organization in the country, in a study of unemployment states: "The frequency with which serious and widespread unemployment has occurred, and the increasing number of persons who have become adversely affected by seasonal variations in production and by industrial depression, have placed unemployment in the first rank among important industrial problems. From the standpoint of the public, unemployment is a condition of grave concern, for, in addition to lowering the economic strength of the community, it places upon the latter the burden of helping in one way or another to support the unemployed. On the psychological side, unemployment produces weakened morale, discouragement, discontent, a tendency to radicalism—evils as serious as those which accompany reduced buying power." The board further points out that much of this unemployment is preventable and concludes, "There is little doubt that

through well directed private and public effort these factors making for unemployment may be so controlled that its rate in this country may be largely reduced."

Where unemployment cannot be entirely prevented, forward looking employers recognize the responsibility of industry for the necessary reserve of labor. This point of view is well illustrated by the position taken by John Calder, consultant industrial engineer of the plants of Swift and Company.

Mr. Calder states, "The first thing to note and to reckon with is that industry needs a surplus of labor. Capitalism is well aware of this and it should face the consequences. The second is that the surplus, for the social good, should be kept as small as possible. The third is that the necessary surplus of labor should be carried at the expense of industry."

The justice of such an arrangement has been stated by Seebohm Rowntree, a prominent British manufacturer, who points out, "Under a capitalist system of industry, the capitalist, in fact, says to the workers, 'Let us cooperate in an industrial enterprise—I will find the necessary capital, and you will provide the labor. The first charge on our joint enterprise shall be the payment to you of wages and salaries in accordance with the current scale. Then will follow the payment of all other charges incidental to the enterprise, and, after all these have been paid, if there is anything over, I will take it as payment for the contribution I have made in finding the capital.' In a sentence this means: 'I will take the risks of industry, and because I take the risks I am justified in claiming the profits.' But one of the grave risks of industry is unemployment in periods of trade depression and if the risk is borne by the workers, the capitalist is not fulfilling his part of the bargain, and one of the main defenses of the capitalist system disappears."

An American employer, Henry S. Dennison, of Dennison and Company, states his position as follows: "The

whole burden (of unemployment) put upon wage-earners and reacting upon their knowledge of their helplessness to affect its causes, arouses resistance and irritations which make smooth running of the social organization impossible. Industry has a considerable share in the opportunities for mitigation of unemployment, hence industry must be spurred to their exercise by carrying part of the burden."

This American point of view toward unemployment was put in a nutshell by the *Baltimore Sun* when it stated, "The significant fact about unemployment is that the burden of it is borne by the workers who, in spite of their direct interest, have no means of preventing its occurrence. The responsibility for collective action lies, in large measure, on the managers of industry; and although the public, through governmental agencies and private means, must share this responsibility to some extent, employers must recognize that without their leadership and cooperation it is impossible to solve this problem, which affects so directly a great mass of the population. It is they alone who must take the lead if a real contribution is to be made in respect to the welfare of the workers and to industrial stability."

From this distinctive background the Huber Unemployment Prevention Bill has evolved its unique purpose, namely to provide employers with an added incentive to prevent unemployment. To offer such an incentive the bill proposes that the individual employer shall be able to lessen the cost of unemployment among his workers. Only so does he reap the reward of his own efforts.

The method adopted by the Huber bill is that used by the Workmen's Compensation Act, which has already lead to accident prevention. The method in both cases is that of drawing attention to the costs and then of making it financially worthwhile to reduce the evil. In both cases, this is accomplished by requiring employers to compensate their workers. The Unemployment Pre-

vention Bill, following the example of workmen's compensation allows for a different premium rating for the various concerns, a device which adjusts the cost of insurance for each industry to the unemployment among its workers. This is the contribution to unemployment insurance made by the Huber Unemployment Prevention Bill; it is this which distinguishes the Wisconsin proposal from all other employment insurance. It is unemployment prevention rather than unemployment insurance.

Administrative safeguards have been adopted in order to make the central idea of the bill, to furnish industry a new stimulus for unemployment prevention.

The individual employer who believes that there is no room in industry for efficiency engineers, for stabilized production, or for the reduction of overhead costs or who believes that industry has achieved the final solution of the unemployment problem, will have no place in his scheme of industrial organization for unemployment insurance. On the other hand, the employer who recognizes the great strides which industry is capable of making, with the aid of efficient production and sales engineers, and personnel managers etc., toward increasing efficiency, stabilized production and reduced overhead costs, will see in the Huber bill an added incentive in his struggle toward the goal of efficient industry.

THE PRINCIPAL PROVISIONS OF THE HUBER PLAN ¹

To Whom the Act Applies. Private employers of six or more employees, excepting farmers, employees of employers under this act who are engaged in manual labor and others whose income is at a rate of less than \$1,500 per year.

¹ By E. E. Witte, Ph.D., Chief of the Wisconsin Legislative Reference Library, formerly secretary of the Wisconsin Industrial Commission, from A Summary of the Chief Provisions of the Last Draft of the Huber Unemployment Insurance Bill (Substitute Amendment No. 1, S., to Bill No. 53, S., Session 1923, Wisconsin Legislature).

Application to Seasonal Industries. Seasonal industries are not exempted, but are liable for compensation only if they fail to afford employment for their usual employment period, as determined by the industrial commission.

Liability for Compensation. Employers subject to the act are liable for compensation to their employees under the act while unemployed, subject to the following conditions:

1. The unemployment must be involuntary. No compensation is payable to employees who have voluntarily quit work, who have been discharged for misconduct, who have gone on strike, who have lost their jobs through an act of God (fire, flood, etc.), or who have refused to accept "other suitable employment" (this term does not include work where there is a strike or at wages below those generally paid at the time in the employment offered).

2. The employees must have worked at least six months during the preceding two years within the state for employers subject to the act.

3. A maximum compensation is payable only for thirteen weeks during any calendar year and only in the ratio of one week of compensation for every four weeks of service in the preceeding two years for employers under the act.

4. During the first three years that the act is in effect, the periods for which compensation is payable may be cut down by the compensation insurance board, if the insurance rates which have been charged employers prove inadequate.

5. No compensation is payable until three days after the claim for compensation is filed (except in the case of casual workers, who are to be paid from the day of filing).

6. For partial unemployment only proportionate compensation is payable.

Rate of Compensation. Sixty-five per cent of the wages of the employee, but not more than \$1 per day

for employees over seventeen and 50 cents per day for employees under seventeen.

Administration of Act. This act is to be administered by the industrial commission. Claims for compensation must be filed with the state employment office of the district in which the unemployed workman lives. If the claim appears to be valid on its face and if no other suitable employment is available, notice is then given by the employment office to the employer, who must pay compensation or deny liability within three days. If the claim is contested the industrial commission decides the case in much the same manner it hears and decides contested cases under the workmen's compensation act. It is authorized, however, to create local boards to hear contested cases, and to decide them subject to appeal to the commission in lieu of sending out its examiners to take testimony.

Cost of Administration. All administrative costs, including the cost of conducting the free employment offices of the state, are to be paid from a fund created by taxing all employment insurance companies 10 per cent of their gross premiums and by the imposition of an equivalent charge upon self insured employers.

Insurance Provisions. A state-wide mutual employment insurance company is provided for to be managed by directors elected by its policy holders. This company is made subject to much the same regulation by the insurance department and the compensation insurance board as are compensation insurance companies operating under the workmen's compensation act. It is given wider powers than other insurance companies, however, in the way of finding work for unemployed employees of policy holders and of taking other steps to prevent unemployment.

Insurance with the employment mutual insurance company is compulsory during the first year that the act is in effect. Thereafter employers have the option of insuring with this company or with any other duly

licensed employment insurance company. With the permission of the industrial commission they may also, as alternative, carry their own risk, but only upon furnishing bonds or other satisfactory evidence of their financial responsibility.

The act contemplates that insurance rates will vary between industries in proportion to their rate of unemployment. It also provides for basing rates upon the experience of individual employer with refunds to employers who have less than the average unemployment. All insurance rates are subject to regulation by the compensation insurance board.

Unemployment Advisory Board. An unpaid state advisory board to make suggestions to the industrial commission in the administration of the act is provided for, to consist of a chairman representing the general public and of an equal number of employers and employees. Appointments to this board are made by the industrial commission from lists submitted by the employer and employee organizations of the state.

Penalties. Both civil and criminal penalties are provided for violations of any provisions of the act or for participation in schemes to evade these provisions or to defraud employers.

THE HUBER BILL, ESSENTIAL CLAUSES

STATE OF WISCONSIN

IN SENATE

To create sections . . . relating to the prevention of unemployment by compensating working men while they are temporarily unemployed, and providing penalties. The people of the state of Wisconsin represented in senate and assembly, do enact as follows:

Definitions (1) The term "employer" shall mean every person, firm, and private corporation, who shall, at any time after the date when this chapter takes effect, have six or more employes in a common employment. . . .

(2) The term "employee" shall mean every person in such a common employment in the service of an employer under any contract of hire. The term "employee" shall not include persons,

(a) who are engaged in farm labor; or

(b) whose employment is not in the usual course of the trade, business, profession, or occupation of the employer; or

(c) whose income from employment other than manual labor is at the rate of one thousand five hundred dollars or more per year.

(3) The expression "weeks of employment" shall mean the total weeks of employment by one or more employers during which the employer or employers were liable for compensation under this chapter.

4. An employe shall be deemed partially unemployed when his usual weekly work is reduced to such an extent that his weekly remuneration or wage is less than seventy-five per cent of his usual weekly remuneration or wage. . . .

112.02. Seasonal Employment. (1) Whenever in any industry or class of employment it is customary to operate only during a regularly recurring period or periods of less than one year in length, then the employer's liability for compensation and his obligation to insure this liability shall apply only to the longest seasonal period or periods which the best practice of such industry or class of employment will reasonably permit. The industrial commission shall ascertain and determine or redetermine such seasonal period or periods for each such seasonal employment. Until such determination, no employment shall be deemed seasonal.

(2) *Vacations.* Whenever in any establishment it is customary to afford a regularly recurring vacation period, then the employer's liability for compensation and his obligation to insure this liability shall not apply to such vacation period. The industrial commission shall ascertain and determine or redetermine such vacation periods. Until such determination, no period of unemployment shall be deemed a vacation period.

(3) *Casual Employment.* Whenever in any industry or class of employment it is customary to engage employes for a term of three days or less, then the employer in such industry or class of employment shall owe compensation beginning with the day of filing claim as provided in section 112.07. The industrial commission shall ascertain and determine or redetermine the casual employments to which this section shall apply. Until such determination no employment shall be deemed casual.

112.03. Employers Liability. The liability of an employer for compensation shall arise whenever after June 30, 1926, an employe leaves or loses employment with an employer. The amount of the liability shall be determined by the provisions of sections 112.04, 112.05, 112.07, and 112.08.

112.04. (1) Compensation shall be payable weekly by the last employer of an employe or by the insurance company with which he may have insured his liability under this chapter and shall accrue:

(a) beginning with the third day after filing claim (except in casual employments in which it shall accrue beginning with the day of filing claim) to an employe totally unemployed, if of permit age, at the rate of fifty cents for each working day including half holidays; if above permit age, at the rate of one dollar for each working day including half holidays. Provided, however, that no employe shall be compensated a higher rate per week than sixty-five per cent of his usual weekly remuneration or wage in his last employment by an employer.

(b) beginning with the day of filing claim to an employe partially unemployed, at the above rates reduced proportionally to the reduction in his usual weekly remuneration or wage.

(2) Compensation shall not accrue to an employe either for more than thirteen weeks in a calendar year or in greater ratio than one week of compensation to four weeks of employment during the two preceding calendar years.

(3) For the purpose of computing the number of weeks during which compensation may accrue to an employe, any period during which an employe receives compensation for partial unemployment shall be counted in the ratio which this compensation bears to his maximum compensation for the same period.

(4) Employment by a person not an employer or by an employer in a seasonal employment outside of the seasonal period, as determined by the industrial commission, shall not terminate, but only suspend, the liability of a previous employer. If the employe becomes unemployed within six months of the cessation of his employment by such previous employer, compensation shall again accrue upon filing a claim against such previous employer within one month of the cessation of his last employment.

112.05. *Qualifications for Compensation.* (1) Compensation shall accrue to an employe as provided in section 112.04:

(a) on condition that the employe has been employed by one or more employers within the state not less than twenty-six weeks during the two preceding calendar years;

(b) so long as he is continuously unemployed except as provided in subsection (4) of section 112.04;

(c) while he is capable of and available for employment and (unless only partially unemployed) unable to obtain suitable employment and while he continues to report from time to time according to rules prescribed by the industrial commission.

(2) *Suitable employment* shall mean employment in his usual employment or other employment for which he is reasonably fitted in the vicinity, as determined by the industrial commission, of his residence or last employment. But an employe shall not lose his right to compensation if he refuse an employment as unsuitable:

(a) because the situation is subject to conditions substantially less favorable than the prevailing conditions in his usual employment, but

the conditions shall not be deemed less favorable because the employment is likely to be less permanent or because it is an employment to which compensation does not attach;

(b) because the situation is vacant owing to the direct participation of a previous occupant in an existing strike or lockout.

(3) An employe shall not be entitled to compensation:

(a) if he has lost his employment through his misconduct;

(b) if he has left his employment voluntarily without reasonable cause;

(c) if he has left or lost his employment by reason of stoppage of work due to strike against or lockout by the employer at the factory, workshop, or premises at which he was employed, so long as the strike or lockout continues;

(d) if his unemployment has been directly caused by an act of God.

112.06. No agreement by an employe to waive his right to compensation shall be valid, and no compensation shall be assignable, subject to attachment, or liable in any way for an employe's debts.

112.07. *Claims Procedure.* (1) Claims for compensation, in such forms as the industrial commission shall provide, shall be filed with the deputy in charge of the employment office in the district of the claimant's last employment, or other deputy designated by the commission for this purpose. Such claim shall be filed within one month of the cessation of employment.

(a) If the claim appears to the deputy invalid, he shall reject the claim and notify the claimant in writing of such rejection and of his right to make an application for a hearing. This application must be made within three working days of such notification, and in such form as the industrial commission shall provide.

(b) If the claim appears to the deputy valid, he shall give written notice of the claim to the claimant's last employer and notify him that he owes compensation unless he contests the claim by filing with the commission, within three working days after receipt of the notice, a denial of the claim in such form as the industrial commission shall provide. If such a denial is filed, it shall operate as an application for a hearing.

(c) In case the employer does not contest the claim, he shall pay compensation so long as it is due under this chapter. Upon his failure to make proper and prompt payments, the claimant may make, in such form and within such time as the commission may prescribe, an application for a hearing.

112.08 (1) On application for a hearing or upon its own initiative, as provided in subsection (2) of section 102.17 the commission shall proceed in the manner provided in sections 102.14 to 102.19, to hear and determine any contested claim for compensation.

(2) The industrial commission may provide for the hearing of contested claims by local boards, representing the employers

and employes, and make rules for the proceedings before such boards and for review or rehearing before commission.

(3) If the application for a hearing arises under paragraph (c) of subsection (2) of section 112.07, the employer shall be estopped to set up:

- (a) that he is not the claimant's last employer;
- (b) that the claimant was not his employe.
- (c) that the claimant lost his employment through his own misconduct;
- (d) that the claimant left his employment voluntarily without reasonable cause;
- (e) that the claimant left or lost his employment by reason of stoppage of work due to a strike or lockout;
- (f) that the unemployment was directly caused by an act of God.

(4) The provisions of sections 102.20, 102.22, 102.27, inclusive, and subsection (1) of section 102.28, shall apply, as far as may be, to claims and awards for compensation under this chapter.

112.09. *Employers Mutual Insurance.* (1) Every employer liable for the payment of compensation, unless he be exempted as provided in section 112.10, shall insure such liability in the employers' mutual employment insurance company hereinafter created. The obligation to take out a policy shall take effect July 1, 1926, or as soon thereafter as a person not theretofore an employer becomes such, and premiums shall be payable within ten days of the date when the employer is required to take out a policy. Any non-exempt employer who fails to take out a policy of insurance with the employers' mutual employment insurance company shall, nevertheless, be liable to such company for premiums at the same rate as if he had taken out a policy...

112.10. *Exemption of Employers.* (1) An employer desiring to be exempted from insuring his liability for compensation in the employers' mutual employment insurance company shall make application to the industrial commission, showing either his financial ability to pay such compensation or else insurance with a company authorized to transact employment insurance. . . .

(b) An employer may terminate his exemption January first or July first of any year upon ten days' notice to the industrial commission and to the employers' mutual employment insurance company.

(4) An exempt employer may, with the approval of the industrial commission, substitute for his liability under this chapter equal or greater liability to his employes under a plan which will, in the opinion of the commission, give to every employe protection equivalent to or greater than that which he is given by this chapter. Any such plan may include the use of the agencies named for carrying out this chapter and shall provide for review by the industrial commission and the courts, as provided in section 112.08 of contested claims arising under such

plan. If at any time any such plan or its administration fails to meet the standards herein provided, the industrial commission shall, upon ten days' notice and opportunity to be heard, withdraw its approval, whereupon the employer's liability under such plan shall cease to be a substitute for his liability under this chapter.

112.11 (1) There shall be created, for the purpose of insuring the liability of employers under this chapter and of preventing unemployment, an employers' mutual employment insurance company. Such company shall be deemed to insure all the liability for compensation of all employers under this chapter who have not been exempted from insuring in such company under the provision of section 112.10.

112.13. *Prevention Bureau.* Every company transacting the business of insurance of loss due to unemployment in this state, including the employers' mutual employment insurance company, shall be a member of a bureau to be maintained for the following purposes:

(1) Subject to the approval of the compensation insurance board:

(a) to classify industries of this state that are subject to employment into proper classes for employment insurance purposes;

(b) to make inspections of risks and to apply thereto an experience rating system;

(c) to establish charges and credits under such a system;

(d) to provide for refunds to employers on the basis of unemployment experience.

(e) to investigate unemployment conditions and other material facts in connection with compensation risks and to promote regularity of employment and to prevent unemployment.

(2) To assist the compensation insurance board and companies in making and approving rates in carrying out the insurance features of this chapter.

112.14. The compensation insurance board shall fix a place and time within thirty days after the organization of the employers' mutual employment insurance company, for the purpose of organizing the bureau and shall give notice of such meeting at least ten days in advance to all insurance companies authorized to transact employment insurance in this state. Each such company shall be entitled at such first meeting to one vote. The bureau shall make by-laws for its government and for the government of its members. Such articles and by-laws and all amendments thereto shall be filed with and approved by the compensation insurance board and shall not be effective until so filed and approved. Such bureau shall admit to membership any company authorized to transact employment insurance in this state. The charges and services of such bureau shall be equitable and non-discriminatory as between member companies.

112.15. The provisions of sections 205.01 to 205.26, relating

to the accident compensation insurance rating bureau and companies writing accident compensation insurance, shall apply to the employment insurance rating bureau and companies transacting employment insurance, in so far as they do not conflict with the provisions of this chapter.

112.17. *Administration Cost.* (1) Ten cents of each one dollar of total premium received under the provisions of this act by any insurance company authorized to transact employment insurance, shall be paid to the treasury of the state of Wisconsin. The amount of such payments due to the state of Wisconsin shall be determined by the compensation insurance board and, upon certification by the compensation insurance board to the state treasurer, shall be payable as a debt to the state at such times and intervals as the compensation insurance board may direct.

112.18. *Advisory.* The industrial commission shall appoint a board, to be known as the "employment advisory board," consisting of one member at large who shall act as chairman and an equal number of members to represent respectively employers and employes, to be selected from lists submitted for that purpose by employers and employes. The board shall meet on call of the industrial commission and shall assist the industrial commission without pay, except for expenses, in investigations, determinations and general administration of this chapter.

112.19. It shall be the duty of the industrial commission, the commissioner of insurance, and the compensation insurance board, within their respective jurisdictions, and they shall have power, jurisdiction and authority, to make all investigations, classifications, rules, regulations, and orders, and to require all reports from employers and insurance companies reasonably necessary to enforce the provisions of this chapter.

AFFIRMATIVE DISCUSSION

A MANUFACTURER'S VIEW OF UNEMPLOYMENT INSURANCE¹

Obviously the best way in which to solve the unemployment problem is to remove the causes of unemployment. It is only to the extent that one fails to do this that one considers the question of unemployment compensation. How far can one minimize unemployment? Approaching the matter from a practical point of view, may we not divide unemployment under the following broad heads:

- (1) Unemployment resulting from the physical, mental, moral, or other deficiency of the individual.
- (2) Unemployment resulting from ill-considered and even reckless employment policies of industrial firms.
- (3) Seasonal unemployment.
- (4) Cyclical unemployment.

The first is a subject which is much too complex to be dealt with by me here. All parties are agreed, however, that it is desirable to separate from the general body of the unemployed those persons who, in one way or another, are unemployable. Any scheme of unemployment compensation seeks to exclude this class from its provisions as far as possible.

WAGES FOR UNEMPLOYED SOUND BUSINESS

With regard to the second and third types probably something can be achieved by making it expensive for

¹From an article by B. Seeborn Rowntree, president of the Rowntree Cocoa Works, York, England; an employer of over seventy-five hundred workers. *Federation News*, July 25, 1926, the official organ of the Chicago Federation of Labor; also published in the *Machinist Monthly Journal*, organ of International Association of Machinist; *Canadian Congress Journal*, organ of the Canadian Trades and Labor Congress.

employers to run their business in such a way as to create unnecessary unemployment. I gather that this is one of the main objects of the Huber unemployment wages plan, which is being agitated in Wisconsin, Illinois, Minnesota and Canada.

By increasing the employer's insurance premium as his dismissals increase, it is sought to make it more worth his while so to organize his business as to minimize unemployment. I think that this is a sound conception, and it forms quite the most interesting feature of the Huber plan. There is nothing to correspond with it at present in the British system. I think, too, for the reasons mentioned above, that it is much more likely to be effective in the United States than in Britain.

Further, I am emphatically of the opinion that the principle of unemployment compensation is a sound one, and I very much hope that the state of Wisconsin, which has already been so distinguished a pioneer in industrial legislation, will make this experiment. In my opinion, if they do so they will eventually make it the basis of a much more highly developed scheme.

STATES UNEMPLOYMENT CAUSES

So far I have been confining my attention more particularly to the second and third types of unemployment to which I have referred. I have done so because it seems to me that these are so much more important in the United States. The same reasoning possibly does not apply so directly to cyclical unemployment.

We are not yet agreed as to what are the causes of this, though we all know the symptoms. In part a slump may be due to a bad harvest in some part of the world. In part it is certainly psychological. In part it is due to faulty distribution of wealth, and to lack of balance between money devoted to consumption and money devoted to further production.

It must be our aim as employers to even out the curve of employment as much as possible. The Huber plan will, at any rate, tend in this direction, although its contribution may not be as great as is anticipated.

Probably a great deal more could be expected from the economic and statistical services which are now being developed both in America and in Britain, and from a more vivid appreciation of the wastes and losses resulting from boom periods. A proper appreciation of the true facts by bankers would undoubtedly assist the situation very materially.

DEFENDS WAGES TO UNEMPLOYED

Nevertheless, returning to my previous point, I do think that unemployment compensation is a good thing, and I should like to state briefly my reasons for this view:

1. In the first place, unemployment may, for all practical purposes, be taken as the product and the direct result of industrialization. In a highly industrialized community a person bona fide unemployed is unable to maintain himself. A civilized community cannot permit him to starve, and his earnings in the great majority of cases, at any rate in Europe, do not enable him to provide by himself for prolonged periods of unemployment. He must be maintained in some way. The best way, to my mind, is obviously an adequate system of unemployment compensation.

2. The case for adequate unemployment compensation is, in my opinion, quite as strong from the economic as from the social point of view. In Britain, at any rate, those who have anything to do with industry are aware that industrial unrest, opposition to improvements, and to payment by results, and the general failure of labor to cooperate with the employer as fully as is desirable in the interest of all, can very largely be traced back to the worker's constant fear of losing his job.

PREVENTION FOLLOWS LIABILITY

Many of us who have given long and anxious thought to this question are convinced that if this menace of unemployment could be removed by a wisely framed scheme, the most important beneficial reactions would result. Properly handled, an adequate scheme should result in an increase in the smoothness and quality of production which would go a long way toward paying for, and indeed, may wholly pay for, the cost of the compensation insurance.

3. Thirdly, from another point of view, a reserve of workers being essential to the proper functioning of industry, industry has a responsibility to maintain this reserve during periods of bona fide unemployment. The risks of industry are borne by capital in the shape of financial losses, and by labor in the form of unemployment. Unemployment compensation is simply an application to labor of the principle of equalization of dividends. The employer takes the profits and he should bear the main brunt of the risk.

MAKES "STEADY JOB," NOT "DOLES," THE GOAL

Space does not permit me to elaborate these views here. I might perhaps, however, summarize my views as follows:

1. If the menace of unemployment is to be removed the benefits must be adequate. If advantage is not to be taken, by some, of the scheme with unfortunate effects upon productions, the benefits must not be excessive.

2. It is an essential condition to the successful working of an unemployment compensation scheme that there should be some fully effective methods of determining whether or not a man is bona fide unemployed. For practical purposes, the only reliable method of ascertaining this is for one to be in a position to offer a job if it exists. In other words, unemployment compensation involves a

far-reaching and closely coordinated system of employment exchanges or something equivalent, where a man must register periodically when unemployed.

3. We must be careful in endeavoring to prevent unemployment and to protect the worker against it when it occurs, not to do anything which will reduce the volume of employment; by deterring men from roving freely from district to district and from industry to industry and from taking work for long or short periods, or by deterring employers from offering employment in proper cases.

4. Every step should be taken to secure the highest efficiency and economy in administration. In particular, the largest possible share in administration should devolve upon those actually engaged in industry, whether employers or employees. In this way one may hope to obtain efficiency, a reduction in the amount of unemployment and a more human form of administration. The plan of Lieutenant Governor Henry A. Huber of Wisconsin seeks to go as far as possible in this direction.

"INDUSTRY LEAVES THE STATE," A BOGEY

I believe, therefore, that those who are behind the bill are engaged on work which needs every encouragement. I believe that unemployment compensation is socially desirable and economically worth-while. The state and its industries would benefit by its adoption rather than be prejudiced in competition with its neighbors, by the adoption of an adequate scheme of unemployment compensation. It would tend to lessen industrial unrest and to attract a good class of workers to the state.

I would like to lay stress on the fact that the compensation agreed upon must be adequate. If it is half adequate it may be just sufficient to remove the worst fear of unemployment without giving that sense of security which will release the large reserve of human energy at present held in check by that fear.

NOTE—At the Rowntree Cocoa Works the workers are guaranteed by a trade union contract 60 per cent of their wages during lay-off periods, 15 per cent additional if married, and 5 per cent for each child, with a maximum of 90 per cent. Mr. Rowntree unites with British labor in their demand for adequate unemployment wages from industry, rather than doles from the state. American experience shows that prevention follows when industry is made to pay.—EDITOR, *Federation News*.

The proposed measure in many respects resembles the British scheme. It differs from the British scheme in two important respects. The first is that the employer's contribution varies with his employment policy. This gives flexibility. The second is that administration is left in the hands of employers themselves. Both these are interesting innovations which will commend themselves to American employers. The world will watch the fate of the bill with much interest.

MODERN INDUSTRIAL RELATIONS¹

Much has been done as a result of President Harding's Conference on Unemployment, through the efforts of local committees on unemployment and by other means to find employment and provide relief for the unemployed. But most of the *measures adopted have been temporary in character*, and merely for the purpose of meeting the immediate need. We have a further duty, and that is to devise preventive measures which will remove as far as possible, the causes of unemployment. The proposed bill for the establishment of unemployment insurance (The Shattuck Bill in Massachusetts) will not provide immediate relief, because it should not, and, if enacted into law, will not go into effect till times are more nearly normal, but by enacting it into law we shall be taking a long step toward removing causes of unemployment.

¹ From an article by Senator Henry L. Shattuck, author of the Shattuck Bill in Massachusetts. *Labor Legislation Review*. March, 1922. p. 45-9.

By the industrial accident law we have placed a premium on care in the operation of industrial plants, and this has resulted in a decrease in industrial accidents. By the Federal reserve system we have given stability to the money market, and thereby decreased the frequency and severity of financial crises. By providing unemployment insurance we shall not only create a reserve fund for the relief of those thrown out of employment in times of industrial depression, but we shall also give to every employer an incentive to provide steady employment by every means possible and we shall provide a deterrent to overexpansion of industry in boom periods.

It may also be said that the employee should provide by saving for periods of unemployment and that any scheme of unemployment compensation will produce thriftlessness and soft living. I challenge the soundness of this argument. *Savings are encouraged by security* not only of the money invested but also by security of the investor in his life, liberty and the pursuit of happiness. The man who lives under ordered liberty with a job reasonably secure against hazards of unemployment has far more incentive to save than the man whose livelihood depends upon the ebb and flow of forces over which he has little or no control and which without warning may wipe out his little savings.

THE QUESTION OF DEMORALIZATION¹

The vigor of the nation lies in its people—their industry, thrift and morale. In strengthening the nation's morale, the encouragement of self-dependence, initiative and individual thrift, and the suppression of tendencies

¹From an article by Tom Moore, president of the Canadian Trades and Labor Congress; director, Canadian National Railways. Brotherhood of Locomotive Firemen & Enginemen's Magazine. 78: 2010. June, 1925; also in International Brotherhood of Boilermakers & Iron Ship Builders Magazine. 37: 324. July, 1925; also Machinist's Monthly Journal. June, 1925; etc.

that undermine social fabric, are of the greatest importance. Thoughtful citizens should carefully examine all measures for social legislation and the conditions which their sponsors propose to remedy. Any measure which affects the fundamentals of human life should be judged in the light of its effect upon the welfare of man, society and the nation, and according to this judgment should the public pledge its support or opposition.

In considering social legislation, there should be complete discussion of all phases of the question with the sincere purpose of arriving at conclusions based upon the truth. All possible objections should be given the consideration they deserve, remembering, however, as Samuel Johnson so truly said, that "if all possible objections must first be overcome, there can be no progress." Economic interests, native prejudices and misunderstandings must be allowed for.

In the present controversy over proposed legislation for unemployment insurance, the question of demoralization is of primary importance. The opposition argues that to receive compensation when out of work will demoralize the worker and destroy his self-reliance. The proponents, however, believe that this danger is insignificant in comparison with the demoralizing effects of involuntarily unemployment.

CHARGES BASED ON FALSE THEORIES

Those who know the history of the struggles of labor for protection against modern industrial risks are familiar with the argument that "if the risks are removed, the workingman will degenerate, for his incentive to thrift and maximum production will be gone." This is the theory that has always been advanced by those who object to social legislation. Unfortunately, such an objection diverts attention from the main purpose of properly conceived unemployment compensation legislation—prevention of the risks. Furthermore, it centers public

attention on the victims, the unemployed, as though they were responsible for unemployment, instead of on those who control industry.

This argument was advanced years ago against accident compensation. It appears plausible to some, especially to those who do not know the risks of modern industrial life and their deadening effect on the life of the worker. But the fact that accident compensation laws were enacted in Germany (1885), in France (1896), in England (1897), in the United States and Canada beginning about 1910, and in twenty-six other countries, proves that the majority considered the argument based on false theory. It is significant that after these laws became effective, agitation against them on the grounds of demoralization soon subsided.

Similar agitation was started in England, and recently in America, against unemployment insurance legislation. Some illogically used the unprecedented 1921-1922 volume of unemployment in England as an argument against unemployment insurance, as though the British National Insurance Acts were responsible for the amount of unemployment; would it be any more illogical to urge that the extreme amount of unemployment existing in Canada and the United States during the same period was due to the lack of an unemployment insurance act? *Unemployment in America far exceeded that of Great Britain, both relatively and absolutely.* Still, those who oppose attempts to remedy unemployment by legislation continue the cry, "If the worker is assured compensation when unemployed, he will be demoralized." The relative importance of this argument may be judged somewhat by the sources from which it comes. We hear it from those who have failed to distinguish the Unemployment Insurance Act from the various emergency relief measures and from the various government aids given war workers and soldiers (but often administered by the same government offices as unemployment

insurance). We hear it from some returned tourists who, after spending a short time abroad, feel qualified to give "interviews" on economic and social questions, usually basing their judgments on rumors and isolated cases. We hear it from well-meaning but misinformed or sentimentally biased people, and we read it in the literature, or hear it from the counsellors, of commercial insurance companies who fear that a uniform unemployment compensation act may exclude them from this lucrative, though yet uncultivated, field for profitable insurance business.

Is it the opinion of unbiased leaders in industry, of employers of large numbers of workmen, of economists, of those best qualified by years of study and experience to understand the situation, that unemployment compensation would demoralize the unemployed? This objection is seldom made by those who deal with labor in industry. Unlike many who have not made a study of the workingman and the industrial hazards under which he toils,—spokesmen of labor, enlightened employers, successful labor managers, church and civic leaders and statesmen, generally agree with Dr. Wesley C. Mitchell, who says, in his report to President Harding's Conference on Unemployment, that though it is not the common opinion, the facts clearly show that "the strains of booms and the sufferings of depressions impair efficiency more than uncertainty stimulates it."

ATTENTION DIVERTED FROM REAL ISSUE

Unfortunately, demoralization is one of the many more or less vague and flexible terms which may sometimes be adapted to suit one's purpose. In definite terms, it means to undermine in moral principles, to weaken in discipline, efficiency, or spirit, and to disorder or disorganize. In the light of this definition, let us compare the demoralizing effects of receiving compensation

during periods of enforced idleness to the demoralizing effects of the enforced idleness itself.

The objectors to unemployment insurance urge that as far as compensation is provided to the worker, his spirit of self-dependence and self-respect and his incentive to thrift will be destroyed. If it were true that every person not employed could simply draw compensation sufficient for complete maintenance from the insurance fund (as many who oppose unemployment compensation seem conscientiously to think), there might be some ground for this objection. In the British act and in measures proposed so far on this continent, as well as in schemes in actual operation by trades unions and in some industries, numerous provisions are inserted which deter workers from depending upon income from insurance compensation when suitable work can be obtained. Compensation is not paid when unemployment is caused by voluntarily quitting work, discharge for proven misconduct or when on strike or locked out.

"NO WORK" IS REAL DEMORALIZER

Such provisions make it very clear that compensation is not to be paid indiscriminately to any one who happens to be unemployed, and that in any case the amount of compensation will not be sufficient to destroy initiative and the incentive to thrift. It is absurd to suppose that a man would willingly be out of work, when even if qualified to receive compensation he would be losing a considerable portion of his income. Those who have drafted such legislation have been cautious to draw it in such a way that the undeserving, the vagrant, would be excluded from its benefits. Moreover, the primary purpose of such legislation is to create conditions which will induce stabilization of industry, and thereby decrease the volume of unemployment. Its chief aim is not relief, but prevention.

DEBATE GYMNASTICS NO SUBSTITUTE FOR FACTS

Some opposition to paying wages to the unemployed must be expected. In some circles it is still uncommon to advocate that those who direct the nation's industries should be required to pay a part of labor's overhead burden when it is forced to idle during plant shutdown periods. Economic interest impels opposition regardless of the benefits to the nation. But the argument that recites "demoralization" is fiction or fancy. What about the demoralizing effects of unemployment itself? Evidence as to the deterioration and distress that has been experienced by individuals and families and whole communities in the United States and Canada as a result of enforced unemployment may be found in numbers of official documents. Among these may be mentioned such careful studies as the United States Department of Labor Report on Unemployment and Child Welfare; the Report of the Committee on Business Cycles and Unemployment to President Harding's Conference on Unemployment, which states that nothing is more demoralizing for wage-earners than the feeling of insecurity of employment, and that unemployment and the fear of unemployment are basic causes of disorder and industrial unrest. They further state that the establishment of out-of-work funds "may well be extended in America." In Canada similar studies of "the Mathers Commission on Industrial Unrest"; the "National Industrial Conference" and "the Ontario Commission on Unemployment" corroborate these conclusions.

Objectors to unemployment insurance legislation have seized the extraordinarily severe depression in England after the war (and the exaggerated accounts of it) as material for the argument that unemployment insurance has failed, and that such legislation would be demoralizing to wage-earners in this country. It is enlightening

to note that no government administration in England since 1911 has demanded the repeal of the National Insurance Act, and that the British National Confederation of Employers' Organizations endorses it. Mr. B. Seebohm Rowntree says:

I have met in America a curious objection to unemployment insurance. It is due partly to grossly exaggerated accounts of abuses which have attended its introduction in England. Of course, when, by the stroke of the pen, six or eight million workers are insured against unemployment, just at the beginning of the worse trade depression from which the world has ever suffered, some abuse is sure to occur. It takes time to build up the machinery to check it; but to say that the Unemployment Insurance Act in England is a failure is to betray ignorance of the facts. Nothing has occurred to justify it. Given a well thought-out scheme, with proper safeguards, there is no fear of abuse on a serious scale. At any rate, it is certain that any danger there may be from this source is insignificant compared with the danger of inaction—*Atlantic Monthly*, April, 1923. p. 470

Remembering that unemployment in England since the war has been unparalleled in volume in the history of the country, let us consider how the working of the Unemployment Insurance Acts has affected the situation. Has the distress of the late depression been in proportion to that of previous depressions, or has unemployment insurance been effective in alleviating the suffering that would normally be expected at such a time? Ordinarily times of depression are accompanied by considerable physical misery. In fact, its presence has been accepted by students of the unemployment problem as a matter of course. But in regard to this greatest of all known periods of depression, Sir William H. Beveridge, British economist, says:

The British National Unemployment Insurance law represents the greatest single measure taken in any country for dealing with distress due to unemployment. When it was introduced here, there was no precedent for it in any other country; it was freely described as impracticable. The success and survival of the system under circumstances of unparalleled difficulty are remarkable. The popular distaste—crystallized in the

term "dole" which is not used of precisely similar payments following accidents or illness—arises mainly from ignorance of the problem.—*Insurance for All and Everything*, p. 19.

In the "Third Winter of Unemployment,"¹ a report of investigations carried on in England in the autumn of 1922, we read:

Before the war, the great mass of low-paid, unskilled and irregularly employed laborers and their families were quickly affected by any falling off in trade, and suffered privation and actual physical distress. This privation was soon reflected in mental distress, demoralization, and the physical condition of the children. In the past two winters, with unemployment far more extensive and severe than in any ante-war depression, this physical distress is not noticeable. There is a great deal of evidence that health has been maintained and unimpaired. The testimony of the Medical Officer of Birmingham, than whom no one speaks from greater experience or with more authority, that the health of Birmingham is better after two years of trade depression than it has ever been before, is supported by similar evidence from the other towns investigated. Even where the adults are showing the strain, the children's health seems to be maintained. The reason everywhere given is the same. Health is better than in ante-war depressions, because the ante-war starvation is prevented. Unemployment insurance has relieved many who would have endured months of privation before resort to the Poor Law. p. 68-9.

DODGE REAL ISSUE BY BEGGING THE QUESTION

These investigators agree in the opinion that unemployment insurance in England, far from having a demoralizing effect, has been the chief means of averting the extreme of distress and demoralization, and probable political revolution; for when a man who has been for years a steady-going, skilled craftsman—the type regarded as moderate, sane, dependable—suddenly suffers

¹ A report of intensive investigations which were conducted in nine selected localities. They were undertaken by a group of Englishmen of "diverse economic experience and different political opinions," for the purpose of assisting to a fuller realization of the significance of the abnormal unemployment situation in the private and public life of England. The group was headed by Major Lord J. J. Astor, and included A. J. Bowley, statistician, Henry Clay, economist, Lieut. Colonel George Schuster, B. Seebohm Rowntree, a well known employer of over seventy-five hundred workers, Robert Grant, W. T. Layman, P. J. Pybus, and F. D. Stuart. Their reports seemed of such interest that it was decided to print them as a "contribution to an understanding of the present emergency." A large part of the study deals with the effect upon the workers themselves of unemployment and of the measures taken to relieve it.

this tremendous blow through no fault of his own, he seems with ill-will toward the industrial system in which such injustice is possible, and "becomes very suitable material for the operations of the extremists." (p. 173)

In the words of Mr. T. W. Phillips, Principal Assistant Secretary of the Ministry of Labor:

It is hardly open to doubt that the provision of (unemployment insurance) benefit has saved this country from an upheaval, the consequences of which might easily have been disastrous.

Since, as these investigations show, the worst effects of unemployment in the way of privation and physical deterioration have been prevented, is it possible that the nation has lost on the whole, as some suggest, by demoralization of the workers due to receiving relief and insurance benefit while unemployed? Of particular interest to students of unemployment insurance legislation for America are the conclusions of these representative Englishmen on this much-discussed question:

The crude idea that the relief is the demoralizing influence in unemployment receives no support from our inquiry. What is demoralizing in unemployment—the enforced idleness, the loss of occupation and the denial of the opportunity of useful work—is having its influence, and these effects the self-respecting worker resents and fears. The longer a man is out of work, the greater the danger that he may lose the habit of self-dependence; but up to the present the greater provision of relief has acted rather as a support to self-respect and a safeguard against demoralization. Maintenance without employment may be demoralizing, but unemployment without maintenance is much more certain in its demoralizing effect. p. 11.

In answer to criticisms they further assert:

If we discard the vague and question-begging term "demoralization" and turn to more specific questions, we may be able to assess the mental and spiritual effects of the depression and relief measures more precisely. Is there a growing inclination to depend on public relief, a growing reluctance to work? The anxiety of the individual to get back to work, attested by employers, Employment Exchange Officials, trade union secretaries, and the individual workmen whom our investigators interviewed, that flocking after the bare report of a job of which they discovered many instances, the application of the men on relief work to which they were unaccustomed, are all evidence to the contrary. p. 72-3.

THE FUTURE FOR UNEMPLOYMENT INSURANCE¹

In the contemporary discussion of unemployment insurance in America, there is apparently being drawn an interesting and important contrast between the benefit feature and the preventive feature of insurance. This contrast between protection and relief, on the one hand, and prevention, on the other, does not, I believe, find a counterpart anywhere else in the world.

WEAKNESS OF VOLUNTARY PLANS

There is, in the first place, no warrant for assuming that regularization (of employment) will come where it is most needed. Granting even a much more extensive experimentation in regularization than is, under the circumstances, likely, the probabilities are that the experiments will in the main be conducted where the problem is simplest and the cost least. This is, to be sure, not an infallible rule, but it is, I believe, supported by our experience with programs of a similar nature in allied fields of social reform. It is unfortunately the case that the problem of unemployment is of much greater severity, and requires for that reason considerably more drastic treatment in some establishments and industries than in others. *The net effect of wholly voluntary measures of both insurance and prevention would be practically to exclude from the benefits of insurance large numbers most in need of it and to postpone or to disregard regularization where irregularity involves the greatest cost and the most acute problems.* This inevitable choice of the good risks and exclusion of the bad ones cannot be said to constitute, either from the point of view of the unemployed or from that of the com-

¹ From an article by Leo Wolman, Ph.D.; New School of Social Research economist; director of Research, Amalgamated Clothing Workers of America. *American Labor Legislation Review*. March, 1923.

munity, a satisfactory solution of the problem of unemployment.

Such accidental and spotty regularization of industry may, moreover, have even more undesirable consequences. Where the experiment is limited in extent, continuous employment may easily be achieved in one place at the price of greater irregularity in another. It is on this ground largely that criticism has developed within the ranks of the International Ladies Garment Workers Union against the unemployment fund in that branch of the industry located in Cleveland. Stabilization in Cleveland, officials of the national organization contend, has produced more irregularity in the other centers of manufacture. In this instance I do not believe that the critics of the scheme have proved their case. Nor would regularization in one place at the cost of greater irregularity elsewhere be necessarily an unmixed evil. But that such an outcome is to be expected of voluntary and limited programs of unemployment insurance and prevention and that such contingencies should, if at all possible, be avoided, seems to me reasonably clear.

NO ADVANCE WITHOUT PUBLIC PRESSURE

More important than any of these considerations, however, are the chances of initiating widespread plans of insurance without the aid of legislation or the pressure of such organized agencies as trade unions. The problem is, in short, that of determining whether any general attack on unemployment can be expected as a result of the education, and persuasion, of individual employers. *The whole history of protective legislation of this sort indicates, almost conclusively, the narrow limits of persuasion and understanding as effective motive power in the accomplishment of social reforms. The control of child and woman labor, the insurance of workmen disabled by industrial accidents were all effected,*

after many years of agitation, through legislative orders and not by voluntary acts of employers. Yet to most people the evils of child and woman labor and of industrial accidents were reasonably plain. It is unfortunate, of course, that the adoption of intelligent and beneficial labor policy must wait upon external pressure. But those who are interested in further progress can do no more than be guided by the experience of the past.

When Jevons was discussing, in 1882, the limits and necessities of state action, he made observations that are apparently as relevant now as they were then. He is considering the fencing of fly-wheels. "Having once decided that the fly-wheel ought to be fenced," he writes, "we have but raised a series of questions relating to the person who ought to put up the fences, and the other persons who have a right or a duty to take care that he puts them up. We might, in the first place, assume that the owner of dangerous machinery would fence it from motives of mere humanity, if not from those of self-interest. But here again experience proves the existence of unaccountable thoughtlessness, if not heartlessness. Before the legislature began to interfere, hardly any owner of machinery thought of incurring the small additional percentage of cost requisite to render the machinery safe to the operatives. Plenty of documentary evidence exists, moreover, to show that legislation on the subject was distinctly opposed by the factory owners. In other cases mere thoughtlessness and indifference can alone be charged against the owners."

And so he goes on with one illustration after another. If the chronicle were continued since 1882, plenty of additional documentary evidence could be found that shows the existence of the same opposition and of the ultimate accomplishment of results through legislative mandates. There is no assurance, to be sure, that left to their own resources, employers might not in the long run achieve all of these improvements. But in matters of this kind, patience is not an absolute social virtue.

REVEALS FACTS ABOUT UNEMPLOYMENT

The future of voluntary measures of unemployment insurance and prevention is limited not alone by the apathy and opposition of employers, but also, I believe, by the known possibilities of prevention. There has already, it seems to me, been a great deal of exaggeration in this connection. While it is doubtless true that legislation after the Wisconsin pattern, which aims to penalize a disorganized and disorderly labor market and reward reductions in labor turnover, will accomplish a substantial reduction in the rate of labor turnover, it is at the same time also a fact that no available analysis of industrial unemployment has undertaken to weigh the relative burden of the cost of unemployment and of the cost of unemployment prevention. To make this analysis, much more is required than the knowledge that unemployment falls into such categories as cyclical and seasonal unemployment. A recent study by Henry Clay shows how far short the common devices for prevention would have fallen of dealing with the kind of conditions that have existed in England during the past two years. *It is probably the case with unemployment, as with many other industrial and social problems, that only after an operating scheme of general unemployment insurance has furnished many additional facts about unemployment, will we be able to take intelligent and effective steps to reduce and to prevent industrial idleness. Until that condition comes to pass, legislation like that proposed in Wisconsin will doubtless reduce the margin of unemployment.* But its major contributions to the problem of unemployment will consist in assisting the unemployed and in furnishing the materials for a better understanding in the future of the nature and extent of unemployment. Meanwhile individual employers who do not participate in a general insurance scheme, will suffer from the same inability to control their business fluctuations. And what

is more important, their employees will remain unprotected during their periods of involuntary idleness.

It is not possible in a short space of time to enumerate and consider all of the attributes of an adequate and effective system of unemployment insurance. But *there remain two conditions in regard to which private schemes, organized on the initiative of individual employers, fall far short of either public schemes or of insurance begun and controlled by joint agreements between labor organizations and employers. One of the primary purposes of insurance is to free the minds of insured from the constant fear of interrupted income or of loss of property. Uncertain insurance, consequently, is almost as bad as no insurance at all.* Now there is naturally no sure method of saving either individual businesses or even insurance companies from the catastrophes of unavoidable bankruptcy. But short of bankruptcy, the certainty of insurance payments and the continuity of the insurance scheme can be safeguarded only if the arrangement is a contractual one. The unsatisfactory experience in this country and elsewhere with private and voluntary profit-sharing schemes is indicative of the failure of such plans which do not have a contractual basis. The consequences of interrupting or of stopping insurance payments are on the whole, from the very nature of the enterprise, much more serious and harmful. Only by legal enactment or through agreements between trade unions and employers can there be any reasonable assurance of continuity and certainty.

STANDARDS SHOULD BE FIXED BY LAW

The second weakness of private and voluntary schemes is inherent in the peculiar nature of unemployment insurance. Of the very large number of insurable risks, unemployment is one of the most difficult to define. This difficulty involves considerations not only of logic but also of public policy. While it is an easy matter to

formulate the terms of a simple definition of unemployment, the practical application of the definition is surrounded with innumerable unforeseen problems. It is one thing, for example, to rule that persons thrown out of work by reason of a trade dispute are barred from receiving unemployment benefits, and another to determine in a specific case whether the applicant for benefit is disqualified under this provision, or not. The English have discovered in their ten years' experience with unemployment insurance how delicate a problem is the definition of such terms as "misconduct," "just cause," and "suitable employment." At first blush decision on all such questions seems no more than an arbitrary matter. Such is indeed the case. But it is a matter of great practical import whether such arbitrary definitions are wisely or foolishly made. Each decision or definition involves *ab initio* the fixing of social standards and later adherence to or departure from those standards. "Suitable employment" may be defined as employment at the rate of wages prevailing in the non-union shops in a given area; or as employment at the union rate. Suitable employment for a bricklayer may be defined as employment at a building-laborer's job and at the building-laborer's wage; or as employment only at a bricklayer's job and at a bricklayer's wage. One referee, likewise, may find a worker guilty of "misconduct" who has refused in the shop to violate a union rule and has been discharged therefor; whereas another referee, guided by precisely the same rules, may well reverse this ruling. Whether in typical cases of this kind, one or another ruling is made rests on our conception of prevailing economic and industrial standards, and of the public policy with reference to these standards. *It would clearly be unsafe to allow private and particular interests to fix and to regulate standards through the machinery of a system of unemployment insurance.* If we are to have unemployment insurance, such complex questions of in-

terpretation should either be entrusted to agents of the state, or, where such arrangements exist, to the joint bargaining machinery of labor organizations and employers' associations. Where, moreover, an insurance scheme of an individual employer falls in neither of these classes, it should be required by law to conform at least to certain minimum standards, fixed in the law.

CONSTRUCTIVE ACTION CALLS FOR LEGISLATION

Much as employers and other agents should be encouraged to experiment with the problem of unemployment through the medium of one or another plan of unemployment insurance, the conclusion from the foregoing discussion is that *no general relief can be anticipated except through state action or the pressure of trade unions*. Waiting upon the action of individuals will not only delay progress in this field, but may further give rise to practices in the administration of unemployment insurance that are harmful and that should wherever possible be controlled by disinterested parties or by joint determination. At present, and probably for some considerable time in the future, the achievements in prevention are likely to be hopeful but slight. *The operation of general systems of insurance, covering industries or states, may be expected to furnish the data on which further and more intelligent preventive measures will be based*. Although it is an accepted commonplace that the remedy for unemployment is employment, until work can be supplied to the idle, they should be protected from the consequences of intermittent employment as they already are from those of accidents, and as they should be from those of old age and sickness. For this reason the benefit features of proposed programs of unemployment insurance will probably continue for a long time to be the core of such programs.

In this country legislative proposals have not yet passed beyond the stage of discussion. There is also no

denying the fact that whatever we do will be of a highly experimental nature. This is generally true of social legislation. If, however, we may trust the results of the English experience with unemployment insurance, and those in the analogous fields of workmen's compensation legislation in this country, the first step in a constructive unemployment program will be the enactment of legislation based on the principles of the Huber bill in Wisconsin. This bill combines preventive and benefit features. It lays down reasonable standards of unemployment compensation. It provides agencies of inquiry and investigation. It gives the parties concerned with its terms a comfortable period in which to adjust themselves to its provisions. And, so far as can be gathered in advance, its financial burdens are not likely to be excessive, except perhaps during the kind of conflagration that consumed industry in 1920 and 1921.

THE MISSION OF UNEMPLOYMENT INSURANCE¹

Efforts have been made occasionally by the trade union organizations to meet this problem through out-of-work benefits. These efforts have been very limited in a national way although many local unions of various craft organizations have paid and are still paying out-of-work benefits. However, this is not uniform and the burden falls entirely upon the workers, which has made such relief entirely inadequate. Since 1901 many industrial centers in western Europe have established an out-of-work benefit known as the "Ghent system" of governing subsidies (usually municipal) to trade union organizations. This plan, of course, is not entirely satisfactory because it only provides for insurance against unemployment among those who are organized and such organizations receive the subvention.

¹ By J. J. Handley, Secretary-Treasurer of the Wisconsin State Federation of Labor; from a paper read before the Wisconsin Conference for Social Work. Proceedings, October 13-15, 1920.

Like many other acts of foreign countries, the British compulsory out-of-work insurance law would not fit in all particulars in this country, either state or Federal. The two principal points that I wish to develop at this time are the necessity for unemployment insurance, and where the burden of such insurance shall fall. The system under which we live is based on keeping down wages and the standard of living by the means of a reserve of unemployed workers which can be large or small as it suits the employing interests. What we want is not something that will lessen this terrible fear confronting the workers, but something that will do away with it altogether, for there is no greater fear in the minds of working men and women than that of being out of work. It is our firm conviction that when a man is out of work, able to work, willing to work, and cannot find employment, and his family suffering because of this circumstance over which he has no control, that it is the duty of society through government to remedy the situation, not in the charitable way, not through the poor office or private charities, but through a regular unemployment compensation insurance, similar to that of our present accident and occupational disease insurance. We also believe that the fund to maintain this insurance should be borne by the industry. A measure of this kind will no doubt meet with stern opposition by the organized employers and insurance companies just as the compensation act was opposed prior to its passage in 1911. At that time the kept press and the paid attorneys and lobbyists of organized capital "predicted" that if such a law was enacted in Wisconsin, it would drive industry out of the state and capital would be compelled to seek other fields for investment outside of Wisconsin. However, the law was enacted and strengthened from session to session until we now have a fair workmen's compensation law. Industry did not leave the state. Allowing for the automobile industry, the recent

census shows Wisconsin has prospered more than her neighbors. An Advisory Commission was selected by the Industrial Commission, which commission is charged with the administration of the law, for the purpose of drafting rules and orders which after adoption by the Industrial Commission are practically the same as laws on the statute books, to *prevent* accidents. At that time it was not the purpose of organized labor or others interested in this law to secure its passage merely for the purpose of paying a man or woman the insignificant maximum sum of \$9.75 per week for a certain number of weeks, after having lost a finger, hand or an eye, or whatever the accident might have been. The thought in the minds of the framers of that law was the prevention of accidents, as we all realize that no one could be compensated in dollars for the loss of any member of the body. The result was, after a considerable amount of education, and in many instances, persuasion, the employers lent their cooperation, and the best information that I am able to obtain shows that accidents have been reduced over 80 per cent.

At the last session of the legislature the law was amended to include occupational diseases, and again the Industrial Commission appointed an Advisory Commission to work out rules and orders, which after adoption by the Industrial Commission will also become laws for the prevention of occupational diseases. This, of course, will be accomplished through remedying conditions in industry that now cause disease. The employers have taken an active interest in these advisory commissions because the burden of compensation rests upon the industry and whether they carry it direct or through an insurance company, the cost to them will depend largely upon the amount of accidents or the amount of occupational diseases occurring in industry. Dr. Royal Meeker, Commissioner, United States Bureau of Labor Statistics, has this to say:

Loss to the community through strikes is insignificant as compared with unemployment. We should list unemployment above industrial accidents. Although strikes attract much attention because they are dramatic, unemployment causes vastly more slow-down of production, demoralization, distress and suffering than all other industrial mishaps.

Therefore, we maintain that if the burden of this fund rests upon industry, it will be more apt to cause the employers to take an active part in working out rules and orders that will eliminate and eventually prevent unemployment rather than the payment of a small pittance of unemployment insurance.

In the report of the Committee on War and the Religious Outlook recently made public, appointed by the Federal Council of Churches of Christ in America and the General Wartime Commission of the Churches, we have the following conclusion:

In the present legislation for accident insurance, the soundness and importance of which we all now take for granted, we recognize this principle that the worker who has been necessary to an industry has a right to support if his opportunity for earning a livelihood insurance to cover enforced unemployment from any cause is a measure which in principle is thoroughly in accord with the Christian sense of social responsibility.

THE ECONOMICS OF INSURANCE¹

The minority report of the (British) Royal Commission on the Poor Law (1909) expresses the modern view of unemployment as follows:

A study of modern industrial conditions proves that unemployment is often due to influences for which the workman is not responsible. Whether it be from general cyclical depressions of trades, or from fluctuations of the demand in particular trades, or from the effect of machinery, or from special inclemencies of weather, it has long been recognized that every workman however regularly employed, incurs a risk uncertain in imminence and indefinite in extent, of being thrown out of employment through causes beyond his control.—p. 412.

¹ From The Memorandum of Information and Selected List of References Respecting Unemployment Insurance, prepared by the Department of Labor of the Dominion of Canada. p. 3-6.

This recognition of unemployment as an industrial hazard has led to various attempts to insure against the risk. This method of providing against unemployment has been widely advocated and the following opinions are typical of many others of the same general character:

The principle of insurance affords the most satisfactory, because the most flexible method of making general provision for unemployment. Insurance against unemployment stands in the closest relation to the organization of the labour market, and forms the second line of attack on the problem of unemployment. It is, indeed, the necessary supplement thereto. The Labour Exchange is required to reduce to a minimum the intervals between successive jobs. Insurance is required to tide over the intervals that will still remain.

The Labour Exchange mobilizes the reserves of labour for fluctuations and hastens re-absorption after changes of industrial structure. Insurance is needed to provide for the maintenance of the reserves while standing idle and of the displaced men while waiting for re-absorption. No plan other than insurance—whether purely self-supporting or with assistance from other sources—is really adequate. The provision required is one adaptable to an immense variety of individual cases—that is to say, it must be far more flexible than anything to be attained along the lines either of relief works or of elasticity in working hours. The provision required is one made in part by the individual himself; by simple grants of money—whether under the Poor Law or otherwise—his self-respect is endangered. The provision required, however, cannot be made by the individual acting alone; unemployment may never come to him at all, but when it does come, may exceed all possibilities of private saving. The principle of insurance—which is simply that of spreading the wages in a trade so as to provide for the necessary margin of idleness in the trade—is therefore essential. It is at the same time adequate.—*W. Beveridge. Unemployment.* p. 228-39.

As to the advisability, on principle, of unemployment insurance, there seems to be little argument. Given the facts . . . that manual work is for the most part inherently irregular, and that uncertainty of maintenance due to an irregular income is demoralizing in the extreme, it is incumbent either upon the workers or upon society to afford regular payment for irregular work. That this should be done through some form of insurance follows from the limited savings of the individual, the impossibility of prophesying individual risks, and the converse possibility of averaging, and thus fore-seeing that risks incurred by a body of men. . . . While individuals may point to faults

or inadequacies in any particular system, or even weaknesses in the method itself, the consensus of opinion is that insurance in one form or another is needed.—*F. C. Mills: Contemporary Theories of Unemployment and of Unemployment Relief. 1917. p. 107, 108-10.*

Insurance provides a dignified method of financial assistance to unemployed wage-earners, the majority of whom would be forced either to seek charity, with all its objectionable consequences, or to suffer privation. The out-of-work benefit, although amounting to but a fraction of the regular wage, is still sufficient to ward off for a time complete destitution; it thus contributes materially toward the preservation of the workers' character and physique during times of unemployment, and prevents their falling into the ranks of the unemployable where they would constitute a much more difficult problem.—*Ibid. p. 447.*

For other opinions in favor of unemployment insurance see: Report of Mayor's Committee on Unemployment, New York City, 1917, page 167; Gibbon, I. G. Unemployment Insurance, 1911, page 227; Leiserson, W. M. The Problem of Unemployment Today (Political Science Quarterly XXXI: 1, March 1916, page 19); Bruère, H. America's Unemployment Problem (Annals of the American Academy, etc. LXI, September 1915, pages 11-23.); Report of the Royal Commission of the Poor Laws, 1909, page 421† ff.; Quarterly Bulletin of the International Association on Unemployment, April-June, 1914, page 459; American Labor Legislation. Review, 1915, page 595; Report of Mayor's Committee on Unemployment, New York City, 1916, pages 93-4, etc.

It should also be noted that at the International Labour Conference held at Washington in 1919 the following recommendation was adopted:

The general conference recommends that each member of the International Labour Organization establish an effective system of unemployment insurance either through a government system or through a system of government subventions to associations whose rules provide for the payment of benefits to their unemployed members.

It is not necessary to consider the question of unemployment insurance solely on theoretical grounds, for

the experience of many countries and communities has demonstrated its practicability. Unemployment insurance of one form or another is now in force in Austria, Belgium, Czecho-Slovakia, Denmark, Finland, France, Germany, Great Britain, Holland, Italy, Norway, Spain and Switzerland.

The schemes of unemployment insurance which have been or are now in force in these different countries vary to a considerable degree. In general, they fall in one of the following classes; (a) Unassisted trade union insurance; (b) Provided voluntary insurance; (c) Subsidized autonomous insurance; and (d) Compulsory insurance.

COMPENSATION LIABILITY THE WAY TO PREVENTION¹

The Huber bill proposes that when an employer lays off a man, if the man has had six months' work in the state, the employer shall pay him a dollar a day for a period of thirteen weeks and pay the state 10 cents a day additional toward the expenses of administration.

This creates a possible liability of about \$90, added to every man taken on in case he is laid off through no fault of his own, but simply through fault of the management. This creates an added liability which the employer assumes when he hires a workman, so that, under such circumstances, it should be expected that when an employer wants to expand, and he ordinarily cannot expand except by getting credit, he will go to the bank for additional credit and the banker will necessarily inquire as to what security he has, that, at the end of these rush orders, he will be able to continue the employment

¹ From an article by John R. Commons, economist, Professor of Economics, University of Wisconsin; chairman, Board of Trustees of the Chicago Clothing Industry Unemployment Fund; past president American Economic Association; director National Bureau of Economic Research; from pamphlet "Unemployment Insurance," published by the Wisconsin Association for the Prevention of Unemployment.

or pay that possible \$90. In other words, the business man and the banker together are the controllers of credit, and it is the control of credit which can stabilize business. The over-expansion of credit is the cause of unemployment and to prevent the over-expansion of credit you place an insurance liability on the business man against the day when he lays off the workmen. The last employer is made responsible, but he is required to insure himself, so that the industry is made responsible.

EUROPEAN EXPERIENCE AS GUIDE

As to the practicability of a proposition of this kind, unemployment insurance is already in existence in several countries, with a somewhat different system. It was started some twenty-five years ago in the canton of St. Gall, Switzerland, with a system which broke down because wrongly conceived. It was then spread to Belgium, where it has been in operation for some twenty years; then to Denmark some fifteen years ago; then England took it up on the grandest scale yet known.

These practices in Europe have been based upon the idea, first, that unemployment is something inevitable, and that, this being the case, a philanthropic system to aid working people when out of work should be established; second, that the state should both contribute to the fund and operate the insurance business.

The defects and failures of the European systems resolve themselves into this: they placed the responsibility upon the wage-earners and upon the state instead of solely upon the employers. St. Gall placed the responsibility solely upon the wage-earners. The experiment broke down within two years. The Ghent system placed the added state or municipal subsidies. England followed, but placed the responsibility on wage-earners, the state and the employers.

But neither the wage-earners nor the state can prevent unemployment. All that they can do is partly to

relieve it. Hence their experiments are paternalistic and philanthropic. But the business-like way of doing it is to place the responsibility on the business men who alone are in a position to prevent it.

WANT WORK, NOT CHARITY

It is quite natural that the working people of England should take the ground that it is not insurance they want; it is employment that they want.

So it comes back to the question who is responsible, who is in a position and able to furnish the employment, if the right inducement is presented. Much of the American criticism of the British law confuses the "doles" just mentioned with the unemployment insurance. When the insurance law was extended, in 1920, to twelve million workers, there were as yet no insurance funds accumulated. Instead of insurance funds the government appropriated the doles out of the taxes. These doles, moreover, were a much larger part of the lost wages than that provided in the insurance, and thus tended to encourage malingering. The criticism of the British unemployment insurance is really a criticism of the doles and not of the unemployment insurance. Yet both the doles and the insurance are based on the theory of poor relief and are an extension of the poor law, rather than a business system of preventing unemployment by placing the burden solely on employers.

INCENTIVE TO MANAGEMENT

The Huber bill introduced in Wisconsin, like the Shattuck bill in Massachusetts, abandons the idea that the state can operate it, or that anything permanent can be accomplished by doles or philanthropy. It starts on the idea that the modern business man is the only person who is in the strategic position and has the managerial ability capable of preventing unemployment. In other

words, the system proposed is exactly like that of the workmen's accident compensation law of this state. Mutual insurance companies are created, operated and managed solely by the employers. These companies are created upon the same principle as the state's accident compensation law. The employers establish their own premiums, supervised by the state insurance board; they pay out the benefits to the workmen exactly as they pay out the benefits under the accident compensation law.

The only difference is that instead of the doctor who cures the man of accidents, the bill provides an employment officer who finds the man a job. The system avoids the paternalistic schemes of Europe. It induces the business man to make a profit or avoid a loss by efficient labor management. It places the compensation so low that the workman has no expectation of more than enough to pay his rent.

If we may judge from what employers have done in the case of the accident compensation law, we may predict what they will do under an employment compensation law of this kind. When the state of Wisconsin enacted its accident compensation law, it tied it up with an accident prevention law and placed both laws under the administration of the state industrial commission.

THE WAY TO PREVENTION

The Huber bill follows along the same line. We can safely predict how it will work. At the time when the accident compensation law went into effect, one of the large firms of the state came to the industrial commission with the alarm that the law would increase its premium for employers' liability from \$5,000 a year to \$22,000 a year. The insurance company had put up the premium to that figure under the new law, and the claim agent had figured it out the same. The commission asked why the firm did not adopt the "safety first" movement; why it did not convert its claim agent into

a safety expert; why it did not equip its plant with safeguards and teach workers "safety first." They took the idea and equipped their establishment "fool proof." The first year, instead of paying \$5,000 or \$22,000 on account of increased cost of premiums, they paid only \$2,500 on account of industrial accidents. They made money by the new law. It is amazing what business can accomplish when it has a sufficient inducement. If there is enough money in it, it can accomplish more than any other agency. At the present time the business men of this country have formed their great national safety council. They have taken Mr. Price away from Wisconsin and have taken three or four other employees of the industrial commission who have made names as safety experts. They have put them in charge of this national safety movement, and they are carrying on throughout the nation, not only in the factories, but on the streets and in the schools, a great safety campaign. They have taken these people away from the state because the state will not pay high enough salaries.

PUBLIC BUSINESS POORLY PAID

These former employees of the industrial commission are now paid three to five times the salary paid by the state. The manufacturers of the nation, with their help, are now doing more for safety than all of the legislatures, all of the labor organizations, all of the philanthropic associations, ever thought possible, simply because they make money by doing it and the others do not. They even operate safety campaigns on the streets and in the schools, indirectly reducing accidents in the shops. The employer was probably never legally liable for more than a third of the accidents in the shops. The hazard of the industry and the carelessness of workers and fellow workers caused the other two-thirds. Yet the employer was made responsible for all the accidents.

He knows how to "sell" safety to the public and to his own employees and to turn safety into profit.

CALLS BEST EXECUTIVE TALENT

In Wisconsin, the State Employers' Mutual Liability Insurance Co. has taken over the actuaries and safety experts from the industrial commission, at higher salaries. At the hearings on the Huber bill, a leading employer, while opposing the bill, showed how it would work. He figured that the proposed law would cost his firm \$50,000 a year. If it should go into effect, he would not trust the state employment offices; he would hire his own employment manager to find jobs for his men when he laid them off.

This is the business way of looking at it. The state will pay low salaries to men responsible for spending \$20,000,000 a year, because the people cannot measure inefficiency, and the legislature can save the state from bankruptcy out of the pockets of the taxpayers. But the business man, who must measure inefficiency by bankruptcy in dollars and cents, will pay an employment manager two to five times the state salary in order to save \$50,000 a year. Incidentally, efficient employment management, as it has come to be known during the last ten years, may be expected to make money for employers under an unemployment compensation law if organized like their safety work. The reduction of labor turnover, the dovetailing of jobs, the training of employees for different jobs, the training of foremen in handling men, the selection, promotion and transfer of employees, the spreading out of the overhead expense, the cultivation of willingness, the improved morale of the steady workers, all belong to this new profession of the "industrial engineer." The saving effected by the efficiency of this new profession may be expected to exceed the cost of the unemployment compensation which

both makes it necessary and opens up a wider field for it.

WHAT EMPLOYERS HAVE DONE

In Cleveland, there has recently occurred an experiment in unemployment insurance. The ladies' garment industry is highly seasonal, running from thirty to forty weeks a year, divided into two seasons. By agreement with the labor union, the associated employers guaranteed forty weeks' work and one week's vacation with pay and set up a fund of $7\frac{1}{2}$ per cent on the pay roll during the forty weeks' period out of which to pay two-thirds of the union minimum rate for the balance of the forty weeks if they laid off their workers. One firm had accumulated \$15,000 in this fund, held by a trustee. Its work for the season had come to an end. But the firm figured on a big contract which it would take at a loss of \$5,000 but which would keep its force employed till the end of the forty weeks. This contract would not otherwise have been let at all, hence it did not take work from any other laborers. This Cleveland firm took the contract, lost \$5,000, but got back the \$15,000 from the insurance fund. What happened was that the company set aside a part of its profits during the prosperous season in order to operate at a loss during the dull season, and thus avoided paying out unemployment relief to unemployed workers. It carried out the demand of the British workers in that they do not want unemployment insurance, they want employment; but it was the unemployment insurance that induced the employer to furnish the employment.

AN INDUCEMENT FOR EFFICIENCY

The Cleveland employers and employees have gained in another direction. The prospect of a guaranteed period of employment played an important part in influencing the union to accede to the adoption of produc-

tion standards, set under the joint supervision of the union and of the manufacturers' association. A report of the industrial engineers employed jointly by the employer and the union, shows that under standards the output of workers on piecework increased 15 per cent and the output of workers on week work increased 47 per cent.

This increased efficiency and thrift and spreading out of overhead expense is the answer, in part, to the objection that one state cannot pioneer the way on account of interstate competition. Such objections did not hold back accident compensation laws. The increased efficiency in avoiding accidents may be repeated in avoiding unemployment. But this objection has a certain validity and can be met in full only by introducing the system gradually. Certain transitional measures are required.

HOW THE LAW WILL OPERATE

A preventive measure cannot prevent a condition already existing. Hence the Huber bill provides that the law should not go into effect until a finding should be made by the industrial commission that business conditions are improving and workmen are being re-employed in reasonable numbers. That is the time when companies begin to set aside their reserve funds for investors and they can then set them aside also for unemployment. Then, too, they begin to pay their premiums to the mutual insurance company. An initial period of three years is provided in the Huber bill, during which the maximum period of compensation is fixed at six instead of thirteen weeks. For the purpose of working out the rules and regulations, a state advisory board of employers and employees is provided. This has been the method by which the safety and sanitation orders, the minimum wage orders, the apprenticeship rules and other orders of the industrial commission were made. So the unemployment compensation bill provides a framework, and

leaves the details to the employers' insurance company and the advisory committee of employers, employees and employment managers, under supervision of the existing state authorities. The duty of the latter is simply to see that the law is carried into effect and to decide disputes. The employers and employees themselves make the rules and the state acts as umpire. The eleven state free employment offices are already managed in some cases by these joint committees, cooperating with the state commission, and no material change is needed in their administration. They become mainly recording offices for this unemployment compensation law, since the employers do a large part of the job-finding themselves through their employment managers and their insurance companies.

MAKING INDUSTRY RESPONSIBLE

In the first place, a worker is not entitled to compensation benefits if he leaves his work of his own accord or if he is discharged because of inefficiency or misconduct. He is not entitled to compensation if the unemployment is caused by strikes or lockouts either in his own shop or in related shops. No strike or lockout entitles a person to the unemployment benefit. He is required to accept a job which is offered to him through the public employment offices, a job which must be substantially equivalent in compensation and conditions to the one which he has, and not too remote from his home. Yet if traveling expenses are paid by the employer he can be required to take a remote job or forfeit his compensation. Of course he cannot literally be compelled to take the job, but if he does not take it his unemployment compensation ceases and the employers' liability is discontinued. The workmen must apply to these public employment offices for vacant jobs, and the employer must report any jobs which he has looked up with other employers. The public employment

office becomes a registration office. There is at every employment office a board of arbitration to settle disputes. If the workman claims compensation and the employer denies it, the claim can be taken up by a board appointed by the government, consisting of one employer, one employee, and a third party. The employment officer in the first case makes a record as to what the job is and he then notifies the employer whether the man is entitled to compensation or not. If the employer objects, he can appeal to this board which meets (without pay) every Saturday in an informal way at the employment office. If the workman objects he can appeal to this board of three and finally, if that does not settle the claim, he can appeal to the industrial commission. Finally, if the employer or the state employment office is not able to find a job for his workmen, he falls back on his insurance fund. The United States Steel corporation has been paying dividends during the period of depression out of its reserve fund set aside during the periods of prosperity. Investors are made secure by an insurance fund for dividends. It is just as important that laborers should be made secure by an insurance fund for wages. Already the Dutchess Bleachery and the Dennison Manufacturing Co. have started such a fund. An unemployment reserve fund has many advantages over profit sharing, stock sharing, or similar devices intended to interest workers in the prosperity of the business. Wage-earners do not appreciate profits and profit-sharing—they want wages every week and security for the future, just as investors want interest and security.

RESPONSIBILITY OF MANAGEMENT

In any proposition of this kind there are two questions. Is it practicable? Is it desirable? The foregoing has indicated its practicability. It is based on the knowledge gained from the experience of various European countries and upon our experience with ac-

cident compensation. But, is unemployment insurance desirable? Our modern capitalistic system has been based upon the liberty of the employer to conduct his business in his own way. In the last twenty-five or thirty years we have begun to add responsibility to capitalism. We have added responsibility in the case of child labor; we have added responsibility as to accidents. All of these are intended to preserve our capitalistic system by protecting it at its weakest point. We used to hear, fifteen years ago, the labor spokesman on the streets condemning their employers, the capitalists, on account of the profits that they made out of the flesh and blood of the working people. The accident compensation law has removed that bitterest point of struggle between capital and labor, and it was the greatest step which has been made to preserve our capitalistic system. But we do hear now that capitalism makes its profits out of the poverty and the misery of unemployment and the reserve army of the unemployed.

JOB INSTABILITY A SOCIAL MENACE

We have this great menace to our industries to meet. Europe has waited until 80 per cent of the population are wage-earners. As is well known, countries of western Europe have been compelled to contribute directly out of their taxes, in order to prevent revolution. America has only reached the point where about a third, or 40 per cent, of her population are wage-earners. A growing proportion is becoming wage-earners. It behooves us, then, to take a step further, and make capitalism protect itself at its weakest point. It is our credit system that produces wealth; it is our enforcement of contracts, it is the confidence that the investor has in the security of his investments, which is the foundation of our capitalist system. Not until our governments reached the point where they recognized contracts and enforced security of investments, did we have our modern production of wealth. It is an interesting

fact about the large industries of our state that the business establishments of any size worth while have fallen out from under control of our local business men and are now controlled by the financiers and bankers of the east. A great many, and the largest part of our big industries, our railroads, our manufacturing industries, sometimes an entire industry, are now controlled from the east. In other words, modern business is controlled by absentees.

RESPONSIBILITY NOW LACKING

What is the method, then, by which the several states can bring home to this absentee control the importance and significance of this instability of employment. One of these large firms in a small town of fifteen thousand population during this recent period of over-expansion, brought in negroes from the south, brought in farm hands from the farms. They increased their force to about five thousand people. They had prospects of enormous profits. Then, suddenly, without warning, they laid off practically five thousand men to be taken care of by that small town of fifteen thousand people. There was no sense of responsibility on the part of that corporation to the people of Wisconsin, to the citizens and taxpayers, and no sense of responsibility to the working men whom they had pulled in from the farms and pulled in from the south. But, if we had had a system by which for every man taken on during this period of expansion the employer would have assumed a new liability of a dollar a day for thirteen weeks after he laid him off, then when he began to expand and draw in farmers and negroes from over the country and went to his banker for the necessary credits, a banker would obviously inquire whether he would be able to take care of those five thousand employees whom he had brought in from the outside. The unemployment compensation law operates, then, on the absentee financial interests. It brings home to the investors and to

the bankers who are the ones who formulate our labor policy and control our industries the importance of the public purpose which the state of Wisconsin or any other state must necessarily have in stabilizing employment.

INSURANCE A STEP FORWARD

I do not say that unemployment insurance is alone enough to stabilize industry. There is needed also a stabilization of the currency, that is, a stabilized price level. Yet if, at the time of the business expansion two years ago, the employers, bankers and financiers had been faced by the responsibility of unemployment insurance, the expansion would not have been so great nor the collapse so disastrous. Furthermore, if unemployment cannot be wholly prevented, the Huber bill provides that the employer shall take care of a small part of the expense—one dollar a day for thirteen weeks. The laborer continues to bear the bulk of the cost, as he does in the case of accidents. Unemployment is already a huge cost on laborers and communities that must support the unemployed. Unemployment insurance is a means of better distributing the cost—not a means of increasing the cost. But it accomplishes the great purpose of bringing home to the bankers, the financiers, the absentee investors, who control and make their profits out of modern industry, the responsibility of capitalists for the same security of the job which the state already obtains for them in the security of their investments.

THE NECESSITY OF FINANCIAL OBLIGATION¹

Having considered the extent and incidence of involuntary unemployment, the question arises, How can the

¹From an article by Francis J. Haas, Ph.D., Professor of Political Economy, Marquette University; author of *Shop Collective Bargaining in the Clothing Industry*; staff, National Catholic Welfare Council. *Catholic Charities Review*. December, 1923.

evil be remedied? To raise this question assumes, of course, that it is possible to prevent or minimize unemployment. That the evil is preventable to a very high degree is admitted by the most important employers' organization, the National Industrial Conference Board. In its special report Number 51 this board says: "As management improves and applies its knowledge to providing greater regularity in the supply of raw materials, standardizing products, coordinating the activities of sales and production departments, reducing labor turnover and removing labor inefficiency through education . . . an incalculable but doubtless large reduction can be made in the unemployment rate." The National Bureau of Economic Research also reports that cyclical unemployment is not beyond the control of industrial management. The preface to the bureau's volume, *Unemployment, Hours and Earnings*, says: First, that the evidence set forth in the text warrants the following conclusions: "It shows the relative responsiveness of different industries to the forces giving rise to the business cycle. Secondly, it indicates the comparative ability of large- and small-scale businesses to resist such forces."

That large- and small-scale businesses can resist both cyclical and seasonal fluctuations and thus prevent unemployment can be seen from the success that has attended experiments in various parts of the country. For example, longshore work has been largely decasualized in Seattle. A description of this plan may be found in the *Monthly Labor Review for December, 1922*. *The results that have been attained all show that unemployment is not an insoluble problem when management seriously sets itself to the task of stabilizing production and providing steady work for its labor force.*

But can it be reasonably expected that all manufacturers will take the initiative as individuals and voluntarily assume a part of the cost of unemployment,

which is now shifted entirely to their employees? There is little in our industrial history to support this expectation. It has been found in the past that unless certain industrial evils are translated into a cash value, and the level of competition forced up to this point, evils continue to be regarded as part of the system and go uncorrected. In other words, unless all employers are legally compelled to assume certain costs as first costs that they cannot escape, and which must likewise be assumed by their competitors as first costs, they will not make special efforts to remove the evils which are represented by such costs. What the law does in effect, therefore, is to protect certain costs, such as the losses due to accidents, from the rigors of cut-throat competition. Nor does the influence of the law stop here. In the course of time it spurs the employer to seek out the causes of these costs, and as far as possible to remove them. Thus the policy of prevention has also resulted in increased profits in many establishments.

BASED ON TRIED PRINCIPLES

This principle can be seen in operation most clearly in the field of industrial accidents. The writer is acquainted with conditions which have prevailed in the leather industry in Milwaukee since the enactment of the state workmen's compensation act in 1911. The number of infections and amputations and death has been reduced in this plant by over three-fourths since the passage of the law. In Massachusetts it is found that in the plants where liberal compensation systems had been voluntarily installed prior to the passage of the state law, there were fewer accidents after the law went into effect than before. It is impossible to get anything like exact figures for all the states showing their accident reduction under the operation of their respective laws, especially in view of the constant changes in manufacturing. Greater hazards have been created

because of the introduction of larger and more intricate machinery. But the net effect of the legislation has been to reduce accidents very considerably, even more than the authors of the legislation had originally anticipated; and this has been brought about by offering a competitive advantage to the establishments that take the proper precautions to prevent accidents.

The working out of this principle may also be observed in the case of the child labor evil in Wisconsin. The Wisconsin Industrial Commission states in its report of June 1, 1923, that one of the most effective weapons in enforcing the child labor law of the state is the treble compensation feature of the workmen's compensation act. Under the compensation act three times the amount of damages otherwise recoverable are imposed upon the employer who employs a minor without the required child labor permit or at an occupation forbidden to minors in the state. Neither is the employer permitted to insure against this extra compensation. He is obliged to pay this extra compensation himself in case of accident or death to a minor illegally employed. According to the child labor deputies, the law would undoubtedly remain a dead letter were it not for the treble compensation feature. Child labor is, therefore, reduced or at least regulated by bringing financial pressure to bear upon the employer. Other illustrations of the theory of prevention readily come to mind. For example, the sliding scale (of premiums) based on safety experience, which is a feature of the factory mutual fire insurance system in Massachusetts, has played a large part in preventing fires in that state.

In like manner, it is entirely reasonable to expect that the evil of unemployment will be minimized by a law which will make unemployment costly to the employer who does not make serious efforts to prevent it by regularizing production. This was the theory underlying the unemployment prevention bill which was

considered by the Wisconsin Legislature in 1923, and which failed of passage by but one vote in the upper house.

THE ETHICAL QUESTION

But it may be asked, Can an employer rightfully be obliged to pay unemployment compensation for that percentage of unemployment which he is not able to avoid, that is, for the unemployment that remains after all reasonable means to avoid it have been exhausted? To this it may be answered that the workers who have been called into industry and are ready to work at any time that industry may send for them, have a claim on industry for the continuous means of livelihood. The worker's claim in this respect may be likened to the claim of telephone, gas, electric, and water companies for full-time payment. Even when their services are not used, they collect a minimum monthly fee. The utility company argues that it stands ready to give its services at all times, and hence the charges are justified. But the claim of the workers rests upon higher grounds. His claim upon industry rests upon his right to live, and when he is ready and willing to work, but is forced to remain idle, his claim to support is as valid as when he is idle on Sundays or Saturday afternoons. If industry cannot function efficiently unless it has a reserve body of workers to draw upon at certain times of the year, industry has the obligation to provide this reserve with the adequate means of living when it cannot be absorbed into productive occupations.

A CHALLENGE TO ASSOCIATIONS

It would indeed be a great stroke of industrial statesmanship if employers operating through their associations would undertake to educate their members as to their responsibilities for unemployment and urge them to assume voluntarily their corresponding obligations.

Unfortunately, however, there is little to justify the hope that such praiseworthy action will be taken in the near future. The only course open at the present is to use the power of the state to stimulate management to give more attention to this question and provide the worker with a steady job.

THE BUSINESS MAN AND THE PRESERVATION OF CAPITALISM¹

The capitalist system doesn't look on the workman as an investor in the business. We have looked on the workman as a kind of commodity to be bought and sold upon the market as actually exists. True, it is visionary and impractical to look upon the workman as an investor in the business—as having any claim on the business except for daily wages. Out of this failure of the capitalist system Karl Marx appeared on the scene and devised that cutting phrase that capitalism depends for its success upon the reserve army of the unemployed; that capitalism does not carry its own reserves, does not provide for this class of investors at a time when profits are not being made. It compels them to carry their own reserves for an idle day; and consequently, capitalism instead of providing steady employment teaches the doctrine of thrift and says it is the workman's own fault that he is in hard luck, in hard times, because he ought to have been thrifty and saved up against a rainy day.

Why don't they put up the same argument to the investor? Why shouldn't he save up for a rainy day, when the business is not earning profit? This appeal to the workman to be thrifty in modern industry is an appeal to the workman to set up an unemployment re-

¹ From address by J. R. Commons before the City Club of Chicago, January 24, 1924. Reproduced in *Stabilizing of Industry*. Woodlock and Goebel.

serve for himself—that he provide what business has failed to provide him.

After our last hearing before the senate of the Wisconsin Legislature one of the three "socialist" senators came to me and said, "We are socialists, and as socialists, how should we vote?" I said to them in reply, "That just depends upon your view of capitalism. If you are a Marxian socialist and believe that capitalism should be destroyed so that you may construct a socialist commonwealth, then you cannot vote for this bill. The Huber bill is aimed to build up, to repair, the weakest spot in capitalism." They left me with this remark, "Well, it is a good bill: it will do much good in remedying an important problem of mankind."

What pains me most is that the capitalists, that the business men, don't take the same view toward capitalism. Why? It is simple to see that it is because the Huber bill requires employers to set up reserves, and each employer sees his own business, not the capitalist system as a whole. Do the capitalists of the country want to destroy capitalism? Are they interested in preserving the capitalist system?

Employers are a very class conscious people. They dislike to get "in bad" in their group. The average business man fears lest he be considered a deserter to his class should he interest himself in progressive legislation. A number of business men come to the proponents for unemployment prevention compensation like a Nicodemus in the night and tell us, "It is a good thing. It must become a law; but say nothing about it, please." And so we have not concentrated our attention in stirring up dissension in the employing group though we have received the encouragement of almost an entire industry that has been very successful of late years in regularizing its business. They too ask us "Say nothing about it, please." So is it surprising to find but a few

with courage to announce their endorsement and their support for such legislation?

A PLAN FOR PREVENTION¹

We believe that the institution of private property is fundamentally sound, psychologically and sociologically, that the industrial system based upon it is fundamentally sound and desirable. Further, we believe that the modern business man sincerely desires to make the industrial system thoroughly democratic. We believe that he alone has the power to do it. As in the past, the hope of America is in her industrial leaders. However, the new American business man is a different type of industrial leader. He can no longer maintain his position without solving the problems of unemployment, cyclical depression, instability of work-tenure, insufficiency of wages, lack of opportunity for advancement on merit, and stultification of the creative impulse. He must organize industry so that all wage-earners may be live, loyal, intelligent, progressive, self-reliant and self-respecting members of an industrial democracy. In the keen words of Herbert Croly:

Modern civilization in dealing with the class of wage-earners is dealing with an ultimate economic condition, the undesirable aspects of which cannot be evaded by promoting one wage-earner out of every one thousand into a semi-capitalist or a semi-employer. If wage-earners are to become free men, the condition of freedom must somehow be introduced into the wage system itself.

This condition of freedom must be introduced by the man responsible for the condition of un-freedom which now exists. The American business man must release the American wage-earner from the tyranny of unemployment. If he cannot do it, the agitation for a radical revision of the system is bound to continue.

¹ From an article by J. Read Bain, University of Oregon. The Commonwealth Review of the University of Oregon, January, 1922, p. 33-42.

What, then, is the proposal? Briefly, to put the financial burden for unemployment completely and squarely where it rightfully belongs—upon the American business man. It has been embodied in the Huber bill for unemployment prevention. The Huber bill is an entirely new departure in unemployment procedure. However, it is based upon principles which have long been recognized by students of the question. For example, Miller says:

The precedents established in other countries, the array of scientific facts and evidences, the results of experiments of some educated, wise employers, modern labor legislation experts, university authorities in social science, and officials and members of prominent national scientific societies are virtually agreed that the problem of unemployment is not only approximately solvable, but that the time has now come for the formation and promulgation of definite programs of procedure and their early enactment into law. (p. 82). If in the near future a definite program of action is placed before the legislative bodies for consideration, these bills will probably embody liberal provisions for the prevention of unemployment. (p. 83). Unemployment insurance, if the cost falls first on employers would rapidly stimulate a rational, continuous effort by them to regularize industry; or any other legal requirements by which unnecessary irregularity was made costly to the operators would induce similar effort and would tend to place unemployment at a minimum.—*See Miller. Social Insurance.*

THE HUBER PREMISES

So this is the concrete proposal: Its fundamental premises (of the Huber bill) are that unemployment is a "problem of industry" (Beveridge); that it is not inevitable or irremediable; that it is an unintended by-product of the industrial system; and hence, that the business man is logically, though indirectly, the cause of it and therefore morally responsible for its eradication; that the American business man occupies the strategic position for properly dealing with the problem—that he has the experience, ability and desire to eliminate it and thus demonstrate to the world that there is no essential conflict between capital and labor; that the

modern industrial system based on the institution of private property and motivated by the desire for profits is not inconsistent with a humane, constructive industrial democracy; that unemployment is a problem of industrial leadership and responsibility.

Probably the most violent opposition will come from the unenlightened employers. However, if the law were once adopted, practically all business men would do what the "economic motive" plus their humane desire would urge them to do, and their collective effort would soon reduce unemployment to the irreducible minimum. Their mutual insurance company would take care of that with no great difficulty. They would save more than enough on the labor turnover to pay their premiums. The main thesis of this paper is that the business man is fundamentally responsible for unemployment and is peculiarly fitted by position and ability to eliminate it. This law simply assists him to discharge that responsibility by equalizing conditions as between employers and inducing them to cooperate in reducing unemployment. It is held that if he does not do this, he has failed to justify the existence of the industrial system which he has created, and by that failure, he will threaten the integrity of the institution itself. But he will not fail. The number of large employers who are recognizing the "human factor in industry," is growing every year. They are recognizing that personality is a pre-requisite to profits and in fact the only justification for them; hence, the personal touch of democratic fellowship between employers and employees must be established. They are combatting the two great obstacles to industrial peace, (1) the idea that a corporation exists merely for profits and (2) that the absentee stock-holder has a right to dictate policies.

THE PLAN AT WORK

The employer would think very seriously before hiring and firing. He would have the cooperation of

all the other employers in the state in the formulation and carrying out of plans for regularizing industry, *i.e.*, in regularizing employment. He and his banker would carefully consider the extension of his plant by credit. Speculative business expansion would be killed. Laboring men would build homes, and thus stabilize the labor supply—as well as increase the tax rolls. The rent evil would be reduced. With the present insecurity of employment, the workman is often foolish to try to build himself a home.

In conclusion, when the evil is preventable, the sole aim of social legislation should be prevention. Social legislation has prevented accidents, reduced sickness, delayed death itself. Employers have taken up the campaign for "safety first," and in states where the financial burden is placed wholly or largely upon them, have hired man after man from the accident commissions, to carry on prevention work in their establishments.

Some will say, "*The argument is wholly by analogy and therefore worthless,*" but we believe that the element of preventability makes the cases identical. We have conclusively shown that unemployment has been greatly reduced in certain industries and is therefore preventable. We have tried to show that the business man is responsible for unemployment and is morally and strategically fitted to reduce it to the lowest terms. By putting the problem up to him as a business proposition expressed in dollars and cents; by showing him that the permanence of his position and the continuance of the industrial system based upon the institution of private-property-for-profits may depend upon his acceptance of the challenge, we are sure the desired results will be obtained.

The state should give him assistance by collecting proper statistics, administering the law so that all employers will be bound by the same rules, educating the people to assist in regularizing industry, and so on, but

the formulation, operation and cost of the system must be wholly left to the business man. He must accept the hazard of unemployment as he accepts the hazard of accident or financial loss.

THE CATHOLIC CHURCH VIEW¹

In previous articles, I have discussed the need and the ethics of unemployment insurance. In this paper, I present a brief statement of the remedy for unemployment contained in the Huber bill now before the Wisconsin Legislature. Precisely because this proposed measure not only meets the need, but gives efficacy to the underlying ethical principles, it is superior to any other legislative scheme for dealing with the problem.

In brief, the bill would require every employer to compensate every employee whom he discharges, without any fault of the latter, at the rate of \$1 a day for upwards of six weeks in any year. After the law had been in operation for three years, the period would be increased to thirteen weeks. The insurance, or compensation, provided in the bill is, indeed, small. It is not an adequate substitute for the ordinary daily wage, even of unskilled workers. Labor would still have to bear the greater part of the burden of unemployment. Nevertheless, this payment is much better than the relief which the average employee is likely to get from charity. And it is *much more satisfactory to his self-respect*. Moreover, there is no reason why the rate of compensation should not be increased after a reasonable period of experiment had proved the plan to be sound.

THE ETHICAL ARGUMENT

The Huber bill recognizes the ethical principle discussed in my last article by putting the obligation of un-

¹ By Rev. John A. Ryan, D.D., author of "The Menace of Socialism," "The Minimum Wage," etc.; director Department of Social Action, National Catholic Welfare Council, Washington, D.C.

employment insurance upon the employer. Unlike the systems in vogue in Great Britain and some of the countries on the continent, the proposed Wisconsin law requires no contribution to the insurance fund from either the employee or the state. Since the state neither manages industry nor possesses the product, it cannot justly be required to furnish a part of the wage-earner's annual livelihood. Since no specific provision is made in the employee's daily or monthly remuneration for that period of the year when industry fails to provide him with work, he has no money to contribute to the insurance fund. In other words, he is ordinarily unable to insure himself out of his wages. Exceptions to this rule are sometimes found, indeed, as with some in the mining industry and the building trades, but these remain exceptions.

Where will the employer derive the money to compensate his out-of-work employees? From a mutual employment insurance association organized by the employers themselves, and operated under state supervision. Into the treasury of this association each employer will be required to pay a small premium periodically. An important feature of this arrangement is that each employer's contribution to the fund is determined by the regularity with which he keeps his labor force employed. The man who discharges a large proportion of his employees will pay higher rates than the man who discharges a small proportion. The influence of this provision in encouraging employers to keep their employees steadily at work is obvious.

Will employers be able to set aside sufficient sums to create such an insurance fund without raising prices to the consumer? At first they may not, at least not all of them. Even so, the plan is not unjust, since it puts the burden of providing a livelihood for the worker where the burden ultimately belongs, namely, upon those for whom the worker is engaged in turning out goods.

It is surely fairer that these should defray the cost of maintaining the workers during a period of enforced idleness, than that the community in general, or special groups in the community, should be required to do so through the medium of public or private charity. That is the arrangement which prevails at present, and it is fundamentally inequitable. *In all probability, however, the compensation cost would, on the whole, be negligible* for two reasons: First, because many employers could provide the insurance premium cost from their larger profits, resulting from increased management economies and improved production morale; second, and chiefly, because all employers would be induced to diminish very greatly the amount of unemployment.

STABILIZATION SURE TO FOLLOW

Because of this incentive which the proposed law would offer the employer, the bill is properly called a measure for unemployment *prevention*. The shorter the period in a year during which the employer is unable to keep his establishment in operation, the less will be the amount he will have to pay to his idle employees. The smaller the number that he is compelled to lay off during periods of part-time operation, the less likewise will be the burden resting upon him on account of unemployment compensation. For it is to be recalled that his contributions by way of premiums to the insurance fund decrease in proportion to the continuity of employment which he is able to provide. With these facts constantly before him, the employer will study the market more closely than he does today. He will estimate the future demand for his products more carefully and over a longer period of time. When he is tempted to expand his business operations and to increase his working force in response to an increased demand for his products, he will anxiously inquire how long this augmented demand is likely to last. He will ask himself

whether it seems to be only temporary, or at most, to cover only a few months. For he will realize that the new employees whom he engages cannot be discharged at the end of a brief period of unusual prosperity without any further obligation on his part. The sobering recollection will occur to him that every one of these new employees will have a claim upon the insurance fund for as long as thirteen weeks in the calendar year; and that his obligatory contribution to this fund will be accordingly increased. Nor is this all. These considerations will likewise all present themselves to the banker who is asked by the employer for enlarged credit to finance the contemplated business expansion. The caution of the employer will be greatly reinforced by the caution and conservatism of the banker. Were this principle of the Huber bill enacted into law in all our states, it would in all probability reduce immensely both the length and the intensity of business depressions. However, authorities may differ concerning some of the factors of industrial depressions, they are all agreed that over-expansion and overspeculation are among the primary causes.

AN AMERICAN PLAN

The financial responsibility which the Huber bill places upon employers would compel them to take other precautions against unemployment. This would be particularly true of the seasonal trades. In practically all these industries, a greater or less degree of their seasonal character is preventable. The length and degree of the slack season can be diminished by various commercial and industrial devices. A detailed description of these is not necessary in this place. It is sufficient to note that the thing has been done by many enlightened and humane concerns.

This prevention feature of the Huber bill is wanting in all the European systems. It is lacking in these systems because they fail to put the entire burden upon the

employer. Yet this allocation of the burden is not an innovation in principle. It is already exemplified in our workmen's compensation laws. These require the employer, without any assistance from the state or the employee, to pay the costs of indemnifying the worker for industrial accidents. The Huber bill extends this principle to unemployment. And the expectation that the employer will be interested in preventing unemployment receives strong confirmation from our experience with workmen's compensation laws. The latter have reduced enormously the number and degree of industrial accidents because they have made it worth the employer's while to install safety devices and in every other way to lessen, as far as possible, his financial liability on account of accidents.

REMOVES CAUSE OF "CA-CANNY"

Another important benefit which may be expected from the Huber bill is an increase in production through the abandonment by the workers of practices for the limitation of output. It is not necessary here to enter into a discussion concerning the extent of these practices, nor even to give a complete enumeration. It is sufficient to note the well-known fact that in certain trades the daily output of the worker is considerably limited through various rules, written or unwritten, of the union or group. For the most part, these limitations of production are not dictated by the laziness of the workers. Wage-earners are, indeed, lazy; so are the rest of us. There is no evidence that labor suffers from this defect to a greater extent than any other class. Most of the restriction of output for which labor is responsible is due to fear that present jobs will not last until new ones can be found. Moreover, the wage-earners are not the only persons who reduce production. In 1919 and 1920, labor restricted output in order to raise wages and prolong jobs; in 1921, employers restricted output in order to keep up prices and to keep down wages.

When the workers are assured of unemployment compensation during periods of enforced idleness, and when such periods will have been considerably shortened through the incentives which the provisions of the Huber bill offers employers to maintain industrial operations as continuously as possible, labor will no longer have the temptation to which it now yields of restricting output in order to make the jobs cover as long a portion as possible of the year. Here, again, we are not entirely without the evidence of experience. The principle of the Huber bill is contained in the agreements between employers and employees in the garment manufacturing industry.

ELEVATES HUMANITY TO THE LEVEL OF PROFITS

The principle of the Huber bill represents a great forward step in industrial relations, in the stabilizing of industry, in the substitution of law for industrial anarchy, and the recognition of the claims of labor to a continuing livelihood from industry. All of these considerations are of great importance, but the last mentioned is of greatest value from the viewpoint of humanity and industrial justice. Well-established and well-operated business concerns are in the habit of setting aside reserve funds during good years for the purpose of continuing to pay dividends to stockholders and to maintain overhead during bad years. The Huber bill aims to compel the employer to make a similar provision for labor. The claims of the wage-earners to such a provision are evidently greater even than those of the owners of capital. In the case of the latter, the thing at stake is, for the most part, the means of buying luxuries or making investments. In the case of the laborer, the thing at stake is his very livelihood.

If our natural resources of our industrial equipment were inadequate to provide security of livelihood for

the worker, we might be compelled to look upon the problem as insoluble. But this is not the case. We have abundant means to furnish all the workers with decent wages and adequate security for all the contingencies of industrial life, including unemployment. The problem is essentially one of organisation. Undoubtedly, other remedies for unemployment can and should be utilized, such as public works in dull times, and a reorganization of seasonal trades. Nevertheless, the method of insurance is more immediate and far-reaching than any of the other remedies. It need not wait on the others, and it would *accelerate* the adoption of the others. To refuse to put the insurance method into operation is to show ourselves at once inhuman, inefficient, and careless of the greatest danger to our industrial system. . . .

SOME BENEFITS OF UNEMPLOYMENT INSURANCE¹

As the effects of unemployment are far-reaching, touching not only the laboring class, but extending to the retailer, the small business man, and to everyone as a consumer, it naturally follows that an unemployment prevention law would benefit the whole body of society. First, and most directly, it would benefit the workingman who without such compensation insurance, at the chance of business irregularities, loses his opportunity of earning a living. Professor John R. Commons, in speaking of the importance of encouraging thrift, says:

Under present conditions wage-earners cannot plan ahead because they have no knowledge of when they will be laid off through no fault of their own. Their savings are therefore a kind of insurance fund against unemployment. A stretch of unemployment eats up their savings.

¹ From *Stabilization of Industry*. Woodlock and Goebel. p. 27-33.

This is quite different from the American idea of thrift. The farmer or business man is thrifty because he puts his savings into a farm or a business, expecting to have revenue without working in his old age. But if the wage-earner puts his savings into a home or starts payments on a home, he has no confidence that he can keep it up. It is security of expectations that encourages savings, not insecurity. The most important kind of saving for wage-earners is home ownership. And wage-earners cannot honestly be advised to build or buy or go into debt for a home, when they are faced with the insecurity of employment.

In the *Equity News*, April, 1923, official organ of the American Society of Equity, leading farmers' organization, we read:

The Huber unemployment prevention and insurance bill is designed to avoid as much as possible the wasteful and demoralizing effect of unemployment on farm labor and other laborers. The bill requires employers of six or more employees outside of agriculture to pay unemployment benefits to laborers when they are laid off through no fault of their own. During the period of exceptional business activity and high profits in 1919 and 1920, practically all manufacturing concerns offered wages to laborers far in excess of anything they had previously earned or could hope to maintain. I came across pressers in the clothing industry of New York paid as high as \$125 a week, where before the war \$25 a week was good pay.

Corporations in Wisconsin brought in laborers from the farms, from the south, from everywhere that their scouts could find them almost regardless of wages and cost. Then suddenly in 1920, they laid them off. The localities, the farmers, the taxpayers, the merchants found themselves liable to expense and loss on account of the unemployment created by the previous excessive profits of business.

This cycle has been repeated for a hundred years. It draws laborers off the farms. It demoralizes labor, makes labor inefficient and then throws them back on the farms. A student of mine interviewed about one hundred hoboes in different parts of the country, and the great bulk of them had been farm boys attracted to cities by these high wages, then thrown back on the farms and finally converted into tramps and hoboes. I have myself come across Wisconsin hoboes in the State of Washington who got their start off the farm in exactly this way. The unemployment insurance bill will benefit the laborers, will benefit the farmers, will benefit the state, and will not cost the employers anything if they use their business ability to spread out work evenly, or find jobs for their employees when they lay them off.—*John R. Commons.*

FARMERS OPPOSE FACTORY STOPPAGES

Dante M. Pierce, for years leading spokesman on farm problems, says in his *Wisconsin Farmer*, April 1923:

There is now pending before the Legislature the Huber Bill, which aims to prevent the return of unemployment, hard times and business depressions. At first thought it would appear that the farmer is not concerned with this problem. However, the farmer is vitally affected by city unemployment, as well as city labor.

It is common experience that the prosperity of the nation's business depends upon the market—the demand for goods. No one can realize this more than the farmer. The most important factor in this market demand is the power of the consumer to buy. This power to purchase expands and shrinks with the earnings of the consumers. The bulk of the consumers are city workers. If the city worker has steady employment, his earnings and ability to buy are more regular. Steady employment for the city worker, then, spells fair and steady market for farm products.

Since the wage earners of our cities and towns consume the bulk of the products of the farm, it is clear that the farmer has material reason for concerning himself with the unemployment problem. How much and how steady the factories furnish employment to the city worker determines the prosperity of the farmer.

The recent unemployment drove nearly eight million workers from their jobs. Their income stopped when the factories closed the gates. They were compelled to buy less. Still the farmer continued production, even when the market price for farm products fell far below cost of production. This regularly happens when factories shut down. In this manner, the farmer periodically is forced to suffer from the effects of unemployment. The decline in supply compels him to sell produce below the cost of production.

In modern society people produce not what consumers need but what people think the consumer needs. We all must buy the product which the other fellow produces. It follows then that there must always be a constant flow of goods from one group of producers to another group and vice versa. The worker must then consume less than he really needs.

As soon as one group stops production, a shortage is created. Others (the farmers and consumers) pay heavily for the restricted output. As soon as the factory stops production in order to keep up factory prices and to keep down wages, the farmer is compelled to pay the bill; for,

First, the farmer has to continue paying high factory prices; and second, he gets a low price for his product. There is lack of balance of power to restrict output in our economic system. The farmer should have the same assurance of a fair market as the manufacturer.

The unemployment prevention measure is aimed to supply this balance. Once enacted into law, the factories will be less willing to throw millions out of employment. They will assure more regular employment for the city worker. It will enable him to purchase the product of farms with less interruption; it will give the farmer more assurance of a steady market at a fair price, while at the same time working no hardship upon employers of labor or the general public.

David Friday, President of Michigan Agricultural College and leading economist says:

Unemployment compensation legislation, along the lines of the Wisconsin bill, is another step toward taking the risk out of industrial life which will eventually find general application throughout America, according to President David Friday of the Michigan Agricultural College. "The principle of unemployment insurance is economically sound and just," said President Friday in the *New York Times* of February 19. "The working man has just as much right to be insured against loss of his wages due to conditions over which he has no control as the merchant has to be protected against the loss of his place of business by fire. Before fire insurance became general there were skeptics who thought people would burn their property to collect insurance. Now there may be a belief that unemployment insurance will cause workmen to want to be out of jobs in order to collect their insurance. A practical working out of the problem will not lead to such malingering on the part of employees.—*American Labor Legislation Review*. March, 1923.

Henry S. Dennison, President of the Dennison Mfg. Co., Framingham, Massachusetts, (employing about 4000) before the 1923 legislative conference of the Wisconsin Manufacturers' Association in Madison, says in speaking of the superiority of the Wisconsin plan over the British system:

All that may be said against the English plan might be said in favor of the Huber Plan. First, the premium burden is not fixed like the British, but it varies with performance in regularizing employment. The British system taxes the employer most with the least unemployment; in the Huber Bill it is just the opposite—he pays the least, for his experience is most favorable. The English plan is a palliative idea of straight benefit insurance with no idea of prevention.

THE ETHICS OF UNEMPLOYMENT INSURANCE¹

Normal reasoning, which is the reasoning of mankind in general, accepts as self-evident the following principles:

Every person has the right on reasonable terms to enough material goods of the earth to permit a reasonable development of his personality. Man's dignity and needs postulate that. By reasonable terms we mean a reasonable amount of exertion. Every man's right to a decent living when he has spent a reasonable amount of exertion is valid in general against the society in which he lives and, in particular, against the person or the industrial or social institution to which society has transferred the function of production and distribution.

The industry in which a man works is morally bound to provide in the salary or the wage paid him for all his reasonable needs. Among these needs is a reasonable provision for future unemployment. When the industry fails to pay the worker enough to cover these reasonable needs to man as man, irrespective of alleged economic condition, then it must meet these needs as they arise; for instance, pay the worker unemployment compensation when he is laid off through no fault of his own.

RIGHTS OF MAN VS. PROPERTY

Since it is the duty of society to protect and enforce the natural rights of men, the state is morally bound to provide and to enforce legislation which will make the reasonable claims of the worker a first legal as well as moral lien upon industry. At the present time when the majority of workers are receiving less

¹ From an article by Rev. H. C. Hengel, Ph.D., member Committee on Social Action of the National Catholic Welfare Council; president, Wisconsin Association for the Prevention of Unemployment. *American Labor Legislation Review*. March, 1923. p. 64-6.

than enough to satisfy their reasonable human needs, the most practical way to enforce justice to the worker is to force industry to provide unemployment compensation. Government intervention is justified by the fact that the basic rights of the majority of workers to everything necessary to satisfy their reasonable needs are not recognized and provided for by voluntary means. Most workers who are laid off wish to work, but private employers will not permit them to do so. Let the state then force upon employers the legal obligation to provide and support unemployment insurance, even as it has quite generally forced them to provide accident insurance.

The Huber bill in Wisconsin affords a good illustration of the most practical way to approach the problem of involuntary unemployment. It places the responsibility where it belongs; that is, upon industry itself. It is a powerful factor in arousing the conscience of the people of Wisconsin and of the nation to the ethics of unemployment compensation.

UNEMPLOYMENT PREVENTION LABOR'S NEXT STEP¹

"America owes no man a living," said a statesman recently, "but America does owe every born soul an opportunity to earn a livelihood." "Why doesn't America give us that opportunity?" ask the jobless, the unemployed, those who are able, ready, and willing to work. For years labor has been asking these pointed questions: Is unemployment necessary? Should labor continue to bear its entire cost? Can it be prevented. How can the evil be mitigated. How is unemployment connected

¹ From an article by Henry J. Ohl, Jr., president of the Wisconsin State Federation of Labor. *Life and Labor*, organ of the Women's Trade Union League of America, February, 1925; also in *Journal of International Brotherhood of Electrical Workers and Operators of America*, May, 1925. Circulated to the two hundred and eighty labor papers in North America by the International Labor News Service.

with many of the larger problems of labor, of the consumer and the community?

Of all the ills that beset the minds of labor, unemployment ranks first. Unquestionably, it is the most persistent and also the most perplexing. It hangs over him every moment he is at work. It demoralizes him while denied work.

REWARD LOYALTY BY "NO WORK"

Labor's loyalty to industry is shown in the records of the post-war period when *increased production* per man was urged as a patriotic duty. The only reward for the general response to this plea came later when the factory gates were shut and nearly eight million were deprived of the right to earn a living. A serious study of the unemployment problem would be illuminating to the student of social unrest who hopes to understand the mind of the rebellious wage worker. Nothing deserves more condemnation than the lack of accountability on the part of those who are responsible for unemployment.

Many employers still actually believe that unemployment is a good thing for business, as an aid to discipline and low wages, and a means of "keeping the laborer in his place." Such employers are not conscious of the natural and inevitable trend of modern industrial life. Low wages reduce the purchasing power and the fear of no work commands respect only in periods of extreme distress. It is not effective most of the time. Industry must treat men as men, as humans in a democracy.

Nowhere is the new spirit more strikingly manifested than in the agreement recently concluded between the miner's union and the principal coal mine operators renewing the existing wage scale for three years. Bituminous coal mining has long been recognized as a conspicuous offender in the matter of irregular employment.

We are told that nearly two hundred thousand men could be transferred to other industries if coal mine operation were made regular—a most important consideration at a time when many industries complain of labor shortage due to restricted immigration.

CHEAP COAL, BETTER WAGES, PROFITS

But the public has an even greater interest in the statement, on trustworthy economic authority, that if mine operation were regularized, the earnings of all bituminous miners could be increased 20 per cent, the cost of coal to the consumer could be reduced by 10 per cent, and the operators could make profits on 40 per cent longer operating time. The new wage agreement, entered into by both miners and operators, with deliberate design, is expected to drive many unstable coal mines out of business, with a gradual stabilization of employment in those that survive.

American industrialists are proud of their ingenuity and resourcefulness. They are the first to admit that no job is impossible to their industrial initiative *if it has to be done*. That spirit is being invoked to overcome the effects of the new immigration restrictions. It has been successfully brought into play by some employers and some industries to improve industrial relations by stabilizing employment. Plans for unemployment insurance now in operation in a number of individual plants and in industries, notably the garment and the clothing industries, have proved a success and point the way to effective action by industry generally.

PREVENTION FOLLOWS RESPONSIBILITY

Notable progress is being made also in the building industry in the direction of providing all-year work. The engineers report, however, that relatively little is being done by those in a position to spread out the work over the year. The average building worker loses over 31 per

cent of the possible work time each year. Probably this industry also will not realize the possibilities of preventing unemployment until it is asked to pay for part maintenance of involuntary unemployment.

We all remember how employers claimed that they could not prevent accidents. Now that the law holds them liable for part of its cost, they have gotten busy on the prevention of the risk. Similar precautions are expected with unemployment; for both risks, while different, are admittedly preventable in large measure.

The railway shopmen are also confronted with the problem of irregular work. While railway managers concede it entirely practicable and possible to stabilize employment, railway shopmen are frequently forced to lay off for six or eight week periods. An examination of payroll figures of railway shops shows marked irregularity in volume of employment. The figures show that the amount of freight car and engine repair work that is turned over to the shops is fairly constant throughout the year. Still the number on the payroll of one typical shop normally employing around forty-five hundred varied as much as 40 per cent over the year. Obviously this is not due to "no work," but to *poor planning*, a management function.

A LOGICAL STEP

Experience in the United States during the past dozen years shows that there are four stages of industry's approach to the prevention of unemployment. *First*, there was indifference. *Then*, realization by industry of its own responsibility for unemployment. *Third*, experimentation by industry with plans to stabilize employment—the stage we have now reached. The *fourth* stage, which is just ahead, will be marked by the adopting of measures to make such stabilization of employment universal. In stabilizing employment, as in preventing accidents, I predict that a *new stimulus will be*

needed to arouse and to hold the interest of industrial managers, and that within a few years, the present reliance upon voluntary industrial action of employers will be recognized as socially too slow. Legislation will follow. Society must provide the necessary incentive, and make it universal, through unemployment compensation legislation.

Thus obligatory compensation will be the incentive that will secure the employers' and the bankers' perpetual attention and corrective action in dealing with this problem. Such legislation will pave the way not only to remedying this evil but also to eliminating it.

A PARAMOUNT ISSUE

It will encourage the extension and give permanency to such voluntary agreements as those mentioned above between labor and industry, at the same time protecting the weak and unorganized workers by inducing industry to furnish them steady work. Railway managers will then find it profitable to stabilize railway shop employment. Further, such legislation will tend to perpetuate general business prosperity and shorten the periods of business stagnation. This is of vital concern to all industry for it will mean steady employment and more regularity in the volume of business.

The magnitude of the unemployment problem is becoming realized by labor, engineers and progressive management. Its causes lie deep in the haphazard business policies that are now doomed to extinction. To pursue the age-old practice of restricting commodity output by ordering closed the factory gates—so as to hold up the consumer with high prices and labor with unbearable wages and work conditions—has now run its course.

In the mind of those who would promote the spirit of cooperation in our industrial relations of the future no single legislative measure can inspire greater hope when understood than unemployment prevention.

AN INCENTIVE TO BETTER MANAGEMENT¹

It would be a little difficult to excuse my presumption in coming from Massachusetts to Wisconsin to speak on a measure of this sort—to Wisconsin, who has more than once pointed the way to others by constructive legislation along similar lines in the past. But my keen interest in this subject of unemployment overcomes my modesty.

A BUSINESS NECESSITY

I have been interested in unemployment insurance mainly for this reason: I believe that business management is a profession—one of the finest of the professions. But it is as yet undeveloped and far from the stage in which we can, as professionals, take much satisfaction; and progress in this, as in any profession, can be made only by coolly, completely and scientifically studying the handicaps which exist. Now there is no doubt whatever that from the point of view of the capitalist as well as the laborer, irregularity of employment is one of the greatest evils of the industrial system today. I say from the capitalist's as well as the laborer's point of view, and those who know the costs of business and the cost of shutting down a factory need no argument to convince them. Even if one earns a larger sum per year at irregular intervals, it is impossible to be as well off as if the income is regular and steady. Workingmen realize this, for 85 per cent of our applicants will usually mention among the first things that they desire steadiness, and we can get the best of men for less than casual laborers if we can give them steady employment.

The Huber bill interests me as a measure of im-

¹ By Henry S. Dennison, president of the Dennison Manufacturing Company, Framingham, Mass., from an address before the Legislative Conference of Wisconsin Manufacturers' Association and the Judiciary Committee of the 1923 Wisconsin Senate, Public Hearing, Madison.

provement in the matter of irregular employment. I am convinced that a bill of this sort will act as a constant spur upon management to make steady progress in correcting the conditions of irregular employment. I do not expect this bill, nor anything else short of a divine cataclysm, to prevent unemployment within a year or two years, or even ten years. But I do believe that it would make for steady progress in this direction, and I know from past experience, as I think you all know, that it takes an incentive, a reminder, to drive human beings to progress. *As improvement of the situation lies in the hands of management, the unemployment insurance bill, as the accident compensation bill, will serve as a constant reminder, a constant incentive, to better conditions.*

I am interested in the bill for that reason, and also because it will afford some relief to those who suffer from irregular employment. I wonder if the effects of unemployment upon the mind of the worker isn't a great deal worse than the effects of industrial accidents. Losing one's job, or living continually under the fear of losing one's job, has a most unsettling and unstabilizing influence. It is impossible for men to give of their best, to become a live part of the organization they are working with, when they know, even if it is never to occur, that they can be and are likely to be dropped out of that organization. One cannot be a citizen of industry, one must be an alien in industry, when the job is constantly in danger.

A PRODUCT OF EXPERIENCE

In speaking from our own experience to show why I believe unemployment prevention is possible, I realize that I speak from the point of view of one industry and that it is a specialty concern, different from other industries. Nevertheless I have been around the country a good many years and have been in a good many

other concerns. I have discussed the subject with those in charge of many other industries, and fundamentally our problems are not so dissimilar.

The problem of irregular employment, which is common to practically all industries, we were forced to face some fifteen years ago because of the overhead it was costing us. Before telling how we met the situation, let me discriminate between irregular employment that is caused by the seasonal nature of an industry and irregular employment that is caused by the seasonal nature of an industry and irregular employment that is due to general business depression or the business cycle. Of the two, seasonal unemployment is the greater evil because it occurs more frequently. Though it is to a large extent foreseen it has only been until comparatively recently that steps have been taken to smooth out the seasonal curve of employment.

We had a very seasonal industry in the box business. We were losing time and the use of our equipment and always lost some of our finest workers during the three months shut-down. First we took hold of the problem by the sales end, but found that our salesmen considered it impossible to get orders before May or June for the following December. In about three years we began to get results. By that time our salesmen had learned that dealers were anxious to place orders for the following year when the experience of their mid-winter activities were fresh in their minds. They understood better what they wanted then than if they waited until May or June.

We have also in our business filled in our lines with items to be manufactured during what were previously slack periods when there was no demand for special goods. We have varied our lines in a way that many concerns would have found it impossible to do. We call it interdepartmental work and are planning it well in advance. In any concern the selling department and

the manufacturing departments can join to smooth out the seasonal orders.

Though the prevention of irregularity due to the business cycle is a much more complicated and involved problem, the work of the unemployment conference in Washington will, I think, offer sufficient conviction that enormous improvement could be made. In our industry we have suffered like others from the panic of 1907 and we could not afford to lose advantage of the lesson. By reasonable preparation we preserved our resources from over expansion in 1920. We reserved merchandising schemes which would help sales when needed, reserved advertising, reserved physical expansion of buildings and machines during good times and had reserved all sorts of ways to run through 1921 not one week less than 96 per cent normal. If we cannot smooth out the curve of business so that it flattens to a straight line, we can certainly remove the topmost peaks.

In the good years of 1915, 1916, and 1917 we set aside a reserve for unemployment relief out of profits which finally amounted to \$125,000. An employees' representation system was developed, so that by 1920 we had a joint committee of employees and employers in the management. We appointed a joint committee of six for unemployment relief and offered them the use of the fund. The results were convincing. We are unanimously agreed that there is no point in our business practice the effect of which has been as important a factor toward efficiency. Assurance of continuous employment gives a solid sense of permanency to the worker. It takes away the fear of capricious discharge and leaves a man on his merits as an expert worker. That is what we want. We want a worker to hold his job by his efficiency and he cannot do that if a depression throws him out of work. It is not true—it is 100 per cent untrue—that the worker is more efficient by frequent lay-offs. To say that it is good for him

to have the fear of God thrown into him is to speak in ignorance of human nature. It has worked out exactly the opposite. In our own concern a man's hold on his job is his efficiency in the job. If he is efficient he is not subject to the caprice of business conditions. From this policy we have got more value than from any other one kind of managerial device that we have ever put into effect.

A TOXIN FOR INERTIA

This bill which you have before you, to my mind, comes in the same category for betterment as the original accident compensation bill. It is not exactly the same of course; nevertheless it has this in common: When we faced the passage of that compensation bill, as you will probably remember, the first word the employers said was CAN'T. I was the only employer in Massachusetts to go and speak in its favor. We had not done much in the way of accident prevention. All the rest were sure it would drive them out of the state. Accidents, they said, were inherent in industry. The result shows what tremendous differences the passage of the bill made. It brought out a realization of the fact that the cost of accidents was always there, but had been concealed in the cost of production. Unemployment insurance will reveal the cost of unemployment in the same way. . . . It should not be looked upon by employers as a burden. It is an investment. Our own experience proved that. In the first years it will cost money, but I feel that as a whole it will be as fine an investment as employers can make. It will be an incentive to improve methods of management, and an inspiration to improve the spirit and technique of industry for the good of all. Any relief from the dread burden of unemployment and its cost will bring great social dividends.

LABOR RESOLUTION URGES LIABILITY¹

Whereas, The modern wage earner is compelled to lose from one-fifth to one-half of his time because of no work; and

Whereas, There exists a permanent reserve army of unemployed labor constantly varying in size from 1,200,000 to 6,000,000 and 7,000,000—labor constantly to idle because of the ineffective organization of industrial employment opportunities; and

Whereas, These workers are forced to waste away their energies and skill, and their families to live in want while warehouses are filled with the necessities of life held at inflated prices; and

Whereas, The employing interests are profiting by the practice of periodically throwing its workers onto the streets, for it tends to *increase* the surplus of unemployed labor and reduce the supply of finished products—thus undermining labor's bargaining power for wages and work conditions, and at the same time enabling industry to extract inflated prices from the consuming public; and

Whereas, The practice of restricting the supply of finished products reduced the total manufactured product from sixty-two billion dollars in 1920 to forty-two billions in 1921, causing a total of twenty billions of finished product unproduced and wasted—which, were it produced, could have increased the national income to elevate labor's standard of life to the level of comfort; and

Whereas, This practice of restricting production has enabled industry to charge prices high enough to maintain huge reserves from surplus profits. From these reserves industry pays wages only to its management, and to capital overhead in the form of rent, interest, and dividends during the unemployment while labor is compelled to bear its own overhead cost of 100 per cent wage loss; and

Whereas, The employing interests are admittedly responsible for unemployment, they have it within their power in the administration of business policy to prevent much of the irregularities in the volume of employment, while labor is totally without this power; and

Whereas, Past experience has shown that when the employing interests are required to pay their employes a part of the wage loss due to industry's accident, sickness and occupational disease hazards, they have successfully reduced them to a minimum; and

¹ Taken from the Proceedings of the Brotherhood of Railroad Firemen and Enginemen of America Thirtieth Convention. p. 809-10. Similar resolutions have been passed by state and local labor bodies. The American Federation of Labor has not endorsed the Huber plan and is recorded opposed to the British type.

Whereas, Whenever the employing interests have been required to pay part of the unemployment wage loss they have discontinued the demoralizing practice of overmanning the industry; they have budgeted their future labor needs in a scientific manner and have become active in organizing the market, for continuous production operation; they have lost enthusiasm for the long work day and immigration—paving the way for true co-operation in industry. More work days per year have been afforded those who are willing and able; and

Whereas, Rather than resort to charity for demoralizing doles, labor looks to industry, of which it is so integral a part for the right to livelihood by honorable employment. Therefore be it

Resolved, That the Brotherhood of Locomotive Fireman and Enginemen, here assembled in its Thirtieth Convention at Detroit, do hereby endorse the principle and urge the effective promotion of holding the employing interests in industry liable for a part of labor wage loss caused by involuntary unemployment.

BRITISH EXPERIENCE WITH UNEMPLOYMENT INSURANCE¹

Mr. T. W. Phillips, C.B., C.B.E., (Principal Assistant Secretary Ministry of Labor) said: I am going to confine myself to the working and principles of the National Employment Insurance Scheme in operation in this country. Since November, 1920, the National Unemployment Insurance scheme has covered practically all trades, except agriculture and private domestic service.

I should like to refer to two of the criticisms directed against the unemployment insurance scheme. The first is the criticism that the payment of unemployment benefit is *demoralizing*. What is sometimes meant is that it is much better for men and women to be at work rather than be unemployed and draw benefit. We should all agree with that. But it is not a fair criticism of unemployment insurance, which does not claim and has never claimed that it can find work for the unemployed. And in fact it is almost an impossible task to create work for any large number of those for whom there

¹ From *Unemployment in Its International Aspects*, the report of Conference of the League of Nations Union of Great Britain, held in London, March 25-27, 1924. Proceedings. p. 105-16.

is no work in their ordinary vocation. Heroic efforts have been made by successive governments to get work put in hand to relieve the unemployment and a great deal has been done. But the difficulties are enormous, and the results so far have been to absorb no more than a small proportion of the unemployed.

WHY ARE MEN IDLE?

Commonly, however, the meaning of the criticism that unemployment benefit is demoralizing is that those drawing benefit could get work if they liked. It is the unemployment and not the benefit which is demoralizing, and hardly any one would seriously object to paying a reasonable sum in benefit to those who are genuinely unable to get work. I believe, however, that a close examination of the facts will convince any unprejudiced person that there is little or no foundation for this particular criticism. I do not say that among the millions who claim benefit there are not a few malingers who may have succeeded in slipping through the meshes. But, taking the matter broadly—and particularly if we look at the great manufacturing and seaport towns of this country—the plain fact is that there has been no work of any kind or at any price for the great majority of those who have been unemployed.

I am convinced that, in all but a negligible number of cases, the rules and machinery I have described (of insurance administration) and above all, the close scrutiny by the local employment committees, have eliminated those who are not genuinely trying to get work. Let me illustrate the position by giving a few figures from an analysis of ten thousand claims made November, 1923. This analysis was made in such a way that the results can pretty safely be accepted as typical of the whole number. The figures show that two-thirds of the males drawing benefit and nearly three-quarters of the females were persons who in normal times would usually be in steady employment, while if those who would in normal

times be fairly well employed are added these proportions become nearly 90 per cent. At the other end of the scale are the persons classified as "verging on the unemployable." These amounted only to 3.6 per cent for males and 2 per cent for females, and consisted for the most part of elderly workpeople, who, in the past had not infrequently been for many years in pretty constant employment. These figures, be it noted, are proportions of the numbers drawing benefit; if the number classified as "verging on the unemployable" were taken as a proportion of the whole number of insured persons, the figure would be a fraction of 1 per cent.

THE ECONOMICS OF PALLIATIVES

The second line of criticism on which I would like to say a final word is more acutely conceived. I have known it argued somewhat paradoxically that the unemployment insurance scheme has been too successful, that it has been a mere *palliative*, that it has dulled the symptoms of unemployment and so made it possible to avoid a cure.

Let me admit at once that unemployment benefit has been a palliative, but a very necessary one. Even as it is, great numbers have suffered and are suffering severe privation and hardship. But it is probable that the total burden of distress and suffering has been lighter than it was in past years when unemployment was less pronounced and of far shorter duration.

When it is contended, therefore, that the unemployment insurance scheme has prevented a remedy for unemployment from being found, I think rather less than justice is done to a valuable specific for this terrible disease of modern industrial organization. I am not going to attempt any answer to the question whether there is a remedy; that is a question of political or industrial therapeutics on which there is room for much discussion and for more than one opinion. One thing, however, is certain. The immediate cause of our great

and long-continued unemployment is the failure of foreign trade. Until that revives, there is little likelihood that the industrial population of this country, organized and distributed as it now is, can again be restored to full employment.

BRITISH ACT STRAINED IN INFANCY

Dr. T. J. MacNamara, P.O., M.P., (Ex-Minister of Labor, in closing the discussion) said: "I could not easily overstate the great part played by the Unemployment Insurance Act during the long period of depression through which we have been, and still are, passing. It has had burdens put upon it never contemplated by its original authors in 1911, or even in 1920. It has borne them all staunchly and well, and it stands four-square today; for, even though today there are over a million people registered as unemployed, it has actually managed to pay off between £5,000,000 and £6,000,000 of the debt which it had incurred.

I look back upon the addition of the emergency, uncovenanted side of the scheme, the side on which benefit is paid in advance of contributions, as a really invaluable contribution to the mitigation of the problems with which we were all confronted when the slump came upon us with such suddenness and severity in the fall of 1920. If it had not been for that side, the act would have been a mockery to the great bulk—or, at any rate, very many—of the eight millions of people whom we brought into insurance for the first time in the fall of 1920, when unemployment was already severe and was in fact getting very much worse; people who would not have been able to pay the credit in stamps, which up to that time had been a condition precedent to the receipt of benefit. I say that was a very great and timely expedient.

I am also quite sure that the little additions, to which Mr. Phillips referred, which we were able to make on behalf of the wives and children of insured persons,

though vigorously denounced as wholly inadequate, have been most timely and most helpful.

This great act as it stands has done this: with its small additions for the dependants, *it has enabled hundreds of thousands of self-respecting men to manage just to avoid having recourse to the Poor Law*, and at the same time it has prevented the complete breakdown of the Poor Law system. Its extremely high contributions have been uncomplainingly paid by both employed persons and employers.

A STUPENDOUS TASK

Mr. W. H. Lock, of the National Union of General Workers, in moving a resolution, said: I knew that when the National Insurance Act was brought in, and before that act was on the statute books of the country, the condition of unemployment was very bad, and I know there was nothing for the children and the women who suffered at that time but mere soup-kitchens. The Unemployment Insurance Act came along, and a few trades were brought in to give the act a start. It has been badly managed up to now. We are hoping for improvement. But there is still the great economic problem of unemployment that students and administrators have to face, and if we do not face that problem, it is going to face governments and all kinds of institutions.

STATE WIDE SYSTEM COORDINATES INDUSTRY'S EFFORTS¹

In respect to *prevention*, gradual work has been and is being done from many points of attack. The health of the industrial system as a whole is here involved, depending on such influences as education, industrial peace, and such improvements of the industrial system

¹ From an article by D. H. MacGregor, *Journal of Political Economy*, December, 1922. Reproduced in *Some Aspects of Recent British Economics*, p. 29-38.

itself as make for good relationships. One general line of division is clear; *prevention will be developed slowly, but distress cannot wait*. The cost of adequate relief itself compels us to look beyond relief; not the financial cost only, but the cost in terms of waste of work and skill.

THE FAILURE OF "LAISSEZ-FAIRE"

Insurance is the largest aspect of remedy. We must start by making it good and then seeing how far we can devise means to lessen the liability cost. For a time at least insurance will be the chief stand-by. The criticism has been made of the present British act by leading employers that industries are far more capable than the state of administering insurance, and that they would prefer not to be interfered with. There is an obvious reply from history. There has been nothing to prevent any industry, during the last fifty years, from making proper arrangements to insure or maintain its own unemployed; industrial leaders have had a free field if they liked. But the fact is that they did not do it. It was left to the trade unions to do what they could. The state Great Britain has, in the 1920 act, proceeded *in default* of the industries themselves; and it is now too late to turn on the government and ask; "Why were we not left alone?" They were left alone long enough, and nothing was done. A late repentance is better than none, and insurance by industries is being made a rival scheme to the act.

THE CASE FOR FINANCIAL INCENTIVES¹

I. THE NEED

A program of regularizing employment requires the cooperation of three parties. These are, first and above

¹ From "The Regularization of Employment," being the report of investigations conducted under the auspices of the American Management Association, by H. Feldman, Ph.D., economist.

all, the employers; second, the workers; third, the state. To secure the cooperation of the last is a problem of governmental legislation and administration. But how get the active interest of the employers and the workers? Unless this question can be solved, this study remains a paper plan.

This supplies one reason for an interest in unemployment compensation. A study which mourns that failure of many ports to adopt the obvious methods available to decasualizing dock labors, brings out the point significantly.

Past experiments with registration and with surplus stands show that merely providing the machinery, however elaborate, will not insure success. In port after port voluntary registration schemes have lapsed into a state of suspended animation. . . . How, then, can we hope for better results from the same machinery in the future?

The answer seems to be the experiments in the past have failed because there was no inducement to either employers or dockers to make them succeed. . . . The experiments have shown that . . . if some real financial incentive could be attached to registration, punishing impartially the pockets both of employers and dockers, if they prevented the deflation of the register or refused to join in schemes for labor distribution, then the machine would acquire that force and precision which it now lacks.

By economists and observers of industrial method this point of view has been frequently expressed. One of the keenest criticisms is by Dr. Carlton Parker, who stated:

The heart of the problem, the cause, one might well say, of unemployment is that the employment of men regularly or irregularly is at no time an important consideration of those minds which control industry. Social organization has ordered it that these minds shall be interested only in achieving a reasonable profit in the manufacturing and sale of goods. Society has never demanded that industries be run even in part to give men employment. Rewards are not held out for such a policy, and therefore it is unreasonable to expect such a performance.

Various American reports and discussions come to the same conclusion. A recent investigation of seasonal operation in the constructive industries, by leaders in the

industry and eminent authorities, states: "Lack of responsibility of any one group for the situation, and the feeling that it costs nothing to lay off men, account in a large measure for the seasonal idleness of the industry."

This, then, is the most important advantage of an insurance plan—that, properly drawn, it tends to reduce unemployment to the minimum. When a lay-off threatens to cost a firm money, this financial penalty enters into the money economy of business and keeps attention focused on ways and means of regularization.

II. EFFECTIVENESS OF DIRECT MONEY PAYMENT

The psychological effect of this penalty and its converse, the incentive of saving money, is greater than the amount saved would warrant. This is the point that some students of the unemployment problem miss when they cast doubts upon the efficacy of a financial reward for regularizing employment. They say that the expense of unemployment compensation is likely to be so small as compared with the larger wastes of idle plant and equipment, that if employers do not make efforts to avoid the latter, they will not do so for the sake of avoiding the smaller expense of unemployment payments.

The psychological advantage of unemployment compensation is that it involves a definite, tangible money payment, while the losses of irregular operation are hard to estimate and are intangible. The average business man is extremely reluctant to incur such losses merely to avoid the uncertain and hidden expense of irregular operation. He may even admit that it would be more profitable in the long run, yet he finds it hard to operate purposely on a losing basis to secure a greater future reward. But when unemployment would deplete a fund he has set up, the choice cannot be deferred. It is between two tangible expenditures, an operating loss or a loss in the form of free payments to unemployed workers.

He is then likely to experiment with methods of keeping the organization together, perhaps, using as an addition to operating expenses the equivalent of the money that would otherwise have to be spent in unemployment funds.

This result is seen in any plan of the incentive type, even though voluntarily established. When an unemployment fund exists it is natural that everyone should want to conserve it. An interest in the possibilities of regularization of employment is inevitably aroused. Formal agencies are sure to set up to study methods of eliminating specific causes of irregularity. One firm made the requirement that the payroll division send a weekly report to the employment office, displaying the records of overtime, night work, and unemployment compensation in parallel columns. In this way a department which laid off workers one week and had night work or overtime the next became the subject of official inquiry, and better planning was enforced. One of the suggestions that came from the employees' General Works Committee in the Dennison Company was the development of commodities involving little material and much labor, such as paper novelties that require a good deal of handwork.

In the famous Liverpool dock scheme, which has done much to decasualize the work of thousands of dock workers, the main thing which first secured the cooperation of the employers seems to have been the slight reduction in the contributions payable for those workers to the compulsory health-insurance scheme. This small financial incentive was used as a bait in plans existing in certain parts of South Wales, with regard to the decasualization of the work of men engaged in ship repairing.

The result of incentive plans of compensation speak for themselves. There are several in this country, one of the most important of which is the Cleveland plan. The main purpose of this, as defined by the manager of

the employers' organization, is the elimination of seasonal employment "through the device of offering an incentive to the only one who has it in his power even to attempt it—the employer. The employer is not always in a position to eliminate unemployment, but he is the only one who can try to do so." The effects upon the industry have been marked. The records show that the Cleveland manufacturers did not even wait until the insurance plan was actually forced upon them, but, in anticipation of the granting of this measure by the referees, employed a well-known sales consultant to advise them as to means of securing a more regular distribution.

THE IDEALS OF UNEMPLOYMENT INSURANCE AND THE WISCONSIN PLAN¹

Prior to the war, relatively little thought was devoted to the problem of unemployment or to remedies for it in America.

As long as the volume of unemployment did not exceed two or three millions, few thought of it seriously. In periods when it reached four, five, or six millions, there appeared sporadic, superficial "investigations" with their stereotyped recommendations by labor organizations, chambers of commerce, civic groups, and—most common of all—mayors' committees.

Typical of the measures used to meet the unemployment problem were soup kitchens, bread lines, or occasional local government appropriations to create work for a few at cleaning up the streets and parks. Some dismissed the problem with "There's plenty of work for those who will work; unemployment is an individual problem." Some advocated migration, more charity, thrift, "back to the farm." Others suggested better organization of the labor market.

¹ From an article by Herbert F. Johnson, president of the S. C. Johnson and Son Company, Racine, Wisconsin, floor wax and varnish makers. Canadian Congress Journal, June, 1925.

Organized labor had repeatedly proposed to spread out the job; "As long as there is unemployment, the work day is too long." Employers were in the habit of explaining unemployment in terms of high costs and low profits; wages were too high, or the work day too short.

Increasing numbers of individuals in industry, labor, and the general public, however, were becoming convinced that the problem was not so simple, but believed it largely preventable and entirely remediable.

These attitudes and inadequate explanations of unemployment are still prevalent, and may be accounted for by the fact that relatively few are aware of the nature of unemployment and of its various causes. Few realize the limitations of employment opportunities under existing industrial conditions. Furthermore, the popular idea seems to be that the only unemployment which requires serious consideration is that which occurs during "hard times."

It is true that unemployment during industrial depressions, or cyclical unemployment, is the most spectacular, the most deadening in its social effects. It affects a much larger proportion of wage workers more severely than do other types of unemployment (the number unemployed being even quadrupled during a severe depression), but it is only one phase of a condition that affects all, not the wage-earning class alone.

Because they are less conspicuous, other forms of unemployment are not given the consideration that their real significance demands. In not one of the last three great depressions, 1907-8, 1913-14, and 1921, has the number of unemployed at any one time exceeded six millions, while the number constantly unemployed during normal years averages about one million eight hundred thousand.

When considered over a term of years, the waste which results from causes more easily controlled than

business cycles is almost, if not quite, equal to that caused by cyclical unemployment. Some of the causes which create this idle surplus of unemployed labor are the seasonal nature of certain industries and the general inefficiencies of management, which fails to prevent intermittent unemployment. But in undertaking to control this type of unemployment, management will have to solve problems, the mastering of which will pave the way, as we shall see, to controlling even cyclical unemployment.

REASONS FOR LEGISLATION

Present legislative proposals for mitigating unemployment in America are of comparatively recent origin, having received their impetus from economic developments of the last two decades, and from the experiences of industry, of labor, of the consumer, the farmer, and the locality as they have faced the unemployment problem.

I. INDUSTRY INDIFFERENT TO PROBLEM

Industry in general has not been sensitive to the problem of unemployment, nor conscious of the possibilities of its prevention. However, certain American employers have dealt single-handedly with the complex managerial problem of stabilization of employment. Without the aid of mutual cooperation of industry at large, it has required unusual vigilance and courage, but these experiments have proved both practicable and profitable.

They have revealed the importance of managerial talent of the pioneering type and the importance of long term planning and conservatism in expansion. While these efforts continue to yield big returns, their influence in inducing industry generally to introduce schemes for unemployment prevention is not noticeable; for normal profits are still possible for most concerns by following the usual procedure.

2. BOOMS BRING WASTE

The demoralizing effects of the boom or inflation periods are well known. Big wages lure labor from the farms and small local industries. Trainloads of negroes and Mexicans are brought in from the south like so much raw material. High labor turnover and the uncertainty of this period of rush order business with its consequent high prices drive consumers into frenzy. Production costs increase with the increasing waste in industry.

Complaints of speculative hoarding and shortage of materials are common. Employers, industries and localities outbid one another for the same labor. Living costs and factory prices soar; wages boom. The deserted farmer does not profit, nor does panic-stricken labor, nor the locality. In the crash of the reaction that follows, many are ruined. Uncertainty, unrest, and revolt grow.

3. UNREST CAUSES UNEARTHED

Industry was much worried over the unrest attending the past war boom and the demoralizing effects of periods of too much prosperity. The idealism of war promises encouraged talk of the new era, of "labor coming into its own." Many were asking "What's on the worker's mind?"

A group of University of Wisconsin instructors under the direction of Professor John R. Commons was financed by employers to make an extensive study of labor problems and output in plants from Wisconsin to Maine. They endeavored to find the bases of unrest, morale, efficiency, loyalty and revolt. They conferred in shop and out, with men of experience—employers, bankers and labor spokesmen. As a result of this investigation, they arrived at certain conclusions concerning the opportunities and responsibilities of management, and the importance of job security in modern labor relations.

4. ABUSES OF ABSENTEEISM

The bitter experiences of the localities most affected by the boom and the subsequent depression compelled some sound thinking. It was revealed that the dominant force that brings on depression is the plunging of reckless management, fostered by the blind greed of ruthless absentees in control of American business.

In communities burdened to the limit to support the victims and to repair the damages of anarchic business practice, there was the conviction that something should be done to reach those responsible, and to protect those not responsible.

5. "NO JOB" A REWARD FOR LOYALTY

Of all members of society, the wage worker was most seriously affected by the extremes of boom and depression.

Receiving boom wages, he paid with boom effort. He responded to the appeal, "the salvation of the nation and the continuity of employment depend upon low cost production and more production per man." With the expectation of job security, he increased production.

Suddenly he was hurled from the short-lived prosperous position to which the general prosperity had taken him, and many of his kind within a short time found themselves dependent on soup kitchens, bread lines, and "doles" from charity. From a total of 19,351 on the payrolls of Racine factories in March, 1920, only 6,192, or 65 per cent less, were on the pay-rolls in December, 1921. (United States Children's Bureau. Report no. 73, page 8.) Family suffering increased enormously, and in many cases, home life was ruined. The more thrifty had invested weekly savings in home ownership payment plans, and "no work" resulted in foreclosure.

The consequent demoralization that labor was compelled to endure is beyond repair. Its effects are far-reaching and remain as testimony of abuse and injustice.

6. BANKERS HIT FARMERS

The farmers were in revolt. The boom had ensnared this thrifty class of citizenry, mortgaged to the saturation point. They pointed to city speculation in their crops, to too easy money at the wrong time and for wrong purposes, to consequent inflation of land values, and the "politicians' manipulation of the Federal Reserve discount rate at the opportune time for the benefit of Wall Street," bringing on deflation and ruin. They say their market dropped below pre-war levels while the prices of factory products remained comparatively high. Farmers accused manufacturers of profiteering. They explained the high prices of factory products in terms of restriction of output and favoritism of banks in extending credit.

Balance between social groups was lacking. The farmers' purchasing power was ruined. Their ability to buy the products of the factory had declined. Realizing their inability to cope with industry's superior power, farmers turned to politics, hoping by means of legislation to equalize the situation.

7. PROFIT BY WORLD EXPERIENCE

Previous to formulating an American program for mitigating unemployment, European experience was examined to determine what to include and what to omit.

While British post-war conditions were subjecting the British unemployment insurance act to the greatest test that any measure of its kind ever faced, American readers found it impossible to distinguish between fact and fiction in the mass of material supplied gratis by interested parties. Certain facts are now available from the International Labor Office (League of Nations, Geneva), and from the official publications of the British Ministry of Labour.

England faced the gravest crisis in her history following the unprecedented strain of the great war, and

fortunately for England, though embarrassing for unemployment insurance, the act of 1920 became operative but a few weeks before the crash of the terrific post-war depression which overwhelmed England and the whole world. Inadequately prepared for the sudden influx into the insurance system of eight and a half million workers who had no previous contributions accumulated to their credit, this system has succeeded in the face of obstacles believed insurmountable

In fact, it succeeded so well that this depression, though by far the most severe in history, was the first England has ever experienced free from starvation, extreme distress and the demoralizing social consequences which had always accompanied depressions. (The Third Winter of Unemployment, page 69 ff.) The act is admittedly imperfect as a preventative of unemployment, but it was designed as a protective measure, and as such it accomplished its purpose.

BRITISH EMPLOYMENT FACTS

It is interesting to note the following facts concerning the British unemployment crisis that are not mentioned, or perhaps not understood, by many who adversely criticise the British Unemployment Insurance Act:

1. The 1921-22 depression was not caused by the Unemployment Insurance Act of 1920. We must not forget the World War and the fiscal policies followed in its prosecution.
2. Throughout the depression of 1921-22 there was a larger per cent of wage workers—both trade union members and unorganized—unemployed in the United States than in England. Ever since June, 1921, when the peak of unemployment was reached, England has experienced a more continual decline in the per cent unemployed than the United States.
3. Much of the criticism by Americans of unem-

ployment insurance in England is made by those who consider isolated and not general experiences—most of which bear no relation to unemployment insurance, but rather to aid given returned soldiers and war workers, and to relief measures which were administered by the unemployment insurance offices already created.

4. It has the unqualified approval of those representing British Labor. In addition, the British National Confederation of Employers' Organizations, in its report to the Ministry of Labour, states:

Whatever may have been the defects of the emergency measures initiated by the British government, the experience of compulsory unemployment insurance, as initiated in 1911, cannot be adjudged a failure in itself. On the contrary, experience since 1911 has proved that it is practicable in normal times to make provision by way of insurance for assisting bona fide workmen over periods of temporary and unavoidable unemployment.

5. The total cost of administration of the British act is 8.3 per cent of the revenue, being a lower rate than has ever been attained by any other form of insurance.

The recent Ministry of Labor report shows that the cost of administering the Act included the expenses of offices, salaries, stationery collecting funds, adjusting claims, traveling and incidental expenses, in addition to 95% of the expense of the entire British employment exchange system, which has been of great service to industry and labor as a central clearing house for employment opportunities. Still it costs but 8.3% of the revenue, while health insurance costs 13%, workmen's accident insurance 37.04%, and industrial (life) insurance 43.6% of the revenue. These striking differences are accounted for on grounds of the economy of quantity business, and the absence of profits, sales costs, etc. The last three forms of insurance are sold by private enterprise.—*Report on National Unemployment Act to July, 1923. p. 13, 156, 157.*

6. The British Unemployment Insurance scheme is sound enough financially; it has taken the responsibility of reimbursing the government for £17,000,000 advanced for emergency relief purposes, and is now paying off this amount at a rate of almost £750,000 a month.

The fact that increasing numbers of employers, work-

ers, and other citizens of Great Britain have realized its merits and have lent their cooperation for its success, the fact that all governments from the Baldwin Tory to the Coalition, liberal and labor administrations have contributed to its success, and the fact that its repeal has never been demanded, except by the extremist element, are convincing testimony that obligatory unemployment insurance is now a well established institution in British economic life.

The principle of insurance against the unemployment risk has, in America, received general approval of laborers, unbiased economists and progressive business men, though to some extent their approval of the British act has been qualified because of certain of its features. These same features have been generally criticized in Britain also. Though British opinion is positively favorable to the purpose and principle of this act as a relief measure, it is regarded as a fixed tax, lacking individual incentive to make work when possible. For example:

The British Act does not permit an individual employer to self-insure or to elect his insurance carrier. Being a distinct relief measure, the amount of premium is a fixed tax for each week an employer offers a man employment. The 1920 Act struck out a provision in the earlier enactments which provided for a rebate of one-third his premium to the employer who supplied steady work. Employers with a perfect record still paid two-thirds of the fixed tax toward the unemployment cost of others. The incentive was too insignificant to become attractive and was hence abandoned.

It fails to reward efforts successful in preventing the curtailment of the employment of labor. It fails to prevent unemployment and to regularize or moderate business.

It fails to reach the fundamental forces in the unemployment problem, the abuses of absenteeism and the banking system.

AMERICAN COMPENSATION PRINCIPLES

In the light of the foregoing consideration, it was apparent that there was a need for effective pre-

ventive, as well as protective, legislation in America. Conferences of representative citizens were held for the purpose of setting standards as guides for the drafting of state legislation. The following were agreed upon as essential features:

1. That industry be made liable for a part of the wage loss resulting from enforced unemployment, thus obliging industry to share the unemployment burden with labor. This is the cardinal issue on which all unemployment insurance proposals must stand or fall. All other features are subordinate and may be shaped to meet the necessary requirements.

2. That complete organization of the labor market, regularization of internal employment, and prevention of unemployment be the outstanding purposes of the act. Benefit features should be considered secondary to regularization of employment and the creation of work for labor. Labor emphasizes that its interest is not in the promise of compensation. Labor wants work. But compensation liability seems to be the only means of achieving the desired end.

3. That the requirements be strict enough to exclude the work-shy; that the amount of compensation be low enough to discourage idleness and induce the unemployed workmen to cooperate with the employment exchanges in searching for work; but on the other hand, that this out-of-work pay be sufficiently expensive to industry to induce it to stabilize employment and to cooperate with others through employment exchanges in placing those who are unemployed.

4. That voluntary effort be encouraged and state action be limited; individual employers, employers' mutual associations and the banking system should be induced to cooperate with each other and with the workers and public to moderate the irregularity of industrial employment. That the functions of government be limited to those of advice, aid, adjudication and the direction of em-

ployment exchanges impartial to the conflicting interests in industry.

5. That the burden of government costs involved be apportioned on the basis of responsibility and benefit received.

6. That the launching of the program be gradual, extending over a period of years.

AN EXTENSION OF EXISTING ACTS

In order to meet these specifications, it was found necessary to draft the measure on the skeleton of existing employers' liability, or workmen's accident compensation laws.

This measure proposes to extend the existing law to include a greater hazard—the accident of no work. Where the accident law holds industry liable for a part of the wage loss when unemployment is forced on the worker maimed in the course of employment (due either to inadequate training, plant equipment, organization, etc., or to the fault of the worker himself),—this proposal extends industry's liability to a part of the wage loss when the course of employment is interrupted because of the faulty financial, personnel, production, or marketing policies of those at the helm in industry. It places a limited liability on those responsible for, those able to prevent, involuntary unemployment.

It is also proposed to extend and improve the existing employment exchange system, which, though imperfect, has already demonstrated its worth. Many states now have the nucleus for a better coordinated system.

The act will be administered by state industrial commissions such as are already functioning in allied fields.

THE PRINCIPLE OF PREVENTION

The Wisconsin plan as formally drafted assumes that industry, with the cooperation of the banking system, is able successfully to prevent much intermittent, seasonal and cyclical unemployment, and that this will not be accomplished until sufficiently powerful incentives are cre-

ated that will start business men thinking and acting in terms of prevention, and will impel them to overcome the "can't" attitude, the inertia of inaction, and the tendency to "let good enough alone." Once the program is initiated, the movement for moderation and stabilization is certain to follow.

Our legislative experience in industry shows conclusively that the pressure of financial liability is a greater spur to progressive achievement than the mere prospect of additional profits. Hence the Wisconsin plan proposes to supply the necessary element, a legal obligation with financial liability.¹

Most unemployment is traceable to the manufacturing and mechanical industries, while retail trade and agriculture have the least. Further, the larger-sized concerns in all industries lay off a larger per cent of their work force and afford least regular employment. While the small concerns have least power, financial backing and influence, and are the least able to prevent unemployment, they lay off a smaller per cent of employees and afford more regular work. The Wisconsin plan, therefore, exempts all concerns that employ less than six persons. This provision excludes 52 per cent of the employing concerns, and only 3 per cent of the employees. Exempted employers may, however, elect to come within its scope. It exempts all farmers.

SETS MINIMUM STANDARDS

Beginning with the fourth day of unemployment, \$1 for each work day for males and females over eighteen years of age, and 50 cents for those between fourteen

¹ In Wisconsin there have been five drafts of the bill to date. The first four were introduced by Senator Henry A. Huber (now Lieutenant-Governor), the last by Senator Max Heck, of Racine. (1) Bill No. 122 S, February 4, 1921; (2) Substitute Amendment No. 1 S to Bill No. 122 S, May 3, 1921; (3) Bill No. 53 S, January 25, 1923; (4) Substitute Amendment No. 13 to Bill No. 53 S, May 10, 1923; Bill No. 123 S, February 3, 1925. Each draft contains slight improvements, but all have these elements in common: (1) the creation of unemployment compensation liability, (2) compensation paid to the involuntarily unemployed, (3) qualification for receiving compensation payments, and (4) individual employer premium rating system. Somewhat similar bills were considered in Minnesota, Pennsylvania, New York, Massachusetts and Illinois.

and eighteen years will be paid qualified persons. This rate is only a minimum requirement, a beginner. This \$6 weekly compensation covers, for example, but one-fourth of the wage loss of the worker who earns \$24 weekly, leaving three-fourths for him to bear. An employer or group of employers may supplement this amount to suit the needs, making the compensation payments proportionate to current wages, cost of living, size of family or seniority.

By voluntary agreement the workers may join employers to increase this amount, through some plan as the following:

By collective agreement between the S. C. Johnson & Son Co. and its employees, the unemployed are paid from $\frac{1}{2}$ to $\frac{3}{4}$ the usual wage rate during lay offs, for a maximum of 200 days. There is no waiting period. The employees have $\frac{2}{3}$ control of the fund. Upon passage of the Huber proposal, this contractual plant plan would continue with practically no change; for under it the workers' rights and amount of compensation would be far greater than the legal minimum.

PROTECTION FOR INDUSTRY

While the Wisconsin plan is essentially an employers' liability and unemployment prevention measure, it embodies complementary features to protect employers from sudden strain, especially the financially weak. It creates an employers' organization to manage unemployment reserve funds accumulated from the premium payments of individual employers. The unemployed are paid from these reserves. The size and number of compensation payments during unemployment are rather low at first, increasing somewhat at the end of the initial period of three or four years. During this period the payments to the unemployed may be suspended temporarily to safeguard solvency of the fund. Everything is aimed at prevention. Financially responsible employers are not required to insure their liability, though they may benefit greatly from such association. The insurance carrier is elective.

A BOON TO EMPLOYERS' ASSOCIATIONS

However, to assure protection of the weaker firms and to give assurance that the purpose of prevention would constantly dominate, a state-wide non-profit mutual insurance and reinsurance organization is created. While this one feature has drawn united opposition to the plan on the part of commercial insurance companies, this mutual combines the merits of commercial insurance and state fund insurance, and avoids both the objectionable features of the latter, and the high sales and administrative costs and profit of the former.

The method of rate making is such as to enable associations of employers in any industry or group of industries to assume responsibility for their own unemployment, thus possessing the additional advantage of insurance by industries, *e.g.*, the retailers' associations, or the master builders' associations may carry this insurance for their members on a mutual non-profit basis to the benefit of their members, as is now done with accident liability.

STATE MUTUAL AN EMPLOYERS' SERVICE ASSOCIATION

The state-wide mutual is distinctly an employers' organization, incorporated for very definite purposes. Any association of employers in an industry, by vote of its members and by otherwise complying with the requirements, may function as insurance carrier separate from the state-wide mutual. It is managed by directors who are policy holders elected by employer members. State regulation is negligible, being limited to the usual insurance supervision.

This mutual, as a trustworthy employers' service organization, will be not unlike some of the more aggressive carriers operating in other fields of insurance. In addition to managing the liability insurance reserves, it will organize reliable service to assist its member employers

and cooperating mutual associations in stabilizing business.

1. It will make extended studies into the causes of business irregularity, depressions and unemployment, and will recommend constructive preventive procedures and make suggestions that might be followed by members.

2. It will help each individual employer to solve his own problems of unemployment and of business instability.

3. It will organize the employment of the seasonal industries so that the worker will lose less time between seasonal jobs.

4. It will encourage conservative and gradual expansion and discourage unwholesome expansion that leads to unemployment.

PREVENTION VIA COOPERATION

The financial incentive will induce all employers to cooperate in prevention. Employers who elect to self-insure their compensation liability will feel the incentive most directly; for they will pay their unemployed from accumulated reserves held within the organization. The less unemployment, the greater the saving of the reserves.

Those who insure their liability for compensation will pay premiums into mutual reserve funds. The insurance premium of a concern will vary with the amount of its unemployment, as shown by standard records of employment experience. Periodic rebates or dividends will likewise reflect their effectiveness in reducing prevailing unemployment. The bulk of the premium charges will be paid during the period of good business, in times of prosperity and full employment. This will tend to check unwholesome overexpansion and lengthen the period of prosperity.

SEASONAL AND CASUAL EMPLOYMENT

Each employee will be paid while unemployed, but not to exceed one week of compensation for every four weeks he has worked for employers in the state. He must have been employed six months by one or more employers in the state, and must be capable of and available for, but unable to obtain, suitable employment. He is not to be asked to accept work where there is a strike or lock-out, or where the conditions or wages rank below those prevailing in that employment. Compensation shall not be paid when unemployment is caused by (a) voluntarily quitting work, (b) discharge for misconduct, (c) strike or lock-out.

The right to unemployment compensation payments shall not be assignable or subject to attachment; nor can it be legally waived.

CLAIMS PROCEDURE

The unemployed worker applies for employment at a designated local employment exchange or branch. Failing to obtain it, his claim for compensation is recorded; thereupon an order may be issued for out-of-work pay due weekly, if the claim for such compensation is not contested. Where the claim is disputed, it will be considered by the Industrial Commission. A still further appeal is provided by the regular courts. This procedure is similar to that under Workingmen's Accident Compensation laws. Relatively few cases of workmen's insurance are appealed. Once the precedents are established and published, knowledge of mutual rights and obligations minimizes dispute.

UNEMPLOYMENT PREVENTION ADVISORY BOARD

To facilitate harmonious administration of the act, a State Advisory Board—serving without pay, and consisting of an equal number of members to represent employers and employees—shall meet at the call of the

commission, and shall make recommendations that will aid in the general administration of the act. Similar local boards are also provided for.

This is the usual procedure in finding the one best way for administering and interpreting laws under our administrative system. Our fire, safety and insurance laws, our building codes, health orders, factory regulations, child labor and minimum wage laws owe their success to such cooperative advisory assistance.

PLAN PROFITS BY WORLD EXPERIENCE

The Wisconsin plan follows the well-beaten path of many other good measures. Begotten from the successful experience of progressive, social-minded business men of America, and encouraged by the very satisfactory experience of fifty-eight accident compensation liability laws in North America, it borrows some of the best features of successful European unemployment insurance laws, adapting them to the American unemployment problem.

Unlike the European laws, however, it will enable individual employers to profit by preventing unemployment, and at the same time make neglect expensive. The accomplishment of prevention will result from enabling employers to self-insure, and from creating an individual experience rating system. These features distinguish it fundamentally from all European systems.

MUST UPHOLD MANAGEMENT STANDARDS

Under the British plan, the efficient and prosperous employers are regularly taxed to subsidize the inefficient: Each employer pays a flat premium rate per week for each worker he employs. Thus the efficient employer who offers steady work is penalized, to pay for the unemployment caused by his less efficient competitor. The British plan in this respect tends to bring down manage-

ment standards by fostering the inefficient at the expense of the more efficient.¹

Those who are interested in the subject of "demoralization" may well concentrate on the existing demoralizing effects on industrial management resulting from the absence of proper incentives.

The Wisconsin plan, unlike the British scheme, will be a spur and encouragement to efficient management. The efficient concern will not be required to bear the costs of inefficient competitors. This plan will tend to make more difficult the continuance of inefficient management methods and of high costs. What is more demoralizing to the efficient than to be steadily taxed for the unemployment of inefficient competitors, and what more demoralizing to the inefficient competitors?

The superiority of the Wisconsin plan is so obvious that organizations of both British employers and labor now propose many of its features as amendments to the existing act. Sir William H. Beveridge, Britain's greatest authority on unemployment and former executive of His Majesty's Ministry of Labour, proposes to amend the present act by doing away with stamps, by striking out labor's contribution, and by putting it on the basis of compensation and prevention rather than benefit insurance.

FLEXIBILITY AND SIMPLICITY ESSENTIAL

The Wisconsin plan sets minimum standards just sufficient to start action in the direction of unemployment prevention. There is every encouragement to induce voluntary action in stabilizing employment and in pre-

¹ England accepted unemployment as a necessary evil and adopted unemployment insurance to aid the unfortunate victims. This may be explained in part on the ground that since more than one-fifth of its industry is devoted to foreign trade, Britain is in a less strategic position to prevent unemployment than America. Industry's ability to control the continuity of market consumption decreases as the foreign trade is extended. Foreign revolutions, embargoes and political conditions are less controllable than the domestic market. In America, less than one-twentieth of total production is for foreign trade.

venting unemployment by industry generally, and by individual employers.

It also encourages voluntary contractual plans, such as are now in operation in a few concerns, for the purpose of establishing a supplementary system yielding larger compensation—either through collective bargaining with trade unions or by plant agreement, and possibly providing for joint contribution and control. There is nothing in its basic structure to prevent amendment if experience should warrant a change; *e.g.*, in the method of accumulating the reserves, or in the amount of compensation as from the flat rate to a *variable* rate proportionate to wages, possibly with special provision for men with wives and children.

The employment exchange system in some states or provinces will need some change for closer coordination to facilitate transfer of the labor surplus and the dissemination of employment information. Since the standards for the experience rating premium system are completely outlined, all details of rate-making and special problems are left to properly advised commissions without separate legislative enactments.

Simplicity is essential to so important a measure, especially while serving its introductory period. All social legislation must be introduced gradually and each step tested by experience, for all social improvement develops slowly, as the evolution of accident compensation laws illustrates. But there must be a beginning, and the first step is to get the principle enacted into law.

This proposal was purposely made flexible to enable those included in its scope to cooperate in working out the problem with the assistance provided by the government. The original accident laws merely set the standards. They established the principles that serve as guides for commissions in administering detail. Thus they are able to meet new situations without awaiting

special legislative enactments and avoid the delays common to our formal court systems.

PREVENTION SETS PREMIUM COST

The amount of the employer's premiums will vary with the type of compensation system enacted, the amount and duration of payments, and the effectiveness of management in preventing unemployment. For example:

1. The Ladies' Garment Industry Plan of Cleveland, in its first year (which was in the depression of 1921), cost on an average for all firms in the industry 2.6% of the total annual payroll of nearly \$2,600,000. The cost to individual firms ranged from nothing to 7½%. Since 1921, prevention efforts have materially increased the number of firms having low compensation costs, so that the average cost for the first thirty months is 1½%.

2. The Men's Clothing Industry Plan of Chicago (covering about 38,000 workers) grew out of the 1922 union wage demands. Instead of granting a flat 10% increase, the arbitrators awarded a direct wage increase of 7%, with an additional 1¼% to be deferred for out-of-work relief reserves. These reserves are supplemented by another 1½% that the employer pays—totalling 3% of the pay-roll. When a concern's reserve reaches a certain size, further accumulations are not required. Thus, by stabilizing employment, a concern—without increasing payroll cost—pays a direct wage 1½% greater than its less efficient competitor; and at the same time it saves 1½%. This inducement has proved to be quite sufficient to impel cooperation for prevention. Good work has commenced. We may expect continuous operation in this industry in time, with lower prices as a natural consequence.

Under the proposed Wisconsin plan, with its rigid qualifications and waiting period, the initial cost should not exceed ¾ of 1 per cent of the annual payroll of the state. Of course, the cost to individual concerns will vary with employment experience.¹

¹ After allowing for dividends for prevention, the cost may vary from practically nothing to 1½ per cent to 2½ per cent of the payroll. From Sir William Beveridge's figures of maximum cost, with compensation raised to 50 per cent of usual wages and allowing for no prevention, the cost would be about 1 per cent of the total payroll. As unemployment prevention becomes effective, the individual and average cost will decline.

CAN'T "PASS ON" THIS COST

EFFECT ON CONSUMERS' PRICES

Since production costs are related to prices, the consumers of the nation are vitally concerned with the many aspects of the problem of unemployment compensation and prevention. The argument is made that it will result in higher prices of factory products. This claim is based on theory unsustained by business experience; for

1. It is argued that compensation payments must be paid from enhanced price of products, being an additional cost in production. This is taking for granted that all unemployment is inevitable and cannot be reduced, though experience shows that it is reducible.

2. It assumes that all waste in industry has been eliminated, although engineers report (Waste in Industry, page 9) that the amount of prevalent waste in industry that good management might prevent varies by industries from 50 per cent to 81 per cent, averaging 67 per cent. Labor's responsibility is estimated at 15 per cent of the average, and outside factors at about 18 per cent. Labor and the community can assist in eliminating wastes, though managers of industry are in the most effective position to initiate action in this direction.

Where employers fail to prevent, the compensation costs may be paid either by the elimination of waste other than unemployment, or from the profits of improved morale and production that labor renders in return for the assurance of steady employment. Unemployment compensation should pay its way in both tangible and intangible benefits.

Col. William Cooper Procter, in speaking of the Procter & Gamble plan which pays full wages to its employees out of work, says:

I believe from the economic side, the plan is sound. It was inaugurated and is maintained without cost to the company,

although it may not be possible to show on paper the exact financial return. The regularity of operation of contented and loyal employees has an economic value hard to define. In the words of N. I. Stone, veteran engineer and management scientist, unemployment insurance will "lay to rest one of the principal obstacles to increased efficiency on the part of the worker . . . the fear that by increased efficiency he works himself out of a job. As a labor manager who is constantly called upon to deal with this problem, I venture to express the opinion that the gain in efficiency on this score alone will far outweigh the cost of the premium."

3. In making the claim that compensation will enhance prices, some revert to a specie of theory which has long been discarded by practical men in explaining economic phenomena. They assume that we live in a static society of perfect bargaining equality, that each buyer and seller possesses equal information and power as they bargain in a "market" that exists only in imagination. But buyers and sellers are seldom on such parity. Furthermore, America is a growing nation. The demand for goods is expanding. Our economic system in dynamic rather than static.

By making it financially more profitable for the employer to eliminate costly waste, the proposed law will lower costs. The "danger" of higher prices is often pointed out to the employer and to the consumer by those who oppose unemployment insurance legislation, thus diverting attention from its fundamental issue—the stabilization of industry.

LOW PRICES IS PREVENTION GOAL

Cost of production can set only the lower limit of prices. The upper limit is set by various complex conditions. Where virtual monopoly exists, the price will be set as high as the traffic will bear without destroying demand for the goods. Monopoly prices may be set irrespective of costs.

Competitive business, however, will be unable to pass on this cost, where it fails to eliminate the unemployment

risk by prevention. Rigid economic forces will defeat attempts to make the consumer the victim. Since the Constitution requires that regulation of industry shall be a state, and not a Federal, prerogative, unemployment compensation liability laws will not be uniform over the country. It is unlikely that more than one state will ever adopt the identical plan at the same time.

This fact is significant, for it means that factory products of states requiring compensation liability must compare with the products of states that do not require compensation, and that, because of this competition, industries which were not successful in preventing unemployment, and hence in keeping down compensation costs, could not pass the compensation cost on to the consumers in higher prices.

To the inefficient concerns, the factor of high cost may mean inability to compete. They will be compelled to face the question of either continuing present practices or engaging in a program of unemployment prevention. In the absence of restraint of trade, the former course will mean higher cost burden and hence lower profits, or closing up shop to make room for the more efficient; the latter course will bring improvement in planning and financial, sales, production and personnel policies. It will mean large-scale study and action in removing the fundamental causes of business irregularity and unemployment. It will mean prevention.

"LEAVE THE STATE" A BOGY!

Industry cannot avoid the question of prevention by deserting the state. Experience and the study of the major factors that determine plant location and expansion prove that the passage of an unemployment compensation act will not in any way curb the general movement of business expansion. Capital being fluid, it settles, in the form of business expansion, in centers of security and opportunity. Compensation laws increase,

rather than decrease, the investor's security since they allay industrial unrest.

In the choice of plant location, it is but natural that all influencing elements be scrutinized and weighed. The elements with greater weight are the location of materials and market; *i.e.*, generally freight rates rank first, then raw materials and labor market conditions, etc. These are far more important than the cost of compensation laws.

New York City remains the center of the ladies' garment industry and holds its own in men's clothing in spite of the obligation to pay 40 per cent unemployment wages to ninety thousand of its workers. A comparison of the premium costs for employers' accident liability in different states shows that this cost for identical occupations varies between neighboring states as much as $2\frac{3}{4}$ per cent of the payroll. Still there is no sign of factory emigration.

CAN'T LEAVE—MUST PREVENT

Observation shows that while threats have been numerous, cases are unknown where industry has left the state because of compensation. Such agitation may be of value to employers in frightening away possible competitors for the local labor supply; but even for this purpose its efficacy has not been demonstrated.¹

To say the least, it appears inconsistent to assert that this potential increase in payroll cost must be paid for by the consumer in higher prices and then to allege that industry must pay it out of profits, or leave.

¹ The 1920 United States census on manufactures shows, by the most reliable indices of business expansion—"value of manufactured product" or "value added by manufacture"—that Wisconsin, even though it has lost heavily due to timber depletion and prohibition, has in the last ten years expanded more rapidly (159.1 per cent) than the average manufacturing states of the country (153.6 per cent) and also faster than her neighbors:—Minnesota (114.1 per cent), Illinois (113.5 per cent), Iowa (113.9 per cent), Indiana (135.8 per cent), and if we exclude the auto industry, we may add Michigan. Wisconsin has higher income tax, accident compensation and other factory laws than her neighbors. Since it is true that capital settles in places of greatest opportunity, one may conclude that such legislation creates opportunities for industry. (*See Wisconsin Blue Book, 1923, p. 29.*)

It is of interest to notice that in the states with highest accident liability cost the per cent of accidents in the same occupations is least. When industry is compelled to face the issue of high costs or prevention, experience has proved that it chooses the latter alternative. When prevention becomes more profitable and its neglect more costly, it becomes worthy of consideration.

DEMAND AND SUPPLY NOT CORRECTIVES

At present the consumers of the nation are paying a large portion of industry's costs that grow out of unemployment, as a part of the prices paid for factory products.

Industry's lack of initiative and interest in a broad prevention program may be further accounted for by the fact that those who determine the larger business policies do not appreciate the significance of this neglect. Business men are ignorant of the cost of unemployment. Few firms have cost accounting systems; still fewer know the costs of their wastes due to unemployment.

The present state of competition in the general market fails to induce industry generally to investigate these wastes and to undertake to eliminate them. The establishments that have prevented unemployment are still so few that they do not affect market conditions sufficiently to compel general unemployment prevention. While their costs and prices may be lower than the average of those competing in the market, their output is too slight to affect prices materially; the mere prospect of some more profits has failed to prevent unemployment generally.

Industry's ability to pass on to the consumer much of the present excessive cost of such wastes as general inefficiencies, labor turnover, and idle overhead costs thwarts the introduction of more scientific and more economical business practices, even after the merits of better methods are known. Because these wastes are prev-

alent, because they are common to most firms, they are not major factors that cause competitive price changes or that determine or test the survival of a firm. These costs continue to exist because those who can control them and are responsible for them do not pay for them.

Though prevention has attracted some attention since the war, there is no adequate inducement to maintain the interest of captains of industry. Therefore, it becomes the duty of the state to enact legislation that will compel action toward prevention and serve as a constant spur to induce every manager to think in terms of business moderation, in terms of continuous and regularized quantity production rather than in terms of short-sighted unsteady production.

SALVATION VIA PRODUCTION

Regularized production will have its favorable effect upon the level of prices. The increased and constant quantity of production resulting from unemployment prevention, together with the price-reducing influences of free competition, will impel industry to adopt a different attitude toward production and profits.

Steady work creates steady income and a steady market for goods, with a higher purchasing power. Industry can then afford to operate on a lower profit margin per unit of output, and still yield the same or better returns to investors, because of the volume increase in production and reduced overhead and other costs. With the aid of compensation legislation, the law of supply and demand will encourage and reward those who are successful in reducing production costs and prices.

Thus we are brought back to the slogan of 1919 that "the salvation of the nation lies in greater production per man." Both capital and labor will have powerful incentives to keep the wheels of industry going steadily for the common good.

SURVIVAL OF THE UNFIT

The public contributes heavily to industry's unemployment bill, not only in the price it pays for goods, but also through public and private charity. Unproduced wealth is, of course, a further loss to society.

Unemployment undermines the nation's wealth and vitality. Every day that a man is forced to idle, the nation is poorer by the value of one day's production than it would have been had he worked. In times of national emergency we would scorn one as a slacker or a traitor who impeded or prevented production that increased the wealth of the nation. This crime against the general welfare is no less reprehensible in times of peace, even though we have become accustomed to it.

The wage loss due to normal unemployment is around \$2,000,000,000 a year, and during depression it runs to about \$6,000,000,000. Since one usually produces more wealth than one receives as income or wages, the conclusion is inevitable: the nation's loss in production is far greater than the wage loss. And further, if the factories could keep running to consume the nation's normally available man-power, how much lower could industry afford to sell each unit of its increased production and still yield a fair profit!

MORE PRODUCT, LOWER PRICES

With the decreased cost of living brought on by more efficient management, and with the security of employment and income which would result from unemployment compensation liability, labor could not afford to accept a lower hourly wage rate than under present conditions. The railroad shop crafts, clothing workers, a few building trades, and many other unions have long advocated this idea in an effort to reduce production costs in a constructive way.

Labor's overhead cost (cost of living) continues

regardless of employment opportunities. Any equitable wage system must take unemployment into consideration.

The resultant lower wage cost per unit of product, greater managerial efficiency, more constant production, and better morale and workmanship, will benefit the consumer in the form of lower prices. Moreover, the inevitable lower costs will certainly enable the employers of one state successfully to compete with the less efficient employers in other states who have not launched upon an unemployment prevention program. Once established, a good measure is soon copied by other states.

TRUE CAUSE OF "DEMORALIZATION"

Much is being made of the idea that to receive out-of-work compensation when unemployed would demoralize the worker. It is argued that "to receive something for nothing" would undermine character and destroy initiative and individualism. The literature of commercial insurance companies particularly stresses this point, just as it did fifteen years ago when they opposed the accident compensation laws.

"The assurance of compensation when one is unemployed due to accidental injury will prove ruinous," they said. "Men will injure themselves in order to get compensation without work." Nevertheless the laws were passed, and this argument subsided for want of material proof.

These objectors now argue that the unemployment compensation will demoralize labor. Thus they distract attention from the real issue, the problem of unemployment prevention.

Whether we should be active to forestall any legislation that will tend to undermine the character of man is not open to question. But there are other things more demoralizing than the right to receive compensation during periods of enforced unemployment.

INSECURITY DEMORALIZES LABOR

It might be well to consider the *deteriorating effects of unemployment itself* when forced upon the worker through no fault of his own, the effect of being compelled to idle when anxious to work, the lowering of moral and spiritual tone that comes from the consciousness of having lost his standing as a productive member of the community. Moreover, it is not only those actually out of work who are demoralized. The realization of the insecurity of his job in normal times, and the continual fear of unemployment, inevitably depress the spirit of the workman and affect his skill and morale as a producer.

The evidence is conclusive that demoralization comes to labor not only during unemployment, but during the excessive boom preceding a depression as well, during the period of abnormal prosperity when the workman is attracted from his regular occupation to work in big organizations whose inflated business makes it possible to offer high wages temporarily.

Such sudden prosperity, to one unused to it, is as demoralizing as the hardship of poverty. He spends in proportion to his daily wage. When the high wages fall, as they inevitably do, or when he loses his job entirely, as great numbers of workers do in the reaction that follows boom periods, the effect upon the morale of the worker and his family is serious indeed. He receives, for a short time, wages far in excess of his normal rate; then suddenly through no fault of his own, his income is materially diminished or cut off altogether. It is such influences that disorder and disorganize the workingman's life.

BOOMS DEMORALIZE MANAGEMENT

"Demoralization," however, is not confined to the wage-worker. Inflation and the subsequent depression are often as demoralizing to those who control industry as to the workingman.

Inefficient management is responsible for the bulk of unemployment as well as for many other wastes in industry, and it is always *demoralizing to those with power to be able to "get by" and shun their responsibilities*. Industry's ability to profit in spite of this waste that better management might eliminate is harmful to itself, for it stunts its fuller development. The time is now ripe for measuring the efficiency of management.

If labor were relieved of the demoralizing fear of unemployment we might expect superior quality and quantity of production, but if we could remove the forces that have so long demoralized and forestalled improvements of management, many times more social wealth could be created than is possible by the efforts of labor alone to increase production.

WHERE RESPONSIBILITY LIES

Those who control industry hold the key to the situation. Labor is ready to cooperate, for the benefits would be a mighty incentive. But industry continues to neglect the unemployment problem so long as it does not directly feel the pressure of loss in the form of reduced profits.

Compensation liability will furnish the incentive to more efficient management and, instead of being a demoralizing force, will prove to be a perpetual challenge that will serve to stimulate the entire industrial system. Besides being the most effective known means of preventing the physical deterioration, mental and spiritual demoralization of the wage-worker, while at work and while denied work, *it will bring out the best in management and labor*.

COMPENSATION IS THE KEYSTONE

Unemployment insurance legislation is not considered a panacea, nor a substitute for the many suggested-and-tried devices for meeting unemployment. It is consid-

ered rather as the keystone in our employment program to which these other proposals would be complementary.

Every measure of sound merit should be utilized in the effort to eliminate the menace of unemployment. As complementary measures for dealing with it, we may well consider among others: further extensions of our Federal Reserve system to curb abnormality in business activity; permanent extension of our Federal and state coordinated system of employment exchanges or placement offices; extension of vocational education and guidance and part-time education; raising the compulsory school age; further restrictions of the employment of children, and protection of women in industry; higher wages and a shorter work day; reorganization of our immigration and emigration policy; greater thrift; voluntary efforts to stabilize business; a permanent program for the production of materials needed for our government and public service corporations in times when they may check rather than exaggerate the abnormalities in business activity and dovetailing of public works with industrial unemployment.

Unemployment insurance will stimulate not only management, but labor and the community to think of this remediable evil as we have learned to think of "safety first."

ALL WILL COOPERATE

In conclusion, unemployment insurance, if properly conceived and administered, will prove beneficial in a direct way to almost every group in society. It will care for the residue of unemployment unaffected by preventive measures. It will give our unemployment program energy and constructive enthusiasm. But most important of all, it will awaken the employer, the banker, the absentee owner, and labor itself to the facts of this complicated problem which have hitherto been unknown or unappreciated.

It will induce the cooperation of those who are in any way able to control the conditions that cause unemployment on a sound program for eradicating the unjust condition of no work for those able and willing to work.

Once initiated by compensation legislation, the movement for unemployment prevention will be accelerated and guided by it, and will bring about greater production, better living standards, and more sympathetic relations between the interests in industry.

AN INSURANCE COMPANY ADVOCATE¹

Among the major problems of labor today is the question of unemployment. It affects nearly every person who depends on a job for a living and its ultimate solution will revolutionize the lives of the wage earners. We have been constant advocates of the proposition that at this time seems to us as the best and only solution, viz: *unemployment insurance*.

While skepticism as to the feasibility of unemployment insurance is in the minds of many a hard headed business man, Mr. Haley Fiske of the Metropolitan Life Insurance Co. quietly makes the announcement that his concern is ready and willing to write unemployment insurance just as they are writing life, sickness and accident insurance and prospering while doing so.

Before the Metropolitan or any other insurance concern can undertake this very revolutionary step the state laws will have to be changed permitting them to do so. The important thing to remember is that the largest insurance company in the United States is ready to do business as soon as the law permits. Business men today are not wont to rush into print about plans that are half baked and it is therefore reasonable for us to assume that

¹ By William Kohn, President, Upholsterers' International Union of North America. *Upholsterer's Journal*. p. 220. December, 1925.

Mr. Fiske and his associates have given this subject careful thought and find it not only feasible but probably profitable for after all the Metropolitan is a business concern and not a charity organization.

M. Fiske states:¹

Nothing annoys me more than to have the English unemployment benefit system referred to as the "dole system." That word conveys the meaning of charity. But as a matter of fact, the unemployed in England have contributed their share toward the payments made them by the Government.

The English system is really nothing but an unemployment insurance to which the employee, the employer and the Government contribute their share regularly, the employee having a certain amount deducted from his wages every week.

We could get very well started on the basis of the (statistical) data made accessible to us by the British Government and by other figures showing what certain American private corporations have accomplished in this direction.

The Ministry of Labor warned me that in entering into unemployment insurance it was necessary to consider the question of seasonable employment, certain industries being affected at certain times of the year by a drop in demand owing to the time of year. At such times, I was told, it happened that the number of claims paid was far larger than the amount received in premiums. At other times, of course, the receipts are greater than the claims. In other words, an insurance company undertaking this kind of insurance needs a fairly large reserve in times of unusually extensively unemployment.

There have been many objections to the idea of insuring workmen against unemployment on the grounds that a large percentage of them would prefer malingering on a fairly comfortable benefit than working regularly. The British authorities have assured me that a very small portion of the large army of unemployed in England are guilty of malingering.

The Metropolitan Life Insurance Company, which next year will have a surplus of \$2,000,000,000, is in a position and is willing to experiment with unemployment insurance. It has the necessary reserve and it already has formulated rough plans on which to work, once the Legislature has given us the requisite laws.

Mr. Fiske added that he already has received assurances from the American Federation of Labor that it is willing to cooperate, and several large corporations employing many thousands, including the Delaware and

¹ From *The (N.Y.) Evening World*, December 7, 1925.

Hudson Railroad, have informed him that they are interested in the plan and willing to experiment with it.

SOME QUESTIONS ANSWERED¹

I. *What about the sacred family?*

There has been much lip talk about the sacredness of the family, but little constructive effort has been expended to prevent deterioration. As an institution for progress and civilization, its value cannot be disputed. But on oratory alone the family may not endure. What is undermining it?

The economic reports show that the great enemies of this institution, such as crime, poverty, suicide, infant mortality, illegal employment of children, malnutrition and domestic strife—all increase in magnitude during periods of joblessness. Temporary unemployment has become a blight to the home. The presence of our paliating system of relief makes matters worse. For those families, whose stoppage of income compels them to invite outside assistance temporarily, are forced to pay heavily at the mercy of private charity doles dispensers.

The spirit of brotherhood displayed during the solicitation drive for charity funds is seldom in evidence when aid is administered. In response to the noble appeal "Am I My Brother's Keeper" funds are subscribed to generally by the public spirited citizen, the local merchant, the craftsman, the school teacher and the professional classes. Under pressure the factory worker's contribution is deducted from his pay. 'Tis true that very often the employing interests in industry make slight contributions—even though half the distress cases are traced to business irregularity! Seldom is this service administered by persons with adequate life experience. They are devoid of

¹ By William Collins, general organizer, American Federation of Labor.

the understanding, the sympathy and the soul of the good Samaritan.

What must one endure to obtain consideration as an applicant for their meagre doles? He must submit all the intimate and tender matters of his private family life to cold statistical analysis. His home affairs are spied into, snooped and exposed. Personal matters are trampled upon, pried into and permanently recorded—for the convenience of the employing interests and others. Nothing is too small to escape their notice, for nothing is held sacred. What is more ruinous to one's pride, self-respect, and individual initiative—and to the home? The temporarily destitute—because of "no work"—are permanently degraded by such self appointed "advisers and uplifters of the down-trodden." Unregulated by law there is no limit to their ruthless interference.

In defense of institutions held sacred, labor demands that such medieval systems of doles be forever abandoned as a remedy. Rather than such "organized charity, skimped and iced in the name of a cautious statistical Christ," it demands work. Mercy is asked of no one; for the evidence is conclusive that jobs can be *made* available for all who will work. If the right to work is denied, industry cannot escape the moral obligation for adequate maintenance by compensation.

II. *What of labor's mobility?*

State-wide unemployment compensation does not make the workers less mobile but, on the contrary it increases their mobility in three ways: (1) It organizes the job market so that one may know all the market conditions; (2) it enables them, while unemployed, to reach localities with more work opportunities than are available without it; (3) it makes it of financial concern to one's fellow-workers and to society at large, to help the unemployed to secure work at terms and wages which they are willing to accept.

III. *What of investigations?*

It does not subject workers to more investigation, by employers, but rather lessens the necessary investigation of their character and capabilities preceding hiring. Now the uninsured worker, when unemployed, has to tell his story and answer searching questions at perhaps a dozen and more different factory gate offices, some of which, if contemplating his engagement, will send out further inquiries about him. Under a state-wide system the worker can rely upon one central job information office to provide him with work, if work is to be had at all.

NEGATIVE DISCUSSION

THE FACTS WITH REGARD TO SO-CALLED UNEMPLOYMENT INSURANCE¹

Insurance may be defined as a voluntary function, resting upon the principle of voluntary contributions sufficient to meet the agreed-upon contingency obligations as they fall due. So-called social insurance rests upon compulsion and the taxing power of the state, it being immaterial whether that power is applied to the employee compelled to surrender a part of his wages, or upon the employer compelled to surrender a part of his income and profits, or upon the state compelled to make good deficiencies in the payment of benefits or the cost of administration. In any case, the sources of income may be altered by law, or by statutory rules as occasion may call for. Likewise, the benefits may be changed as occasion may demand. In insurance, properly so defined, the premium remains the same for the duration of the contracts; the provisions of the policy cannot be altered, nor can the amounts insured for be reduced. In brief, social insurance rests upon the conception of status, while insurance in the accepted sense rests upon contract. Insurance is self-limited and self-sufficient, in that the contributions or premiums are calculated with the required care to permit of the fulfilment of the promises made. In so-called social insurance the basic calculations are, broadly speaking, mere guesswork opinion; and all experience has shown that in practice the taxing power of the state is relied upon to make good deficiencies resulting from erroneous actuarial and

¹ From an article by Frederick L. Hoffman, LL.D., vice-president and statistician, The Prudential Insurance Company of America. *Economic World*. March 26, 1921.

statistical assumptions. The chief consideration is not the contractual basis of the relations between the parties concerned, but the needs of the state to satisfy the electorate, largely represented in the beneficiaries of the fund. Hence the urgency that this fundamental distinction should be clearly realized at the outset, for insurance in the public consciousness stands for inviolable contractual responsibilities at a minimum of friction and expense.

Compulsory contributions are not insurance premiums in the accepted sense. They are wage-deductions, identical with income tax collections in so far as the wage-earners are concerned and they represent a corporation income tax in so far as the employers are concerned. It is immaterial whether the deduction from wages is $\frac{1}{2}$, or 3 or 5 per cent—the principle is the same. Contributions thus defined as wage income taxes represent wage deductions, irrespective of what the objective or the requirements may be. Likewise, the contributions paid by the manufacturer or employer are a tax upon production; and, as such, in course of time they form an element in the cost of living. More than that, the contributions constitute, according to circumstances, an important factor in international competition, where a slight cost advantage or disadvantage may determine the holding or the losing of important foreign markets. Whatever viewpoint may, therefore, be held as regards the possible social value of so-called unemployment insurance, it is essential that the fact should be clearly understood that the system proposed (the Wisconsin Huber bill) is not one of insurance, but a form of taxation directly affecting wage-earners' incomes and the cost of production.

If so-called unemployment insurance is not insurance, the question naturally arises as to a definition adequate to the use of the term. All social insurance is an amplified and often cleverly disguised form of poor-relief, adopted largely as a palliative to meet an inadequate

standard of life. In other words, social insurance goes contrary to the fundamental conception of Anglo-Saxon countries that wages must be sufficient to meet all the normal contingencies of the wage-earner's life. The wages must be sufficient to enable the wage-earner to provide for his own future, for his own sickness, for his own unemployment and his own old age in his own way and at his own cost. That alone is democracy and economic freedom. The substitute proposed implies the serious menace of a return to a condition of status under which the wage-earner's life is controlled in all its important details by the statutory rules and regulations of a government department.

All social insurance rests upon the theory of compulsion. This, in recent years, has been amplified into the expression "Regularization of Labor." Regularization and standardization are shibboleths which hide the truth that the lives of the wage-earners are to be controlled, directed and supervised by a bureaucratic force given practically unlimited powers of authority as a matter of necessity to safeguard state funds against imposition and fraud.

Beginning with compulsory deductions from wages, there follows in order of logical sequence a series of other compulsory powers which ultimately must needs lead to compulsory labor. For the financial considerations involved in such a scheme, amplified to include all the essential contingencies of wage-earners' lives, are prodigious. The state, for its own protection, must insist upon rules and regulations; and such rules and regulations must necessarily abrogate the freedom of the person to live his own life in his own way and at his own cost.

The alleged social security resulting from such measures is also a mere shibboleth, for a security which involves the surrender of personal freedom in matters most highly valued by persons of character and independence is dearly bought. From compulsory contribu-

tions to compulsory labor control is but a step. The control involves the supervising, the accounting, the directing of the laborer's time, for he is not at liberty to leave one occupation for another except in conformity to statutory rules and regulations. He cannot voluntarily leave his employment without a cause conforming to the rules and regulations. What is suitable employment for a workman is not a matter of personal judgment, but a question to be decided by the authorities. He cannot refuse to go to distant places where work may be had and continue receiving his benefit; but he must go wherever he is directed to go, even though this involves a change of domicile and inconveniences totally at variance with his views of life. He cannot say that work is too heavy or ill-suited to his capacity or disagreeable unless the reasons advanced square with those of some official appointed to investigate the nature of the complaint. He cannot object to unfavorable weather conditions which may involve the risk of illness, unless the objections are sustained by the court of last appeal. He cannot object to a dangerous occupation which in his own judgment imperils his life and limb, but he must perform whatever task is assigned to him or face dismissal, with the risk of being deprived of his unemployment benefit. In brief, he has surrendered his freedom of choice and judgment in return for what is at best but a pittance not sufficient to meet more than the lowest requirements of existence.

The prevention of unemployment through employment exchanges has no necessary connection with insurance. Employment exchanges are absolutely necessary and a most valuable auxiliary in promoting industrial peace. The exploitation of the unemployed by ignorant or rapacious private employment agencies is no more to be condoned than the exploitation of the ignorant sick by unqualified doctors. Employment exchanges are readily conceivable as serving a proper economic function under proper state supervision and control. That

is the principle which applies to all insurance, and there can be no objection to the largest measure of state direction short of state management and state ownership. The state should leave the field free for competition, for there is no initiative in government and when enterprise comes to an end progress automatically ceases also. State functions cannot be reduced to a business basis in the manner that business is conducted as a matter of private enterprise. Thus conceived, employment exchanges must be looked upon as one of the most useful aids in diminishing unnecessary unemployment or involuntary idleness not caused by the more subtle forces of economic disorganization frequently defying all known methods of analysis.

What is wrong with British trade is a question totally separate and distinct from unemployment insurance. But unless the causes which give rise to widespread unemployment are thoroughly understood, measures to relieve such unemployment are merely subsidiary poor relief and should be recognized as such. It is absurd to say that medicine will effect the cure of a disease when the nature of the disease is unknown or is grossly misunderstood. Economists failed conspicuously during the war—as they have so often failed at other times—to present on the one hand a trustworthy analysis of economic forces, and on the other to suggest constructive measures and means feasible under the conditions under which economic life must be carried on. The economic phrase-maker is as dangerous as the socialist whose panaceas are held out as a solution in matters of world-wide importance, though whatever is said or done clearly discloses a colossal ignorance of the facts or a blatant indifference to the truth. America today holds a pre-eminent position in the world's commerce because of our high standard of labor and the practical absence of a pauperized element among our wage-earners, one and all seeking to better their condition in the best way they know how, and at their own risk. It is the risk element

in individual life which gives the zest to enterprise, initiative and efforts, and which accounts for all the marvelous achievements of which this country has reason to be proud more than any other country on the face of the globe. If we have unemployment today and are as little concerned about it as we are, it is because we have an unbounded faith in our future and in the voluntary exertions of our people, whether employers or employees, that we shall solve the difficulties without pauperizing those who have a right to an independent economic existence and the highest attainable self-respecting standard of life.

It is the American standard of labor and life that gives us our force, gives us our strength, gives us our peace of mind, and accounts for our optimistic attitude that, come what will, we shall somehow hold our own. It is the socialistic phrase-maker, the professional propagandist, the self-seeking opportunist, who would overthrow the present order of things and establish a different, but by no means a better, form of government, in which the reformer, the meddler, the public controller, would have charge of the affairs of the people down to the most minute matters of personal conduct—a state of things typical of Soviet Russia, but abhorrent to Americans who have not forgotten the traditions of their fathers and the principles for which this country went to war.

THE FAILURE OF UNEMPLOYMENT INSURANCE¹

The subject of unemployment insurance recalls the scenes I witnessed in London, Liverpool and other English cities in the summer of 1921. The unemployed were everywhere in evidence. In London crowds of them

¹ By Wm. A. Scott, Professor of Economics and Finance and director of the Course in Commerce, University of Wisconsin, author of *Money and Banking*, etc. *The Milwaukee Journal*, January 7, 1923.

assembled almost every day around the Nelson monument in Trafalgar Square and in groups in Hyde Park in the evening to listen to harangues. In Liverpool I saw them parade the streets displaying significant banners and in both cities one met everywhere small groups and individuals playing musical instruments, selling lead pencils, shoe strings and other trinkets and sometimes even begging. Many of them wore military uniforms with decorations for distinguished service on their breasts and sleeves.

The horror of it all made an indelible impression. One could not avoid wondering whether this was not even worse than life in the trenches. There men usually had sufficient food, excitement and the consciousness of service in a great cause. Here what was there to buoy them up and give them courage? No one could witness such scenes without being eager to find a remedy or remedies for unemployment or without being sympathetic with proposed plans to this end.

England's present unemployment problem is unique and should not be confused with the one which at intervals has confronted every industrial nation during the last century. The disbanding of her armies and the closing of the munitions factories after the war suddenly threw millions of men out of employment and her dependence upon foreign markets, which could not be reopened until normal conditions were restored on the continent, indefinitely deferred the restoration of normal employment conditions.

Reluctantly and after what many regarded as too long a delay parliament passed the unemployment insurance act. It was a difficult situation and there seemed to be no other alternative. All charitable agencies were overtaxed and the poor rates had been raised to the maximum. Attempts to create employment met with only moderate success and were inadequate.

England has had nearly three years' experience with this experiment. Does it warrant other nations in copy-

ing it or her in continuing it beyond the period of the present crisis? A study of some of its results makes one hesitate to answer in the affirmative.

Even as early as the summer of 1921 a thoughtful visitor could not escape the conviction that it was slowly but surely pauperizing the unemployed, weakening their incentives to work and creating in their minds the belief that the state owes them a living and can be made to give it to them if a sufficient amount of political pressure be applied. Every speech I heard them or their representatives make, and I heard many during my month's visit; every man I consulted, and I consulted several, among them a chauffeur, a cabby, a "Bobby," and a street laborer; and resolutions passed at their meetings and published in the papers almost daily, forced this conviction upon me. One does not need great skill in reading between the lines of the addresses and reports of ministers and other officials to feel sure that they are aware of these consequences and dread the social and political problems that loom ahead on account of them.

Could one reasonably expect any other consequences from unemployment insurance? It gives wages without work, not a large wage probably, but one at least adequate to support life, and it is designed greatly to diminish, if not entirely to remove, the dread of unemployment. With human nature what it is and in the complicated society of the present day in which even specialists do not always find it easy to trace the consequences of acts and measures, is that safe? Are not the consciousness of the necessity for work and the dread of the consequences of unemployment necessary incentives to labor? Could one reasonably expect men to search for work or to take advantage of facilities for finding work supplied by society, or even to take disagreeable work when it is offered them, or to give their best service when they are employed, if the dread of unemployment were removed or very greatly lessened?

It should be remembered that unemployment insur-

ance does not touch, or even aim at the removal of the causes of unemployment. It is medicine for a disease already contracted and far advanced, an opiate to deaden the patient's pain, and like all opiates is likely to do more harm than good except in extreme cases.

In this country we are not now and never have been confronted by an unemployment problem with the unique features of the present day English one. Ours is bad enough and deserves the most serious and earnest attention, but shall we not accomplish much more and avoid the dangers of unemployment insurance, which are certainly great and of the most serious character, if we concentrate attention upon the removal, so far as possible, of the causes of unemployment and upon less dangerous remedies for the disease when we have it?

The causes of unemployment which are not personal and which are, therefore, the most easily segregated for treatment are commercial crises and trade depressions, seasonal industries, strikes and lockouts, and the barriers erected between trades for the purpose of preventing the members of one from taking temporary employment in another. To all of these specialists are now devoting study and the results already attained warrant the belief that the amount of unemployment due to these causes can be greatly reduced.

Much more rapid progress in the attainment of this end could be made if more funds were available for such studies and if more encouragement were given to them. I venture the prediction that if the energy now being devoted to the planning and propagation of schemes for unemployment insurance and other doubtful and dangerous remedies were directed toward the promotion of these studies, a decade would suffice for the reduction of unemployment to easily manageable proportions without in any respect weakening the fiber of our people or taking from them their self-respect as independent, self-supporting members of the body politic.

The entire disappearance of involuntary unemploy-

ment is a dream that will not be realized before the millenium. The seasonal character of some industries and the ups and downs in the activities of all industries can never be entirely eliminated. There will never be a time when successful business men can dispense with the accumulation in good times of reserves to tide over the business in bad times and when laborers and every other class of employee can hope to avoid financial difficulties without saving in times of full employment funds for use in periods of partial or total unemployment.

Such reserves and such savings are the only unemployment funds that are not socially dangerous and that can be unqualifiedly recommended. There will always be business concerns and employees that lack the foresight or the ability to accumulate such reserves and to make such savings. They belong to the class of the poor who are always with us and are cases for treatment by the agencies for private and public charity.

EMPLOYERS' CONFERENCE CONCLUSION¹

Careful study of the operation of the compulsory unemployment insurance law adopted in Great Britain in 1911 and modified in succeeding years to meet changes in social and industrial conditions produced by the war seems to warrant the following conclusions:

Insurance against unemployment was undertaken in Great Britain to meet the needs of large numbers of bona fide workmen to whom unemployment brought distress and who had hitherto had no means of relief except the Poor Law or such measures as were applicable primarily to low-grade workers. In contrast to the continental unemployment funds, which were designed primarily as relief for highly seasonal trades or in time of acute distress, the British system had for its purpose the payment of compensation to workmen who year in and

¹ From the Report of the National Industrial Conference Board, No. 51, p. 61-6. Leading research bureau for American state and national employers associations.

year out experienced a certain amount of time lost from work. It was in no sense an emergency measure. The actuarial basis on which contributions and benefits were established was, however, such as to permit the accumulation of a reserve sufficient to tide the fund over more than ordinarily bad years. The extreme depression of 1921 and 1922 in which this fund proved inadequate must be regarded only in the nature of a catastrophe for which no scientific provision could possibly have been made, and, to survive which, well-nigh unlimited resources must have been available.

Although workers who benefit from the insurance contribute toward its cost, the relief received has at all times been very little, relative to the cost of living, and for this reason it is often spoken of as in the nature of a dole. In the years following the termination of the World War, the payments received as compensation for unemployment were, in fact, in large part pure gifts from the state, since in the extension of benefits under the insurance law beyond the statutory limits, and the grants to unemployed workers' dependents, no actuarial principles were observed, and the out-of-work donations were supported entirely from public funds. The main object in view was the relief of the constantly increasing distress due to lack of work. Although an attempt was made in 1921 to relate benefits to income on the basis of probable risk, the estimate of the volume of unemployment was only little less than half of what actually occurred and, as already noted, the unemployment fund was quickly exhausted and recourse to the state treasury was necessary.

This fact, however, proves nothing regarding the general actuarial basis of the unemployment insurance law, for two reasons: (1) the industrial conditions of 1921 were so abnormal, as to constitute a national disaster, the extent of which no one could estimate for the purpose of devising benefits and assessing costs in an

insurance scheme, no matter how sound its actuarial basis in normal times; and (2) changes in contributions and benefits were made after the unemployment insurance act had ceased to function as a pure insurance scheme and had become an agency for administering public relief.

So far as can be ascertained, the basis of the first unemployment insurance law in Great Britain was actuarially sound. It was based on the unemployment records of the unions in the trades originally insured, and during the first years of its operation no financial difficulties were encountered and a large reserve was built up. The bankruptcy of the unemployment fund in 1921 was due to three definite circumstances: (1) the acute depression, which threw large numbers of persons out of work very quickly and lasted for an unprecedented period, was in the nature of a disaster comparable to floods, fires, shipwreck, etc., to meet the consequences of which privately organized commercial companies are often forced to borrow to the extent of their credit; (2) just prior to the beginning of the industrial depression, eight million workers, who previously had not been insured, were admitted to the scheme, and after making a few contributions, were entitled under the law to draw benefits. This in effect trebled the potential demand on the fund, at a time when the actual demand was rapidly rising because of industrial conditions; and (3) as the depression continued, more and more persons insured under the act exhausted their rights to benefits and were in distress. To meet this situation, provision was made for the payments to insured workers of special benefits without corresponding contributions. This increased the demand on the fund with no compensating accumulation of resources.

While the development of the unemployment insurance law in Great Britain shows how great was the temptation, in the face of popular appeal and real dis-

ness, to change its original purpose as an insurance scheme to one of public relief, there is no means of evaluating the measures which were adopted, in comparison with other means which might have been provided, had there been no insurance. Nor can an estimate be made of the extent to which the existence of the insurance law during the acute depression increased unemployment by failing to offer an incentive to employers to provide work or to employees to seek it. There is, of course, the strong probability that many, both among employers and employees, would feel that, having made their contributions to the unemployment insurance fund, their obligations had been met and their responsibility in either direction thereby cancelled. The outstanding feature of the perversion of the insurance law to the ends of public relief are its tremendous cost, and it may confidently be expected that changes in the details of procedure designed to reduce the cost will be forthcoming before long. How far this can be accomplished with the present system itself, however, is a serious question.

The extent to which this mounting cost served as a stimulus toward the reduction of unemployment by employers, employees and the state cannot be measured. Nor can it be told how much of the total spent under the insurance law might better have been spent in other forms of financial unemployment relief, nor how much of the distress that otherwise would have arisen from lack of employment would have gone entirely unrelieved. Without answers to these questions, the extent of the abuse of the unemployment fund can never be properly measured.

The outstanding criticisms of the British unemployment insurance law are that it is very costly and that it has done little or nothing to reduce the amount of unemployment. The preceding discussion explains much of the greatly increased cost of unemployment insurance. The administrative machinery itself, apart from the benefits paid, has also been found to be extremely costly.

The labor exchanges have not realized their full possibilities in placing workers and to that extent have not checked demands on the insurance fund. While some of the responsibility for this condition undoubtedly rests on the exchanges themselves, some of it also belongs on the industries of the country which have not cooperated with the exchanges in offering work through these agencies. For this reason, various committees that have studied the subject have considered the proposal that employers be compelled to register vacancies at the exchanges in order that the maximum number of positions might be available to insured workmen. It must also be remembered of the labor exchanges, as of the unemployment insurance law, that the problems brought about by the war and reconstruction placed unusual and often very quick demands on the administrative machinery which made expediency rather than efficiency the main factor in their execution. These practices and other defects must be eliminated before the exchanges can take the part they should in the administration of the present unemployment insurance system.

In the payment of benefits the present system has also been found to be very costly. This has led to two proposals which are now being given careful consideration by official investigating committees. One is that the administration of the unemployment insurance law be combined in some way with the administration of the compulsory health insurance law, which covers identical workers, in order to simplify the machinery and reduce the personnel of each. The other is to change the unemployment insurance law itself so that each industry shall administer its own funds. In that way it is thought that conditions necessary for the separate trades would be adopted by each, that vacancies could be filled directly without the aid of the present labor exchanges, and that a simpler, more efficient and less costly system would result. This proposal in its turn raises serious questions,

however, with reference to the extent of the present organization of employers and employees in the separate trades and the success likely to attend on new associations. The continental experience indicates that such a plan is successful only where the workers are well organized in labor unions and that efforts to create societies especially for this purpose have usually failed. A large proportion of British wage-earners are still unorganized, and large numbers of them do not belong to any industry or trade but drift from one to another as employment requires. Public labor exchanges, moreover, have been found to be a very essential part of the machinery of administering the continental laws.

If, on the other hand, the proposed change contemplates an adjustment of benefits and contributions on the basis both of the probable risk of unemployment and the worker's customary wage, as in the Italian law, there is more to be said in its favor. Flat rate contributions apparently offer little inducement for many industries to improve conditions of employment and flat rate benefits seem to provide little incentive for many workers to seek employment elsewhere when their customary occupation is closed. If, in addition, the plan contemplates giving the individual employers within the industry whatever saving each effects by reducing his own unemployment risk rather than paying with his saving for the inefficiency of some other employer within the industry, the scheme will possibly be able still further to reduce the cost of unemployment insurance in Great Britain.

The second criticism of the British unemployment insurance law that it has done little or nothing to reduce the volume of unemployment cannot be positively evaluated. Comparable data by which to make the necessary measurements before and after the adoption of insurance do not exist, and most of the years of the operation of the insurance law have been abnormal in the extreme. In this connection it should always be borne in mind, however, that insurance against unem-

ployment was adopted in Great Britain after practically every other means of relieving unemployment had been tried. Furthermore, the unemployment rate in Great Britain in normal years had probably reached nearly the irreducible minimum before insurance was adopted. Such being the case, it is possible that very little significant further reduction could be expected.

Undoubtedly the British unemployment insurance law will be modified again and again as time goes on, both to reduce the cost of operation and to bring about more efficient service. The fact that the Minister of Labour has unlimited power to make such changes as conditions demand has the effect of producing better results or of leveling such criticism at the law and its regulations as will in time improve them, or, perhaps, abolish them altogether.

UNEMPLOYMENT COMPENSATION FUNDAMENTALLY UNSOUND¹

A new idea has been advanced that demands public interest and intelligent consideration.

It is this. Unemployment of labor can be prevented by employers if heavy enough penalties are imposed by law to make it worth their while. The general plan as outlined in the Huber bill provides for guaranty of continuous employment throughout the year by all employers of three or more persons under initial penalty of a dollar and ten cents a day up to thirteen weeks based on previous employment of at least twenty-six weeks. There are details such as time off for actual inventory and exemption of farmers and some admittedly seasonal occupations which affect the operation but not the principle of the proposed law that the employer is solely liable for unemployment.

¹ From an article by F. H. Clausen, director and former president of the Wisconsin Manufacturers' Association, read before the Milwaukee Employment Managers Association, January 10, 1923, reproduced in the Milwaukee Journal, January 15, 1923, and reprinted in *Unemployment Insurance*, p. 8-18.

Any plan that will wipe out unemployment at once strikes a responsive chord. The sponsor of the Wisconsin idea of "unemployment insurance" is a learned economist and a high minded man and it can be said that he has no ulterior motives in proposing this plan. Unfortunately on account of its sympathetic appeal, legislative consideration is likely to be controlled by the easy political argument that this proposition is in favor of the masses at the expense of the "cold blooded profiteering class."

If employment insurance as proposed by Dr. Commons can be considered on its economic merits, employers of the state will be satisfied with the conclusion. We hope the issue can be decided in that way.

A noted divine once said in a lecture on Grumblers—"Heaven is a place where there are no grumblers. Where there are grumblers, that is hell." That statement applies to unemployment. Extensive or extended unemployment is a hellish condition and it can be truthfully said that no one abhors it more than the managers who operate industries. These same managers, however, cannot conceive of an earthly state where they will be permitted to control the vast and intricate economic system whereby they can compel an even flow of demand and supply of products and services even with the cooperation and valuable advice of their credit bankers. If conditions permitted it, the government would interfere in twenty-four hours.

In projecting a theory to correct evils there is always a tendency to ignore the human factor and human limitations. This human element provided the fatal weakness to the plan for a socialistic state. The fact is, it will not work.

So it is with prevention of unemployment by imposing penalties entirely on employers. The human power to establish and maintain a perfect balance of needs and production with proper distribution and an

accurate measure of output long periods in advance does not exist.

With the desire to minimize unemployment modern management is in full accord. In fact, the tremendous strides made toward continuity of employment during the past twenty-five years is the best evidence of managements accomplishments in that direction. Employers will continue to struggle toward steady employment of contented workmen as the highest ideal, but will always resist the infliction of penalties imposed because of conditions that develop beyond their powers to foresee.

The unemployed man under compensation will not, even though the compensation be less than he can earn, be eager to find a job and continue a useful citizen in his community.

Security against want has always been an incentive against idleness and fear of what the future may have in store has always been the greatest incentive of thrift, saving and industry. Just as far as compensation is provided to the worker his morale will be lowered, his spirit of independence, self-reliance and self-respect will be destroyed and the incentive to thrift provided by compensation will be gone. The employee who knows that if discharged he can have compensation will not be interested to be efficient and will not be alert to make good in his job, and when he is out of a job he will take no steps whatever to find another.

No greater wrong could be done the public than to say that a laborer having been discharged must have pay till he is provided with another job of a like kind and at equally good pay. First of all, it would stabilize wages at the very highest peak and the public is not interested in high wages but in production. It is economically unsound to have men idle because just the kind of a job that a man has held at one time is not open upon his being discharged. The law of supply and demand applies as well to labor as to commodities and there

should be a free ebb and flow of labor to and from various industries and it would not always be possible to provide suitable jobs as defined in the Huber bill for instance and yet good jobs might be in sight for the unemployed that would readily be taken if compensation were not provided in case of idleness.

Doctor Commons has stated that the big defect in the present system of individual enterprise and private ownership is the inability to furnish security of the job. Certainly, the alternative of socialism offers neither jobs nor security as Russia has demonstrated. Also the policy of trade unionism of restriction of output and more pay for less work is bound to lessen the measure of security that now exists because it ignores the fundamental fact that wages come from quantity and quality produced.

The real question is, will this kind of unemployment insurance add security to the job? The answer must be in the negative.

Every manager worthy of the name is striving now for continuity of employment and that means the same thing. Good management means security for all parties in interest, the workman, the stockholder, the public and management itself.

Security as used in modern business does not mean certainty. It is a relative term and the best manager is he who narrows the gap between security and certainty for all the four parties in interest including himself. That is the goal toward which we are striving and who shall say we are not making progress.

Let us analyze the job of the industrial manager. What are his obligations? To the worker, it is his duty to provide as steady employment as it is possible to arrange at fair wages under good working conditions and to recognize individual accomplishment. To the stockholder, it is his duty to operate carefully to preserve the investment, to earn a reasonable return and so con-

duct the business that it will grow and survive. To the public, it is management's duty to conduct the industry to promote public morals and good health, to encourage loyalty to government, to sell the product at fair prices, to meet tax obligations and to provide as steady employment as is possible to the citizen workers.

Such is the manager's job and if he does not make good as far as conditions within his control are concerned then the security surrounding his own job disappears.

It has been said that the dividends of the stockholders are insured, therefore, insure the wages of the workers. This will be news to many owners of industrial stocks who have been called upon during the past two years to survey balance sheets closed in red figures or who have been notified of receivership proceedings, or who have been advised of dividends reduced or passed, or who have been forced to accept the intervention of bond issues or the execution of mortgages either of which become prior liens upon the assets of the concern.

Doctor Commons indicates that those who operate industries do not provide continuous employment because of failure to coordinate selling, operating and planning. He points to one large Massachusetts company as a shining example of how it should be done. This is their formula:

1. Getting orders in advance and partial deliveries.
2. Increasing proportion of non-seasonal orders with long delivery time.
3. Planning of all stock items more than a year in advance.
4. Building up out of season items and varying lines so as to balance one demand against another.
5. Discharging workers who do not fit.
6. Manufacturing goods for stock.
7. Transfer of workers between departments.
8. Transferring operatives to outside industries.

This is a progress that every intelligent forward looking manager has adopted long since. No doubt the Dennison Manufacturing Company with its long line of novelties and office supplies with sales made in so many directions to thousands of customers is able to average up its sales in a very satisfactory manner. They also have the advantage of using practically the same type of equipment for all their products.

Unfortunately there are many industrial managers who have personal acquaintance with lines of business where this favored situation does not exist and from which those conditions cannot be created. It is not out of place to inquire how many employees of competitors were thrown out of work by Dennison's aggressive policy. When discussing this plan such results must be reckoned with.

The growing importance of sales plans and efforts in modern business life is hardly realized by the general public. It can be said that in the division of industrial enterprise the selling end is the big end. The tremendous advertising campaigns carried on in the daily press, in magazines and on bill boards are an eloquent testimonial of that fact. All plans for efficient and continuous factory operation are of no avail unless sales resistance is overcome and actual orders are on the books. The major part of all sales are now made months in advance of deliveries. The growth of this method has been for the very purpose we have indicated, continuous employment. It is the economic way and it is the right way.

The same purpose is accomplished in the large city department stores where the monthly sales of goods are balanced to a degree by the device of special sales days and carefully planned effort. It must be evident to all observers that the building industry is making rapid strides in the direction of continuous employment and its seasonal aspects are gradually disappearing.

Self interest and the desire to do the right thing compel steady employment if the ingenuity of management can contrive. The ever present spector of "overhead" is the driving force that is more effective than the dollar a day per man penalty can ever be. The proper relation between productive labor and factory expense based on investment and upkeep, measures the difference between success and failure. When management is headed in the right direction it resents being pushed by imposition of penalties based on the assumption that it is going the other way.

To make this plan of unemployment insurance workable the effect of the law must be to compel people to buy uniform quantities of goods or services from year to year, regardless of their changing needs or desires. This uniform demand when determined must then be sorted out to producers and each one plan a twelve months' factory schedule which will produce just the amounts desired. A mere statement of the proposition brings its own answer. It is impossible in this country where freedom of contract and individual initiative are responsible for our progress. Admitting this extreme combination as possible, the balance thus obtained would exist only a short time and the competent would survive. The fact is, the worker's welfare is dependent upon those who produce efficiently and distribute economically. Restrictive penalties will hinder, not help.

Doctor Commons seems to rest his whole case on the Wisconsin workmen's compensation law. Comparing the unemployment insurance he says that the two are exactly alike and that in each case the employer is in position to change or remove the conditions that make accidents or unemployment possible.

Management can take issue at once with this proposition. The accident compensation law has operated to the mutual advantage of workman and employer and

incidentally it can be noted that employers have assisted in the establishment and operation of the system.

Here is the vital difference and one fatal to the theory of Dr. Commons' unemployment insurance plan. Penalties for accidents are imposed only when they happen in the factory of the employers or in the regular course of employment. Penalties for unemployment would be assessed when the causes are beyond the confines of factory walls and beyond management's control. This distinction is most forcefully indicated by the specific provision of the compensation law that employers are not liable for payment of benefits when workmen are disabled outside of the factory and not in regular course of employment. A similar reservation in the unemployment insurance plan would, of course, destroy it utterly.

It may be said that accident compensation liability exists even where accidents happen because of the fault of workmen. It is well to remember, however, that the premises are in the control and possession of the employer liable for the penalty and he can protect himself by providing "safety" conditions.

Not so with unemployment, for the public will never consent to the control by industry necessary to influence conditions that cause depression and resultant cancellation of orders. In fact, the demand seems to be for more and more government regulation which prevents the efficient operation of industry without relieving management of the responsibility therefor. The best illustration of this is the present railroad situation where the managers find themselves, as one president said recently, only 20 per cent efficient and some doubt about that. What has been the result? Hemmed in on one side by wage scales fixed by outside boards and wasteful working rules which often times require the time of three or more men to do one man's work, and on the other side by transportation rates fixed by government commission, they were left to do the best they could.

Only one thing could happen if the railroads were to escape bankruptcy and that was to curtail operations. This they did and thousands of men were discharged. It is not difficult to realize the injustice of imposing unemployment penalties under such circumstances. Unemployment insurance and accident compensation are not alike and, in fact, are very different.

In the discussion so far an important difference in kinds of employment has not been noted. There are employers who sell products and those who sell services. We have been thinking of the former and almost ignored the latter. In the class who sell services, we can at once place the railroads and all transportation lines, nearly all contractors such as builders, repair shops, ship yards, etc. The total number employed is a considerable part of the whole and must be reckoned with.

Management would like to know how the imposition of unemployment penalties on this class of employers will lighten their burdens or change the employment situation. These employers can anticipate but never compel the sale of their services.

So far in this discussion reference has been to the arguments advanced in favor of the plan. There are other considerations that should be listed.

Unemployment insurance has existed in various forms in European countries and has not reduced unemployment appreciably anywhere. Dr. Commons admits this but blames the plans in that they place the obligation for the fund upon the workers, the government and lastly the employers. He states "the defects and failures of the European systems resolve themselves into this; they placed the responsibility upon the wage-earners and upon the state instead of solely upon the employers." In England the employers' contribution to the fund is 40 per cent as compared with 100 per cent in this plan. It is difficult to conclude that this is a measure between success and failure.

We can well afford to profit by England's experience as the Huber bill provides a similar method of operating through local employment agencies and service cards issued to each workman. England's compulsory system started in 1911 provides for contributions of 40 per cent from workers, 40 per cent from employers and 20 per cent from the government. The number of workers effected increased from two million to four million in 1920 and twelve million in 1921. Because of favorable labor conditions during the war the fund grew and in March, 1921, amounted to \$110,000,000. The following June it had been reduced one-half and before the end of the year was entirely exhausted. Since then the government has advanced large sums to maintain the payment of benefits and in December this year the laborites in Parliament created a near riot by violent demands for an immediate appropriation of \$250,000,000 to reinstate the fund. Utter confusion now prevails and unemployment is general due to European and world-wide conditions. It would be difficult to convince English employers that they are in position to prevent unemployment even in normal times and pursued by 100 per cent penalties.

Testimony from many sources indicates that unemployment benefits or doles paid English workmen have lowered their morale. The demand has been for larger and larger payments and this seemed to be the uppermost thought rather than a keen hunt for new jobs. Benefits first provided were \$1.70 per week which were increased from time to time to \$2.67, \$3.65 and \$4.86, then reduced somewhat on account of the bankrupt condition of the fund.

Dr. Commons describes European systems as charity and poor relief as compared with his plan of unemployment prevention. If the prevention does not actually occur it is difficult to describe the payments in any other terms whether subscribed 100 per cent by

employers or jointly by workers, employers and the state.

Another claim made for the Huber bill plan is that it abandons the English idea of state operation and places control in employers' hands. How can this be? Compulsory insurance in mutual companies regulated by the state, at rates that must be dictated by the terms of the law and changed by amendments, rules, regulations and decisions of the Industrial Commission does not read like employers' operation. Add to this the establishment of labor agencies by the commission in every employment center in the state with power to decide the claims of the workers to benefits, locating workers on new jobs, comparative working conditions and other regulations, state operation and control are very much in evidence.

The district labor agents provided in the Huber bill are termed deputies of the Industrial Commission. In order to give prompt and proper service every employing center in the state, great and small, will require a deputy. England has three hundred ninety-five labor agencies and one thousand forty-nine branch offices with a total of twelve thousand employees. The prospect of adding large numbers to our already overloaded state employment payroll will be alluring to some and disconcerting to those who "pay the freight."

The provision for an advisory board made up jointly of workers and employers establishes cooperation more apparent than real. This board has no powers, is selected by the Industrial Commission who are under no obligation to accept its findings.

In applying this plan we are apt to think of the large industries as the ones most effected. This is a mistake. Ninety-five per cent of our industries employ less than two hundred fifty men. The Huber bill applies to all employers of three or more persons.

The span of industrial Wisconsin is nearly covered by one life time. The factories of our state have grown

from small beginnings and many of them are even now struggling for existence. It has not been possible to operate these small shops on twelve months' schedules. The money to meet the pay rolls and the advance sales are not always there. The best business institutions of good standing creep before they walk. This applies to continuity of operation.

Along with this steady growth of industrial Wisconsin the occasions have been rare indeed where there has been any continued distress due to unemployment. American workmen as compared with European workers are versatile and are not tied down by tradition and environment to single lines of employment. They are better paid, have greater freedom of movement and in fact have a much greater reserve power to carry them over periods of unemployment whenever they occur.

Seasonal employment will always be a stumbling block to an equitable application of this plan. Farming, canning, logging, ship-repairing, ice making, road building, home building in small communities and one hundred and one other occupations do not permit continuous employment.

No single state has attempted to penalize its employers in the manner proposed up to this time. Unemployment insurance in Europe is a national undertaking. When our legislature considers the passage of a law similar to the Huber bill, will it pause long enough to measure the handicap it will impose on Wisconsin industries? Well considered legislation should promote and not restrict the well being of our citizens whether on the farm or in the factory. Wisconsin is a leading manufacturing state and the great bulk of its products are sold beyond our borders in competition with neighboring states, where no thought of adding these penalties to conduct of business has yet been manifested.

The margin between success and failure is now so small that added enforced burdens must of necessity be passed on to the public if industries are to continue.

When industries fail economic waste is created which means added burden to workmen and the public. Separate action by Wisconsin adds a burden which cannot be passed on. In this period of business re-adjustment we need most of all a rest from new laws. The full time and effort of management is needed to meet conditions now present rather than cope with new ones created by ill-timed legislation.

Employers submit their case to our legislature firmly convinced that a plan similar to that outlined in the Huber bill with its penalties on industry is unnecessary, unfair and will not accomplish the purpose of the man who proposed it.

THE SUPERIORITY OF VOLUNTARY EFFORT IN MITIGATING UNEMPLOYMENT¹

Ever since the producer and consumer have been different persons, and goods have been made on order or for sale, there has been unemployment. When this happens it is necessary for the unemployed worker to find employment at other than his usual occupation, to draw upon his savings for temporary support, to borrow or to fall back on the community for support.

During the Middle Ages, under the handicraft system of production, the capital required for the small-scale industry then universal was generally supplied by a master craftsman, who planned and did much of the work on the orders as they were received. He was usually in a position to meet periods of temporary unemployment; and in case of emergency there was the guild of which he was a member to come to his assistance.

When the invention of the steam engine brought to an end the period of manufacture of goods on a small scale, it differentiated the three functions of capi-

¹ By William B. Bailey, Ph.D. economist, of the Travelers Insurance Company.

talist, employer and laborer. Instead of working for anyone in the community who would give him an order, the workman now gave his entire time to one employer and trusted that sufficient sale could be found for the manufactured articles to keep him steadily employed. When the steam engine began to furnish the motive power, the demand for brute strength was less than that for dexterity and nimbleness. As a result, the way was open to the employment of women and children on a large scale. Hours were long and wages were small. There is no doubt that the workers were overworked and underpaid. The opportunity to set aside any surplus against a period of unemployment was very small and outdoor relief or a period in the workhouse was often the only solution for these unfortunates.

When the demand arose among the working classes of Europe for protection against many of the inevitable vicissitudes of life, such as sickness, old age, invalidity and unemployment, they quite naturally, due to the growth of socialism, turned to the state to furnish this protection through contributory and non-contributory plans. Part of the funds necessary to support those schemes was raised by taxation from those who had a surplus. Therefore, unemployment insurance as we find it at present in England and on the continent is perhaps the logical growth of local conditions.

In this country, however, the situation was far from identical. Wages in this country had always been high, due to the presence of land to be had for next to nothing. Opportunity was open on every hand and the romance of the change from poverty to riches was being written in every community. "Liberty" was the great byword, and every community could point to instances of the change from employee to employer. High wages made possible an accumulation of surplus against the time of need, and home ownership was very common. Concentration of industry into a few strong hands has gone forward in this country, however, and the propor-

tion of those who are dependent upon wages for support has been increasing. With the change has come the demand for some sort of protection to the workmen during periods of unemployment.

There are two kinds of lack of work—seasonal and cyclical. We have examples of seasonal unemployment on every hand. The raising and harvesting of crops requires an army of workers whose employment is limited, to a considerable extent, to the period between frosts. The harvesting of ice must take place during the winter months. Road construction must be carried on while the surface is not frozen. Building construction is most active during the warmer months. The demand for certain articles is concentrated in particular seasons. In order to meet this irregular demand we require a mobile labor force which will not be continuously employed at one occupation.

Against the unemployment resulting from this situation we have made considerable headway. The high wages paid masons is in part a form of insurance against their seasonal unemployment. A vast army of school children is turned loose every June to assist in the farm work of this country. Many concerns manufacturing an article of seasonal demand require that orders for these articles reach them far in advance in order that they may distribute the work throughout the year, or they take advantage of slack periods to manufacture a supply of articles for which the demand is fairly constant and can be foreseen with considerable certainty. Some concerns have a flying squadron made up of workers who are trained in two or three operations so that they may go to the department where the demand is brisk. This saves "firing" from one department and hiring for another. Other concerns try to put the responsibility for stability of demand frankly upon the shoulders of the selling force. The consumer is expected to play a part in the work of stabilization by improved distribution of his purchases. We are asked

to buy our coal in the spring of the year, in order to help to solve the problem of storage and to make the demand more constant throughout the year. Quite an active campaign has been carried on to persuade those who are contemplating the erection of buildings to continue the work of construction throughout the cold weather.

One of the most seasonal industries is the manufacture of ready-made clothing. Here periods of slackness and feverish demand follow one another most regularly. The attempt has been made, and with success, to create a fund by the joint action of employer and employee, by which the worker shall be assured a certain minimum number of weeks of employment during the year. In order to put pressure upon the employer to regularize his employment and to give him the benefit of successful effort along this line, the individual employer is allowed at the end of the season to receive as refund a part of his contribution, in case he has not exhausted the fund contributed by him. All attempts of this kind are to be encouraged, because they would settle the problem of seasonal unemployment in a constructive manner.

In the field of cyclical unemployment the problem is more difficult. We have these great changes in business and industry, where years of great prosperity are followed by others of industrial stagnation. We can foretell and possibly forestall these changes to a considerable extent, but they are likely to continue, even though with diminished intensity.

We can certainly postpone certain projects, such as irrigation dams, road construction, filling and grading, and the erection of public buildings to a time when the industries of the country are not bidding against one another for the available labor supply. Such work could well wait for those periods which are bound to come when there will be considerable unemployment. This money would then be spent when it would act as a

stabilizer and more would be accomplished with the same expenditure. Advantage should be taken of dull seasons for painting and repairing around factories and putting machinery in condition. By proper and systematic forecasting of sales it is possible to make enlargements to plants when prices of materials are lowest and most labor is unemployed. The depression of 1921 brought home to us the possibilities along this line.

But there is still another line along which we might proceed. Strong corporations try to assure regularity of dividends to their stockholders by the creation of a reserve during fat seasons which can be drawn against during the lean ones. Something might be accomplished for the workmen through the creation in a similar manner of a "depression reserve." This might be expended for the manufacture of stock along standard lines during slack periods or possibly for wage payments during periods of unemployment. There are instances of this form of protection in this country which have been in successful operation for a number of years. These are really forms of insurance by industry against unemployment and are a far cry from the English system of insurance by the government with the demoralizing dole. The schemes which have been tried in this country are quite in keeping with the American spirit of liberty and private initiative. As such, they are to be encouraged.

A "depression reserve" of this sort, established whether by the employer or by the joint contribution of employer and employee, possesses decided advantages. Both parties will be interested in safeguarding it against depletion, particularly in case contributions to it should cease after the fund had reached a certain amount. The employer might hesitate to take on additional workmen temporarily, if he felt that the profits from their employment would be more than off-set by contributions to the "depression reserve" in the future. Employees who had helped to create this reserve would be unwilling to see it reduced by benefit payments to those who did not

deserve it. Such a reserve would probably tend to discourage additions to plant or equipment during boom times in order to handle rush orders and might reduce the peaks of the curve of industrial activity. At the same time, it might retard the increase in wages of periods of maximum industrial activity by reducing the competition for additional workers among employers.

The question might be asked whether the benefits to be expected from the greater stabilization of industry or the creation of an industrial reserve might not be accomplished through some form of unemployment insurance. Even the most ardent advocates of state unemployment insurance in this country have not been favorably impressed with the European systems and have claimed that the plans they propose for adoption here could not result in the demoralization which has accompanied the dole in England.

So far, attempts to introduce state unemployment insurance have failed in five states in this country and the prospects for an early introduction of this plan in the United States do not seem bright.

No American insurance company is at present offering a policy to cover the risk against unemployment: and before this is done the answers must be found to several questions. This will be the only form of indemnity insurance under which the person paying the premium may choose the time for the payment of benefits under the policy. The determination of rates will be far from easy. The mass of detailed information concerning unemployment which will be required for the promulgation of rates is not at hand. Under the English system the deficit which has resulted has been made up by a loan from the government.

Under the Huber bill in Wisconsin the benefits were to be reduced in case the fund was insufficient to meet them in full. But if an insurance company underwrote such a risk there would be no such loophole of escape

from the payment of benefits in case the rates proved insufficient. The period in an industrial cycle at which an employer applied for insurance would make a considerable difference in the rate. With a depression staring business in the face, the rate would need to be high, while a much lower rate would suffice after a depression had just been passed.

There are many questions of this sort to be solved before an insurance company would be justified in offering coverage of this kind. In the meantime, efforts for the stabilization of industry should be continued and all experiments of firms and industries to solve this problem should be watched closely.

I believe that we can trust the initiative and fairness of the industrial leaders of this country to reach some satisfactory solution of this question. Employers who have voluntarily insured two and a half millions of their workmen under group life contracts and who are assisting others to carry policies to insure themselves against sickness and on-compensatable accidents, who are trying all sorts of experiments in cooperation, profit sharing, stock purchase and employee representation in management, and who have established rest rooms, play grounds, cafeterias and medical attention, can surely be trusted to find some workable solution of the problem of unemployment in this country.

INDUSTRY'S PROGRAM FOR UNEMPLOYMENT PREVENTION A CONSTRUCTIVE ALTERNATIVE TO LEGISLATION¹

Unemployment due to the business cycle or to short sighted industrial management is costly. It is costly to the employer in disrupting his organization and in allowing capital to lie idle. It is costly to the employee

¹ The report of the Special Committee on Unemployment of the Industrial Relations Committee of the Associated Industries of Massachusetts. February 7, 1923.

in dissipating his savings and the fear of it is an important element in labor unrest. It is costly to the community in lessened production and in charitable doles.

Unemployment is to a great extent preventable and the time to prevent it is in a time of business activity. Some causes of unemployment such as international conditions, taxation, transportation and the like can be affected only as the employer helps to form a sound public opinion which shall affect government action. Other causes are within the employers' direct control and we call attention to the opportunities which exist for employers to prevent unemployment and thereby help to alleviate industrial unrest, to do a great service to the community and to increase profits.

It is apparent that if employers take steps looking toward the solution of the problem of unemployment, they will have taken the most effective means to avoid the enactment of compulsory unemployment insurance laws. The responsibility rests with each industry and manufacturer to take immediate action to solve this problem, which so vitally affects their own welfare and that of industrial Massachusetts. While no rules of general application can be laid down for handling this question, the following suggestions drawn from the experience of Massachusetts manufacturers may prove of assistance.

CONCRETE SUGGESTIONS FOR THE PREVENTION OF UNEMPLOYMENT BASED ON THE EXPERIENCE OF MASSACHUSETTS MANUFACTURERS

- I. Anticipate the depression.
 - a. Watch carefully, both by constant consultation with your selling men in the field, and by careful study of reliable statistical reports of market conditions (such as the reports of the Federal Reserve Banks and of various private statistical and banking concerns) for indications as to when the turn in the tide is coming.

- b. Guard against over production: only part of the increase in sales which you experience in good times represents the actual growth of your business.
 - c. Control your increase in buildings and facilities by a study of your previous growth in sales, bearing in mind that especially under the costly conditions of business activity it is unsafe to increase more than is justified by a survey of your past growth over a sufficient number of years to show the long swing conditions of your industry.
 - d. Avoid over-employment: there is always a tendency when business is rushing to take on too many people, many of whom must be dropped in dull times.
 - e. Be cautious in purchasing and also in manufacturing for stock when your investigations indicate that the downward trend is near so that you will not be bought ahead or over stocked in the declining market.
- II. Accumulate reserves when business is good: funds will then be available to take advantage of conditions which a depression causes.
- a. During a depression take advantage of the bottom price to buy raw materials ahead, thus utilizing the depression to your advantage and giving employment to the raw material industries.
 - b. Plan to do as much repair work and expansion as possible in the dull period, postponing until then all that is not of immediate necessity.
- III. Prepare while business is good to increase your selling strength in proportion as the market weakens.
- a. By withdrawing salesmen in groups for instruction in expected selling problems.
 - b. By training men in the organization to take the road as reserves when need for sales becomes acute.

c. Prepare a comprehensive advertising campaign which can be employed when the need for sales is greater.

d. When the market declines, increase your selling strength using the reserve funds accumulated to meet the emergencies of a depressed market.

Remember, as the key to your present day selling policy, that a sale during a time of depression means much more to you in profits or mitigated losses than the same sale in times of prosperity, and do not sacrifice future sales and the general security of your business to gain a few extra sales in a market already good.

IV. Plan to increase the sales-appeal of your product, when the market is dull.

By developing new items or improvements on existing items of product, withholding them when your sales are good and when changes might disturb your quantity output; and launching them when a selling emergency is upon you.

V. When sales are below normal staple products may often be made and held for future market more profitably than they can be made under the conditions of renewed activity which are bound to follow.

VI. The problem of the method to follow in curtailing the working force is always a difficult one. In each case, the relative advantages of laying off, and part time should be carefully considered, bearing in mind the loss to your industry of permanently losing skilled employees and being obliged to break in new men when business revives.

VII. Eliminate seasonal unemployment so far as possible in your industry and your concern. Such seasonal unemployment is fully as costly as unemployment due to business depressions, and in times of such depression, aggravates conditions.

TO PREVENT SEASONAL UNEMPLOYMENT THE
FOLLOWING STEPS ARE SUGGESTED

a. Get customers to order seasonal items early. Remarkable success has attended getting out early for the business.

b. Plan production well ahead so that stock goods of seasonal nature may be made at the times when your organization needs work instead of being busy.

When it is impracticable to store the products (owing to large tonnage and bulk) during the off season it is sometimes possible to use retailers' warehouses during the unseasonal time by financing them with advance dating, carrying regular discount and price protection.

c. If you have slack periods, it is usually possible to develop some items suited to your line which sell especially at that time and fill the gap.

d. Train sufficient operators for more than one job to permit shifting to meet different seasonal demands.

A PERMANENT UNEMPLOYMENT PROGRAM¹

Even were all the measures suggested and referred to in the foregoing taken and vigorously prosecuted not only by the state but by the nation as well, there would still persist, as a chronic feature of the industrial system, a certain amount of unemployment. The industrial mechanism is too complicated to be entirely within the reach of such measures. Against the unavoidable idleness, which is impossible of elimination, unemployment insurance has been the remedy resorted to in other countries.

But were any plan of unemployment insurance to be put into effect in the near future in this state, before the policies outlined can have been developed and matured, or before any consistent and widespread attempt

¹ From the report of Governor Smith's Reconstruction Commission. New York. June 17, 1919.

is made to develop them, the insurance problem presented becomes of far greater magnitude and difficulty.

Before unemployment insurance can be put into effect, the state employment service must be greatly extended, must be practically a monopoly and must be so efficient as to be capable of administering a law which involves complete supervision of all employment throughout the state.

In view of these considerations, this commission does not recommend any immediate action by the state looking toward unemployment insurance. We are of the opinion that the adoption of our other recommendations will lead in a short time to the accumulation of experience which will clearly demonstrate whether or not unemployment insurance is the next logical step.

SUMMARY OF RECOMMENDATIONS TO THE GOVERNOR

1. Continue to develop the state employment service looking toward an ultimate state monopoly in this field, excepting possibly a small number of union agencies and private agencies supplying service of a personal and professional character.

2. Revise and introduce the bill drawn up by the Industrial Commission providing for licensing at a fee of \$250 for all private employment agencies. The State Industrial Commission should license all agencies excepting those in first class cities. In such cities the licensing should be done locally, but the state should divide all fees equally with the cities. The state's fees should go into a fund for the support of the Bureau of Employment.

3. Enforce the present state law providing for the maintenance of standard registers and the submission of figures by private employment agencies, extend the supervision of private employment agencies, and draw up legislation opening the books of private exchanges to audit by the State Bureau of Employment.

4. Direct the Industrial Commissioner, through the Bureau of Employment, to develop a program which should cover the following subjects:

a. The organization of the labor market to bring about extensive dovetailing of winter and summer trades and to stimulate the use of subsidiary trades.

b. Directing labor to new occupations when changes of industrial structure result in displacement from chosen occupations.

c. Reserving certain places in industry for older men and women, and leaving the younger generation the task of finding and forcing fresh openings for themselves.

d. Concentrating attention upon the need for industrial training, including "vestibule" training where such training does not lead to blind alley employment, training in plants to increase efficiency, while gainfully employed, and training in trade and business schools. Issue in cooperation with the state and city departments of education annual bulletins outlining the courses of training in schools for all schools, colleges, etc., open to persons seeking vocational education.

e. Directing boys and girls away from "blind alley" employment.

f. Testing periodically and comprehensively the amount of unemployment and publishing bulletins based on the most complete figures which can be obtained.

g. In cases of seasonal employment or depression, urging employers to shorten hours rather than discharge employees.

5. Authorize and require the State Industrial Commission through the Bureau of Employment to obtain during the first three months of each year from the several state departments and localities current information regarding all public works projected and under construction and to publish this information annually in April in summary form.

6. Appoint an informal committee composed of

representatives of the state departments principally concerned with public improvements and of the State Industrial Commission to study data thus obtained in conjunction with data regarding employment and business conditions currently gathered by the State Industrial Commission, and to call in April or May an annual conference of all public works authorities throughout the state to discuss engineering, financial, employment and other common problems. This committee should vigorously prosecute all public improvements whenever business depression and unemployment threaten, and report upon the need, if any, of compulsory action to secure the deferment of public works and the establishment of public works reserves.

ABRAM I. ELKUS,

Chairman Reconstruction Commission.

JOHN G. AGAR,

Chairman Committee on Unemployment.

CHARLES P. STEINMETZ,

MRS. WALTER W. STEELE,

NORMAN E. MACK,

SARA A. CONBOY,

PETER J. BRADY,

MICHAEL FRIEDSAM,

Committee on Unemployment.

OBLIGATORY INSURANCE NOT SOUND LEGISLATIVE PROPOSAL¹

Professor J. R. Commons, of the University of Wisconsin, in a valuable paper recently read to members of the British Association for the Advancement of Science, and in part copied in *The Financial Post* on August 15, suggests a method for insuring workers against unemployment. The method which he advocates, and for

¹ By E. H. Morrow, of the Department of Economics, University of Western Ontario. *Toronto Financial Post*. August 29, 1924.

which he claims far-reaching results, is based upon the agreement between the Amalgamated Clothing Workers of America and the Chicago Industrial Federation of Clothing Manufacturers. Mr. Commons, with justice, claims extraordinary results for the agreement in question.

During the course of the paper, reference is made to the Huber bill not long introduced into the Wisconsin legislature, a bill that embodies the principles of the Chicago agreement in an attempt to apply them to industry in Wisconsin. The western states are notorious for their readiness to experiment in new legislation, and the present possibility on the part of Wisconsin can be welcomed as an opportunity for the rest of us to profit by an experience which, if not successful, will, we hope, be less disastrous than recent legal experiments tried out in neighboring states. On this occasion, however, the suggestion for remedying the worst of our industrial ills was made in Canada, before a gathering in which Canadians took a prominent part. Hence, as shown by the action of *The Financial Post*, the apparent logic of the argument and reasonableness of the suggestions are receiving special attention in Canada, which is not immune from demands for some form of unemployment insurance.

THE WIDER APPLICATION

The question at issue is: Can principles which have proved successful in a highly concentrated, highly specialized but small and successful group of factories engaged in one industry, be applied by legal enactment to all industries over a large area such as Canada or Ontario? The paper evidently assumes that these principles are capable of legal enactment and will retain their original significance when enforced upon all industry indiscriminately. The assumption is apparently founded on the results of a single instance, and is hardly justified, particularly as the instance is effective only

for a single industry in one city and under very peculiar circumstances which were not brought out in the discussion but which will appear later.

There are today three basic forms of unemployment insurance for workers. There is first the insurance which may be either national or municipal, and is dispensed as needed in the form of doles, contributions, or organized relief work. This type is admittedly unsatisfactory as it is spasmodic, ineffective, and poorly organized. It is unequally distributed among both those who should receive assistance and those who should contribute. Secondly, we have state unemployment insurance. This form of insurance, which results from legal enactment, may be applied in many ways; it may be state-wide in its application, or it may be handled by industrial groups; the workers, the employers, or the state, may or may not contribute, or may do so in varying amounts. The significant feature of state insurance is that, according to law every man out of work (within the provisions of the act) is entitled to receive stated amounts from some central fund. No distinctions are made between the productive contributions of individual workers nor between employers as regards their liability for unemployment in the frequency of their shut-down periods. Finally there is the form of unemployment insurance which varies in its phases and of which but little is known to the general public. This is the assurance of steady work or of lay-off pay provided by individual employers for their workers. Unemployment insurance of this kind depends upon the super-excellence of the management of those firms which are able to practice it.

BURDENING THE PUBLIC

The first two types of insurance against out-of-work periods are burdens upon the general public. The first is obviously so, as it constitutes direct contribution by

private gift or from the public purse. The second is obviously a public burden insofar as the state grants unemployment funds. It is also a public burden to the extent that employers and employees pay into the insurance fund, because the higher wages and the larger profits necessary to enable the least efficient producer, for whose goods there is a demand, to stay in business, constitute an extra cost of production which is reflected in the price of the goods. On the other hand, the insurance which depends upon the ability of the management to provide it is not an extra price burden upon the public. The insurance in these cases results from the efficiency of the management and the workers in producing goods for current wages, and at current prices, but at a cost well below the cost of production for their average competitors. In such cases the insurance may take two forms. In one instance the goods are sold at prices set by less efficient competitors and the extraordinary profits are built into reserves for the payment of dividends and unemployment wages during periods of depression. Or the extra efficiency of the firm may be reflected in the price of its goods, with the result that the products of the firm can always be sold and production kept at full flood. Employees are practically never laid off. The significant feature of the insurance thus provided is that it depends entirely upon the productive ability of those who benefit from it. Only workers whose efforts comply with the high standards necessary to maintain low unit costs can share in the subsequent reward of lay-off pay or continuous employment.

The unemployment insurance provided by the agreement between the workers and the employers in the Chicago clothing industry belongs essentially to the last type, that which depends upon the ability of the workers and employers to produce goods below average costs. Too much significance should not be attached to the fact that in this particular case the operation of the scheme

includes a group of concerns and a contribution to the insurance fund on the part of the employees. It is true, as Mr. Commons claims, that the operation of the plan whereby large houses maintain their own funds while the smaller establishments unite in a central insurance fund points to an important principle which should be recognized in considering any form of compulsory insurance. But there is a danger of repeating the common fallacy so in evidence during the recent rage for introducing shop committees; the fallacy of placing too much emphasis on form and of over-looking the fundamental spirit which made certain well known shop committee systems work. The basic point of enquiry does not lie in variations of size but in whether the premiums come from extra effort during times of prosperity or are mere contributions made on the ground of social morality and without a *quid pro quo* in the way of increased production.

EXCEPTIONAL CIRCUMSTANCES

Behind the agreement in Chicago lie two important factors; the dominance in the trade of an extraordinarily well-managed house, Hart, Schaffner and Marx; and the superb leadership of an industrial union by Mr. Sidney Hillman. To go into the history of the Amalgamated Clothing Workers of America or to recite the unusual influences that have surrounded the career of Mr. Hillman would be too long. Suffice it to say that the present agreement had its genesis in 1911 when an agreement was entered into between the union and Hart, Schaffner and Marx. To show the object and the spirit of this agreement one cannot do better than quote from the preamble as it was set forth by the late Mr. John E. Williams, chairman of the board of arbitration:

On the part of the employer it is the intention and expectation that this compact of peace will result in the establishment and maintenance of a high order of discipline and efficiency by the willing cooperation of the union and the workers rather

than by the old method of surveillance and coercion; that by the exercise of this discipline all stoppages and interruptions of work and all wilful violations of rules will cease; that good standards of workmanship and conduct will be maintained and a proper quantity, quality and cost of production will be assured; and that out of its operation will issue such cooperation and good-will between employers, foremen, union and workers as will prevent misunderstanding and friction and make for good team work, good business, mutual advantage and mutual respect.

On the part of the union it is the intention and expectation that this compact will, with the cooperation of the employer, operate in such a way as to maintain, strengthen and solidify its organization so that it may be strong enough, and efficient enough to cooperate as contemplated in the preceding paragraph; and also that it may be strong enough to command the respect of the employer without being forced to resort to militant or unfriendly measures.

The agreement was put into force and carried out in its full spirit.

On the one hand was an employer more advanced in the science of management than his competitors and a firm believer in scientific methods of improving the operating efficiency of his plant. On the other hand was a single union embracing all the trades in the industry and led by a man who believed in scientific management methods, who realized that the ultimate good of the workers rested upon the success of the industry and who had little patience for tactics tending to limit output or to disrupt the smooth running of the factory. In addition, the operation of the agreement lay in the hands of men of broad vision and of sympathetic understanding. Inevitably Hart, Schaffner and Marx became dominant in the trade, and the union became strong enough to enforce its ideas of labor control and productive efficiency upon other employers. In 1919, the agreement was extended to other firms in Chicago, and the employers organized to form the Chicago Industrial Federation of Clothing Manufacturers. During the depression of 1921, Mr. Hillman and his associates brought up for arbitration the premise that the industry is responsible for the welfare of its employees in and out

of season. Since that date the writer has lost touch with the developments in Chicago, but it is apparently from this standpoint of the union that the present unemployment scheme has come. A similar development took place in Cleveland, where the referees admitted the justice of the claim. Employers in Chicago who cannot comply with the scheme obviously have two alternatives; they may oppose the union, a precarious undertaking; or they may go out of business. With Hart, Schaffner and Marx in a dominant position and setting the pace in productive efficiency, and with a wealthy and powerful union able to discipline its members, and perfectly in accord with the idea of keeping costs at a minimum, it is not difficult to imagine the ultimate fate of Chicago clothing houses whose methods are out of date.

DEFERRED REWARDS

There is no particular virtue in clothes made in Chicago, nor as yet does Chicago manufacture all the clothes worn in the United States. New York, Cleveland, Rochester, Philadelphia, and other centers contribute their quota to the demand for clothing, and the prices for garments will be set somewhere around that figure which will allow the less efficient manufacturers to stay in business. The larger margin of profit thus accruing to the efficient Chicago group can be built into reserves for unemployment wages. In other words, the unemployment wages drawn by the Chicago clothing workers are the deferred rewards for their extra efforts during the periods of their employment.

The question then arises as to whether the fundamental significance of the Chicago agreement can be maintained when its provisions are, by law, made to apply uniformly to industry as a whole. Unfortunately the conditions pertaining to the experiment in Chicago will not be found elsewhere nor in other industries. Outside of the clothing industry the American Federation

of Labor is the all-powerful organization representing the worker. The American Federation of Labor and the Amalgamated are as far apart as the poles in their forms of organization and in their fundamental points of view. It would be necessary first of all to break down the craft divisions which are at present the basis of American unionism. It would also be necessary to remold the opinions of our union leaders on many questions involving the relations between employer and employee and the limitation of output. This in itself presents a stupendous task calling for a long period of time to accomplish, if it could ever be brought about. On the other hand, apart from the clothing industry in Chicago and perhaps one or two other places there would be no concern sufficiently dominant in any industry (except perhaps the United States Steel Corporation) to force its contemporaries to unite with it in sympathetic cooperation with a union intent on revolutionizing the industry. The entire scheme under legislative enactment will become part and parcel of the wasteful battle being continually waged between the employer and the union. Indeed, point is added to this argument by the fact that beyond Chicago the Hart, Schaffner and Marx influence has not been dominant. Mr. Hillman and his associates, while they have been highly successful in some centers, have experienced discouraging results in others. Finally, under legal enforcement there will be lacking the wise guidance and sympathetic participation that have contributed so largely to success in the case of Chicago.

CANNOT BE MADE LAW

One is forced to the conclusion that, if it is made law, the Chicago scheme will lose its significance as an insurance plan based on productive efficiency, and will become, like other state-enforced insurance plans, an extra burden upon the public, with moral rather than industrial sanction for its support. The prices of com-

modities must surely rise when the expense of unemployment insurance is added to the overhead of those concerns whose managements are incapable of effecting a corresponding saving in other phases of production costs.

It is thus seen that the suggestion, when put into practice, will not for a very long time differ from other forms of state unemployment insurance in its effects upon the public pocketbook. In the long run, however, the new scheme may have very marked effects upon the organization of business. It will be noted that:

Establishments with good financial credit are permitted to carry their own reserves for unemployment. Other establishments are required to insure in mutual insurance companies or otherwise.

Or, in other words, the large concerns with their efficient methods will be placed in a still more dominant position, and, in the words of Mr. Commons, "the small manufacturer will disappear." The process of eliminating the inefficient could be effected even more rapidly and perhaps more equitably if the scheme provided a sliding scale of premiums based upon the liability of the employer for contributing to unemployment according to the length and frequency of his shut-downs. While we desire anything that will better present conditions, that will reduce the peaks of the business cycle, and that will reasonably persuade our industrial leaders to try to smooth out the curve of unemployment, the disruption which may be caused by such radical legislation might well prove more disastrous than waiting for slower and less revolutionary methods to prevail. It must also be realized that the effects of the proposed plan, if they should be consummated, must result in practical monopoly insofar as the production of goods is concerned. The logical outcome will be for the manufacture of commodities to fall into the hands of comparatively few large and powerful concerns. If such were to hap-

pen, one wonders whether they would all be as efficient and forbearing as they might be, or whether the public would again be the victim of exploitation. In any event, monopoly, as it is at present regarded, is contrary to the public policy. Hence it is probably as well for Canada that the experiment is to be tried out in Wisconsin; there need be no hurry in imitating the example till we have profited from the experiences of our neighbors. None the less, Professor Commons' paper is a distinct contribution to the subject dealt with, and most particularly so in that an economist of his recognized authority and known sympathies should so forcibly remind us that unemployment insurance, if it is to do most good to all concerned, has a distinct relation to the first economic doctrine propounded to Adam as he left the Garden of Eden, namely, that man gets what he works for.

IS INSURANCE NECESSARY TO MITIGATE UNEMPLOYMENT IN THE UNITED STATES¹

Since the normal unemployment rate in the United States is so much higher than abroad, the question arises whether, regardless of the provision for relief from its losses, the rate can be reduced and if so, how and by how much? To reduce the extent and frequency of unemployment would obviously reduce the proportion of wage-earners unable or failing to make provision against it, whatever this proportion may be, and would thus reduce the amount and alter the character of the cooperative provision, public or private, that might have to be made for them.

On this point the general opinion is that the average unemployment rate can be greatly reduced in this country by private and, probably, by public effort. The

¹ Unemployment Insurance in Theory and Practice. National Industrial Conference Board. Research Report No. 51. June, 1922. p. 71-4.

causes of unemployment, as outlined in the report (No. 43) of the National Industrial Conference Board previously referred to, are in large part amenable to treatment. A considerable proportion of them proceed from conditions within the individual industrial establishment and are both personal and impersonal in nature.

Where the personal factors, such as strikes and lockouts or disability, enter into the broad contingency of unemployment, they can be reduced through better methods for lessening friction and developing cooperation between employers and employees, and through plant and community efforts to decrease the amount of illness and accidents by improved sanitary methods, safety devices and education.

Again, the causes of unemployment due to impersonal factors within the plant, such as faulty factory organization, high production costs, ineffective sales methods, lack of proper materials and equipment, high labor turnover arising from improper personnel administration and personal characteristics of employees, inefficiency of employees and displacement of hand labor by machinery—all these are susceptible of alteration or elimination wholly or in part by private individuals or cooperative efforts of employers, employees and organizations devoted to the study of these problems.

As management improves and applies its knowledge to providing greater regularity in the supply of raw materials, standardizing products, coordinating the activities of sales and production departments, reducing labor turnover and removing labor inefficiency through education, and as this improved functioning of individual management is extended by cooperative activity to the encouragement of diversity among local industries, centralizing local labor markets and developing systems of transfer and promotion, an incalculable but doubtless large reduction can be made in the unemployment rate. These individual efforts of industrial managers may also

be joined with those of workers' organizations and of middlemen and financiers in their own fields, and with those of the community in education and raising the morale and efficiency of the workers.

Still further causes of unemployment arise from influences external to the individual plant, such as over-expansion of industry, poor coordination of wages, profits and prices in the whole industrial system, seasonal variations, wasteful systems of commodity distribution, lack of coordination between transportation and other industries, and deficient labor placement facilities. Certain political factors are also important, such as those arising from governmental policies in connection with immigration, fiscal procedure, tariffs and international relations.

In a young and rapidly growing country like the United States, it was perhaps inevitable that close attention to these matters, as related to unemployment, should have taken a place second to the desire for industrial expansion, and that in consequence the full potentiality of stabilizing employment by applying individual and cooperative scientific study and organization to them should not yet have been realized. There is little doubt that through well directed private and public effort these factors making for unemployment may be so controlled that its rate in this country may be largely reduced.

So far as the normal fluctuations of industrial activity affect employment, these may be approached by special individual and cooperative measures to reduce the seasonality and stabilize output of the more variable industries, to manufacture for stock, to improve sales methods, to seek more diversified markets and manufacture more diversified products, to introduce equipment aimed to counteract the effects of climatic changes, to establish local central sources of labor supply, to develop more diversified industries in communities and to standardize products.

The reduction of unemployment due to the longer

business cycles is approachable through the establishment of a basis for control by means of better information obtained from standardized reports on industrial conditions, the coordination of costs in transportation and other industries, the promotion of foreign trade through the extension of credits, stabilization of exchange and deflation of prices and the improvement of labor-placement facilities.

Broader than the economic factors, the control of which may influence employment, are the political policies mentioned above, which have a far-reaching effect upon general conditions in industry. Regarding these the report referred to says:¹

Immigration may be encouraged or restricted to such a degree as to increase or relieve unemployment. Government fiscal policy and procedure may place a disproportionate present burden upon industry or liquidate the national debt gradually. The forms of taxation applied may result in either equitable or inequitable distribution of the burden of government needs. The fiscal procedure in connection with appropriations and taxation may either be regulated by scientific budgetary methods or continue under a decentralized system permitting "log-rolling," wasteful expenditure, and a disproportionate drain upon industry. Tariff rates may be applied or changed so as to be conducive to stability or uncertainty in industry. International relations may either hinder or encourage international trade and thus affect the continuity of production within nations. In relation to all these matters wiser policies may be carried out so as to bring stability in the industrial system.

Even where these more fundamental measures are lacking, it is generally recognized that unemployment is susceptible of considerable reduction by such special measures of individual or cooperative character as the undertaking of rearrangements and repairs and other devices within the plants for retaining workers, by forced shifting of manufacturers' price reductions through retailers to consumers, by special efforts to stimulate private building and by the undertaking of public construction work. As pointed out in preceding chapters of the present report, even in European countries where nor-

¹ National Industrial Conference Board. Research Report No. 43 p. 90-1.

mal fluctuations of employment have been lessened, these and other emergency measures are necessary to lower the peaks of unemployment.

These emergency measures, however, are costly in proportion to their urgency and to the usually unfavorable conditions under which they are applied, and are to be regarded as a last resort, when more fundamental preventative measures are lacking or have failed. From this point of view they bear the aspect of relief rather than preventive measures, since they involve essentially a special financial outlay, and their excessive cost is considered warranted by the emergency and is borne directly by some special group or by the community.

STATE UNEMPLOYMENT INSURANCE¹

Allow me to suggest that just a word upon this subject would not be amiss from your humble servant, having certain positive views upon the subject under discussion. Though I am presiding and acting entirely in an impartial way, now that both sides have spoken, I may avail myself of a few moments, with your indulgence, to express a few facts.

I am very much interested in the subject of unemployment and I have my grave apprehensions as to what may result in what is termed unemployment insurance. It means so much and yet the term in itself is meaningless. There has thus far been no employment insurance. It has been payment on account of being unemployed. I hold that any system of so-called unemployment insurance is to recognize unemployment as a permanent condition in our country. I cannot agree, of course, with the idea that the question of employment or unemployment, with its periodicity, is influenced by either Venus or Adonis. The question of unemployment is a prob-

¹ By Samuel Gompers, president of the American Federation of Labor, from an address on unemployment insurance before the National Civic Federation, New York, June 29, 1921. Reprinted in *The Monitor*, February, 1922, p. 18-21.

lem controllable. There is a remedy, if there were now in existence the voluntary methods of employees and employers of workers to deal with the question and take the business of this country into their own hands rather than leaving it to be conducted by the princes of finance to whom Professor Commons has made reference. It is altogether too true that the princes of finance, the banking institutions, are in control of the industries of the country and they have left the hands of the employers. The initiative and the idealism that prompted the men in the business world and, particularly, in railroad construction, maintenance and expansion, have been obliterated from the railroad operation and expansion by this very financial interest which controls railroad presidents, railroad managers, and railroad companies. The railroad business is not conducted in the offices of the railroad presidents and managers but is conducted and directed from Wall Street.

From Great Britain, I have learned some of the facts which now exist in this so-called unemployment insurance. At the last British Trade Union Congress held at Cardiff in September, 1921,¹ the declaration was made that the so-called unemployment insurance has been a

¹ The Trade Union Congress assembled at Cardiff, and represented over six million British workers, views with grave apprehension the increasing extent and conditions of unemployment, and reaffirms the principle that it is the duty of the state to provide work or adequate maintenance for every willing worker; approves the action of those Boards of Guardians which, in the absence of proper government assistance, have made a serious endeavor to adequately relieve the urgent necessities of the workless; but emphatically expressed its opinion that such a burden, mainly due to the war, should not have been imposed on the ratepayers, and must be removed from them.

The Congress calls upon the government immediately to summon Parliament and to introduce practicable scheme of work without delay, with the necessary financial provisions; and further, to remove the gross inequalities of rating obtaining in the London area.

The Congress also is of opinion that the popular councillors, in the stand which they believed to be best to take under the exceptional circumstances to call public attention to the distressful conditions of the unemployed, have rendered a real national service. It pledges itself to use all the strength at its command to secure the provision of work or adequate maintenance for the unemployed workers throughout the country, and instructs the new General Council, in close cooperation with the national executive of the Labour Party and the Parliamentary Labour Party, immediately to take such steps as may be necessary to secure these objects—53d Annual British Trade Union Congress, held at Cardiff, September, 1921.

failure; that they cannot now ask for its repeal because of the disarrangement it would cause; but what they want is not unemployment insurance—they want employment.

No one can get away from this absolute fact that if we were to have compulsory unemployment insurance, the working people would be subjected to rules and regulations and investigations and supervision of almost every act of their lives. It would open the way—instead of the protection which now every American citizen and every British subject is supposed to hold, that his home how ever humble it may be, is his castle—it would open the door to the governmental agents and agencies who would spy and pry into the very innermost recesses of the home life. It would entangle the mass of the working people in a mesh of legalisms and restrictions, to which I am not willing as one American citizen to help to subject the working people of the United States.

I have said, and I want to repeat it just now, that I doubt if there is any man in all the world who is a more loyal and devoted citizen of the Republic of the United States than I am. Now, I am not saying this as a boast, because it is a feeling of reverence and respect and devotion but, loyal as I am to our republic, I would not trust it and its agents to enter the homes of the working people at will.

The question of involuntary unemployment—there is a question of voluntary unemployment and who is to determine what really constitutes, say, a strike or a lock-out? A government agent! Well, God save us from that kind of a fellow. Government interpretations, government constructions, government enforcement, government regulations and rules and supervision.

I know what it means to be unemployed. I am not a professor from a college or a university. The only university from which I have graduated is that of hard knocks. I have been a wage-earner at my trade for twenty-six years and I know whereof I speak, as a

workman, as a wage-earner, and not only working at my trade but working with my shop mates in several factories and being in close touch all my life with the working conditions and the feelings, the understandings, the intuition, or what not, of men and women who work for wages. The subtleties, the psychology, in the relation of workers to employers, and employers to workers,—the subtlety of it, often. You cannot define it by law or regulation. It is human, it is in that physical, actual, industrial relation which comes from the position of wage-earners and the employers, and that which shall come, as the voluntary or involuntary unemployment to be decided by government and by governmental agencies, and evidently enforceable by them.

I cannot agree that in the industrial life of our country there are forces that are beyond the human control. They cannot be. And I don't know whether I understood quite accurately the statement made by Professor Commons—whom I have known for very many years, and I have enjoyed his friendship, he knows that I have enjoyed our working together. I don't know whether I understood him accurately when he spoke of trade unions, of spreading over the work, of limiting production. I don't know which term, because a little later on he spoke of the unions, of spreading the work, that is, in times of industrial depression, of the union workmen preferring to work shorter hours, or divide the work with those who would be thrown into the streets unemployed. Now, with that latter part, that is, that union workmen are willing to share their employment by reducing the time say one-half, or one-third, and giving employment to all rather than that any of them should be laid off or discharged, I quite agree. That is true. But if it is intended to convey the idea that the trade union movement of the United States is limiting production, I must express my emphatic dissent. And let me add this on that point: Statistics will prove, and it is common knowledge that there are no working people either individual or

in their collectivity, who produce so much as do the working people of the United States. And I think it comes with bad grace from our own people, when the toilers of our own country are held up to ridicule or to severe censure, that they curtail production, when they have been and are the greatest producers of any working people in the entire world.

I believe in the voluntary system of trying to provide something for the unemployed worker. I believe that the periodicity which has come upon the industrial life of our country by which these cycles of unemployment come about, are hand made and, in too great frequency, premeditatedly. If there were as much attention given to the encouragement of our industrial life and its expansion as there is given to curtailing—to shutting down institutions so that there shall be a corner, tending toward the profiteering of manufacturers and financiers, we would have less of this periodical unemployment, much more of general employment, and business prosperity and onward march to a greater and higher civilization.

NO STATE DOLES FOR AMERICA¹

The most discouraging, distressing and altogether depressing feature of life for the wage-earner of Europe today is the state dole for the unemployed—the *pittance given by the state* to its helpless paupers. May America never find itself either driven or deceived into adoption of such a system.

The American system of workman's compensation laws is the soundest, most equitable in the world, and it provides security for the family against the unavoidable toll of industry. But it is based on justice, not on charity or the generosity of the state.

There is the real difference between the labor movement of America and the labor movement of Europe.

¹ From an article by Samuel Gompers, president, American Federation of Labor. The New York Times. October 7, 1923.

Labor in America depends upon itself. It looks to the world of industry for justice. Labor in Europe looks to the state, leans upon the state, and seeks to extract from the state that which it should either provide for itself or secure from the industry of which it is so vital a part.

MARXIAN COMMUNIST VIEWS¹

I

Among the latest "reforms" promulgated by the capitalist class is that of Professor John R. Commons of the University of Wisconsin, in which is embodied a disguised scheme to entrench and thus perpetuate class exploitation under the present system of wage slavery. The proposed law, of the well known "Wisconsin idea" type, proposed to have employers pay the worker unemployed a part of his wage-loss during plant shut down and layoff unemployment periods. It is similar to other "reform" measures now in effect, such as the better-known Industrial Accidents Compensation Laws.

Orthodox communists should oppose such innovations in America. Unemployment is a most essential phase in the social revolution. As a bait to the unthinking capitalists, unemployment entices them to intensify the misery and want of the proletariat by appropriating the gains made in good times—to slash wages, increase hours and speed, and "discipline" their wage slaves. By this practice, the capitalists are voting themselves into extinction. The movement for the ultimate victory of the revolutionary proletariat is dependent upon the natural class struggle development. This struggle is intensified by unemployment; after all, revolution brews in the empty stomach of the downtrodden. In periods of no work, the proletariat has an opportunity to think; the revolutionary ideology of communism penetrates his mind in indelible terms. The leadership of communism rises as the inevitable collapse draws near.

¹ From *The Daily Worker*, official organ of the Worker's (Communist) Party of America. December 23, 1924.

In the sequence, this economic condition, while immediately profitable to the capitalists, ultimately, as Marx has so ably put it "digs capitalism's grave." Certain attempts are made to check this natural tendency. The increased attraction of communism during unemployment is well recognized by the capitalist class, and "red raids" are instituted in grand publicity fashion to terrorize the proletariat and to frighten him from the communist standard. Since these red raids are admittedly futile, the capitalist class now proposes, thru Professor Commons, a device what is far more vicious and demoralizing to the natural class struggle development. It will make capitalism bearable to the unthinking proletariat interested merely in bread, and stem natural educational developments. Further, it will bring "capital and labor together," as the latter concedes to the capitalist's industrial "peace" terms. It will unharness the worker's reserves of productive energies, now restricted as he endeavors to increase his share of the products of his toil; the net result, then, is to increase the "harmony," "efficiency," speed and profits—while the capitalists give but a small per cent of the wages lost during unemployment, caused by too much production and too low wages.

In short, any legislation endeavoring to compensate for unemployment, should be opposed here for this reason. It stagnates the natural progress for the reconstruction of society and increases the difficulty of organization of educational and social revolutionary groups.

II *Reply.*

Orthodox communists state that unemployment insurance should be opposed by all communists, on the ground that it stagnates revolutionary development. The theory on which they proceed is that the increasing misery and starvation accompanying present day unemployment, is advantageous to communism in that it will hasten the social revolution.

The philosophy of misery is an error. While hunger makes for struggle, abject starvation and misery makes for inertia and apathy. To peruse the economic history of the classes shows this. Chronic famine-ridden masses, as are found in India and China, do not lead the revolutionary struggle. It is rather the wage workers, whose living standards have advanced with the capitalist mode of production in its ascending stage. During periods of unemployment, in the present decending stage, these standards are lowered by the superior power of the capitalists. The class struggle looms forward as the worker stubbornly resists these encroachments.

True, communism benefits by unemployment, as the hungry proletariat grope about for true leadership; but communism cannot profit from extreme misery and starvation.

Both these conditions are inherent in capitalism, and they increase as it declines. *Unemployment is inevitable; capitalism cannot control it or prevent its recurrence.* Hence, capitalism is doomed, since it cannot maintain itself and at the same time assure continuous income for the workers.

The plan of Commons is chimerical, as any plan must be, so far as preventing unemployment and assuring the wage workers of a continuous income is concerned. This plan provides that the capitalist should bear the entire unemployment insurance burden. Unemployment is a permanent condition of capitalism, as the volume increases, the hunger increases as each period of unemployment recurs. To say to the masses "no relief," would turn them against us. Every agent of the capitalist class would point out that we regard the unemployed only as revolutionary "cannon fodder." And they would be right.

Successful communist tactics consist in blending the immediate needs of the masses with the ultimate goal of communism.

DO WE WANT UNEMPLOYMENT INSURANCE¹

The American laborer is more efficient and more highly paid than the laborer of any other country in the world. This country has proceeded on the principle that the laborer is worthy of his hire and has granted him freedom of association in order to improve working conditions, reduce the hours of labor, and raise his rate of pay.

Practically every budget which has been prepared in this country to study the standard of living has contained an item for insurance. At present we hear much about the saving wage. What does this mean? It means that we recognize that the American laborer should receive sufficient wages to tide him over the ordinary vicissitudes of life. He should receive sufficient to enable him to purchase for himself some insurance and at present there are seventy and six-tenths millions of insurance policies upon the lives of our people in force.

We are not satisfied in this country to have a submerged class in our population. We demand that the earnings of each family should suffice for the needs of that family. The very fact that wage-earners object to relief in times of distress shows their independence of spirit and that they have accepted the doctrine of individual responsibility. This independence of spirit has gone far to make the American laborer what he is today. There is no country in which the mobility of labor is as great as among us at present.

The American laborer feels that he has a perfect right to leave one job to take a better one without asking anybody's permission. He is ready to assume some risk and in most cases has provided for it. It is this very willingness to take a risk which makes the American laborer the superior of his brother across the water.

¹ By William B. Bailey, Ph.D., of the Travelers Insurance Company, from Does Wisconsin Want Unemployment Insurance. Issued by the Insurance Federation of America and the Travelers Insurance Company.

It is at the bottom of our democratic institutions. To expect the American laborer to justify himself before some tribunal before he leaves one job and takes another; to expect him to ask the decision of an arbitrator as to whether he should go to another town to work; to expect him to defer to the opinion of another as to whether a certain job is suitable or not is to expect the impossible and if we endeavor to force this subservience upon American labor, we stand a chance of destroying its independence and reducing it to the old world level of efficiency. I doubt whether the American laborer, if he saw clear through this proposition, would be willing to accede to it.

I am confirmed in this opinion by an address delivered by Mr. Gompers and to which I had the pleasure of listening a few months ago. In the course of his remarks he said:

Were the workers to have compulsory unemployment insurance, the working people would be subjected to rules and regulations and investigations and supervisions over almost every act of their lives. It would open the door to government agents who would spy into the very innermost recesses but I would not trust the agents of this government to enter the homes of the working people at will.

ARGUMENTS IN FAVOR OF THE HUBER BILL

1. This bill would limit undue expansion of industry in good times.
2. This bill would have the same effect as compensation insurance.
3. This bill would remove the incentive to workmen to limit their efficiency through fear of working themselves out of a job.
4. This bill would remove the fear of unemployment which is one of the principal causes of industrial unrest.
5. This bill would insure unemployment compensation to workmen during slack times in the same way that dividends are paid during periods of depression.
6. This bill would help the farmers of the state since

the purchasing power of workmen would not cease during periods of unemployment.

7. This bill would take the risk of unemployment away from workers and put it squarely upon the employers where it belongs.

OBJECTIONS TO THE HÜBER BILL

1. Is it always a good plan to limit the expansion of industries in good times?

Farmers have had a prosperous year and with their surplus cash wish to purchase an especially large amount of farm machinery for the next year. Unemployment insurance would hinder the rapid expansion of these manufacturers and would curtail the supply of farm machinery. Prices of such machines would thus be unduly high and the supply of agricultural products would be unnecessarily limited during the coming year making the cost of living higher.

A conflagration might destroy the business section of a small city. Contractors would need to hire all available labor to replace this loss and many laborers would doubtless come from outside the state to share this work and replace the loss at the earliest possible moment. Should the contractors be forced to provide unemployment insurance for these additional laborers? They will doubtless receive insurance in the form of extra high wages at this period of great need.

We recognize the advantages of the temporary migration of laborers who came to this country when needed and left when necessity for their labor had ceased.

There is a considerable number of persons, of both sexes, in this country who can be persuaded to work when times are good and wages are high but who are glad to remain at home when industrial depression reduces the rate of wages and renders their services unnecessary.

2. Unemployment insurance is quite different from accident compensation insurance. The occupational

hazard is within the factory and to a considerable extent subject to control, by safeguards, and accident prevention education.

The main cause for unemployment is the economic crisis and is beyond the control of employers.

Seasonal variations are to a certain extent controllable and are being controlled much more than was the case ten years ago. These variations are reduced by (a) getting orders far in advance of delivery, (b) diversifying lines, those that balance one demand against another, (c) manufacturing standard goods for stock, (d) transferring workers between departments. Dennison Manufacturing Co., Cleveland Ladies' Garment Makers, Dutchess Bleachery.

We have a form of unemployment insurance in force today by which seasonal workers receive higher rate of daily wages than those regularly employed. This is true in the building industry, and the bituminous coal mining.

3. This bill will certainly not increase the efficiency of the workman. This has been proven conclusively in the past. When the demands of industry exceeded the available supply of workmen, it is the invariable rule that the efficiency of the laborer diminishes. He has no fear that he will lose his job because he knows that he can get another one without difficulty, but when jobs are scarce, a workman increases his efficiency in order that he may not be discharged.

4. It is extremely doubtful whether unemployment insurance would do much to remove industrial unrest. The principal cause of industrial unrest is not fear of the loss of employment, but the sense of injustice due to the fact that some people are more unfortunate than others. It was felt that unemployment insurance would remove industrial unrest in England. Under the original act the benefits were 7s. a week. These were gradually raised until they amounted to 20s. a week. Then the labor party demanded 40s. a week. Now they ask

for a living wage while unemployed. No country can pay a living wage to persons out of work without going bankrupt.

Unfortunately, men are so constituted that if they can receive a living wage without working, they will refuse to work.

Men must have some spur to lead them to put forth their best endeavor. In primitive days when each man worked for himself, he realized that if he didn't do his best, he would starve. Now that he is working for an ampler existence, there must be something to prick the side of his intent. All desire is in the nature of a pain. To remove this unpleasant sensation, men are impelled to work. Remove it and you get stagnation.

5. Some corporations with a considerable surplus pay dividends without interruption during good times and bad, but in many cases dividends cease, bonds are in default, reorganization results. There is hardly a copper company in this country which has paid a dividend for two years. Many railroads are in a worse position. In fact, the persons in the worst situation in this country during the past few years are those who unable to work have found it necessary to live upon reduced dividends with increased cost of living. To have continued to pay wages to unemployed workmen during the past few years would have made bankruptcy wide spread throughout the country.

6. Except for truck farmers a large proportion of agricultural products are sold at a distance from the producer. What the farmer would gain from greater regularity of wages among the employees of Wisconsin, he would lose through the increased price of goods which he would have to purchase.

7. Under the handicraft system in force during the middle ages, manufacture was on a small scale. The average establishment consisted of a master workman with one or two apprentices. This master workman generally carried on his work in his own home with

simple tools which he owned or very simple machines, bought his raw material as he needed it and turned out goods on order. He furnished his own capital, was his own boss and did much of the work himself.

When power machinery came in as a result of the introduction of the steam engine all this changed. It was then more economical to conduct manufacture on a fairly large scale. This meant the erection of buildings for the purpose of manufacture, the purchase and installation of machinery, the purchase of raw material on a large scale, and the employment of a considerable number of laborers. All this required capital and a capitalistic class was slowly differentiated although many professional men and in fact many from all branches of life who saved money could invest it in the capital stock of this undertaking and become capitalists.

Some of the old handcraftsmen continued along the old line, but were one after another forced out of business. The uncertainty of orders and the attending risk was more than they wished to undertake. Most of them preferred to work for another and take the risk of occasional unemployment rather than the risk of doing business for themselves. Under the factory system, it is the employer who assumes the risk. He hires the building on which he agrees to pay rent; he borrows money on which he agrees to pay interest; he hires laborers to whom he agrees to pay wages; he buys raw material and then expends upon this the cost of manufacture in the hope that he will find a market for his goods at a sufficient price to pay him a profit. The physician cannot afford to take the risk of going into business, so he loans his money at a certain rate of interest; the laborer cannot afford to take the risk of going into business for himself, so he prefers to accept a regular rate of wages and take a chance that he may be unemployed part of the time rather than assume the risk of the business; the widow who received insurance

money puts it into a stock or bond in the hope that she will receive a regular quarterly return on her investment. If business is prosperous she does so; if it is unsatisfactory she may receive no return during lean years and be left in a very unfortunate position. There is no one to guarantee that she shall get this return during good and bad years. She must take some chance. The workman receives his wages weekly. He hopes he will get them regularly but now and then some event, like a foreign war, comes along and business is thrown out of joint. He is laid off temporarily. Should he be guaranteed a regular return whether working or not? When the widow who bought stock and the employer who took the main risk must take some chance is he to have his wages guaranteed during good times and bad? I am inclined to think that in this case he must be satisfied with a lower rate of wages.

There are many men working for wages today who are anxious to get into business on their own account, but for the time being they don't feel justified in taking the chance. They may have a family on their hands, or their accumulated savings may be too small to justify the move. They realize the man who is in business for himself is taking a risk much greater than that assumed by the man working for wages. I am not quite certain that it is a good thing for society as a whole to have any class entirely relieved from this responsibility. I am inclined to think that in the long run, the society in which the thrifty man prospers and the careless man suffers stands a better chance of surviving than does the society in which the state guarantees to every man that he shall not suffer from his mistakes or foolishness. May it not be possible that one effect of continually shielding men from the results of their folly may fill the world with fools?

UNEMPLOYMENT PREVENTION
LEGISLATION¹

It seems certain that we are again faced with unemployment insurance legislation in the Wisconsin Legislature. The Huber bill passed the House and just barely failed of passage in the Senate during the last legislature. Michigan members will be interested in preparing for similar legislation in their state if the Wisconsin measure is put into effect. We give below first a summary and then more detail.

FEATURES OF THE HUBER UNEMPLOYMENT BILL

The Huber bill which was up in the spring of 1921 applied to every employer of three or more persons and to all employers of every corporation. Employees of farmers and canneries are excepted.

It provided that the employer shall compensate each workman while unemployed, provided he has worked six months or more in the employment. He is not required to work where there is a strike or lockout or where less than the prevailing wage is paid.

The eventual limit contemplated for compensation is thirteen weeks and payments are not assignable or subject to attachment for debt. Compensation is not to be paid to those voluntarily leaving work, dismissed for a reasonable cause or out of work as a result of strike or lockout.

The compensation would be \$1 for each work day in the case of adults. Provision is made for payment of transportation to obtain work outside the district. Certain charges are to be paid into the State Treasury to cover additional costs for administering the act.

¹ By A. L. Osburn, director Wisconsin Manufacturers' Association, chairman Bureau of Legislation, Northern Hemlock and Hardwood Manufacturers' Association; vice-president, National Industrial Conference Board. Special Report on Unemployment Prevention Legislation, 1923. Reprinted in Unemployment Insurance, an answer to Dr. J. R. Commons, p. 5-7.

The employers of the state are to organize an Employers Mutual Employment Insurance Company. A state advisory board on unemployment is to be formed and similar boards set up in localities with an equal membership from both employers and employees, as finally selected by the Industrial Commission from lists furnished.

All claims must be passed upon within one day by a deputy of the Industrial Commission, whereupon an order upon the employer will be issued for the compensation, which amount it is presumed will be recovered from the Mutual Insurance Company. Misrepresentation by employers or employees may be punished.

The above covers the main features of the bill but there is much more detail. Presumably any measure introduced in the new legislature may carry somewhat different provisions in an effort to meeting the strong criticism which has been made of certain sections.

Wisconsin Manufacturers should make it a point to discuss this measure with their representative in the House and Senate of the Wisconsin Legislature and with any others whose opinions and convictions bear weight. It is the purpose here to give you some of the leading arguments.

1. Unemployment compensation aims to coerce the employer into furnishing continuous employment. No penalty can make the employer more anxious than he is now to keep as many men busy as possible. His profits and success hang on capacity production. No law can make the employer more capable, more far-seeing, or more eager to keep his plants and facilities active.

2. Unemployment compensation measures presume that unemployment may be prevented by penalizing the employer and making payments to the unemployed. Unemployment is due to conditions over which industry has little control. Employers have no control over weather

conditions, wars, embargoes, crop failures, fashions, emotions, money panics, nor the peculiar mob psychology that starts and stops buying for reasons no one can foresee. Nor over seasonal work like logging, road building, harvesting crops, railroad construction, canning, etc.

3. Unemployment compensation will create unemployment. Industries that are in operation will not put men at work on a possibility that increased production might pay because they would have to be sure of overcoming the penalty of discharge compensation if they could not keep up the increased production rate. Casual operations in many cases would not be started because discharged compensation would make cost prohibitive.

4. Men are encouraged not to shift to other kinds of work. A large amount of employment is seasonal. Compensation after discharge while a suitable job is being found will decrease the shifting overs which are now made to less suitable jobs. This would be a public loss. Unemployment is greatly relieved when men are prepared to shift to other kinds of work, and to take the best job available at the time.

5. Unemployment compensation will injure both the employer and the public. It will destroy the incentive for men to hold the job or look for one when lost. It will destroy the incentive to save, and men under the law will be less thrifty, less self-sufficient and less self-respecting.

6. Unemployment compensation at times will tend to compel over production and at other times under production. In a period of depression at a time of minimum operation or no operation employers will hesitate to start the factory or put on additional men until it is clear that business conditions would absorb their production continuously. Either over production or under production results in a loss to the public.

7. The costs will tend to increase. In later years it will be argued that men should be paid not during thirteen weeks but during the entire period of unemployment and that higher rates per day should be paid to enable them to live comfortably. Eventually the public will pay for a big economic loss.

8. Unemployment compensation is in no sense comparable to workmen's compensation. Industry was under a heavy burden under common law and statutory liability before the workmen's compensation law was passed. Industry has cooperated with the state successfully under the law to bring accidents to a minimum. The discharge of employees results ordinarily from causes entirely beyond the control of the employer.

9. At first, Wisconsin industry would have to bear the burden until most of the states had a similar law, thus tending to prevent the location of new industries within the state, tending toward the removal of industries from the state, the prevention of seasonal and casual business or work, and hampering and harassing industries now furnishing fairly constant employment. During this period production costs will be increased by the amount of insurance premium and it appears that these costs will be very heavy. There is a possible added cost of \$85.85 for each man discharged plus the cost of procuring jobs for discharged men, the cost that may result from interference with national management and the administration costs of insurance.

10. In the end with the equalization of conditions as between states, the public which is chiefly labor would pay the compensation to the discharged employee and all of the other costs outlined above.

11. Unemployment compensation will create a vast number of state employees to administer the law.

12. It will create endless disputes regarding causes for discharge, the suitability of jobs which may be available and the cost of transportation to other fields.

13. Unemployment is due not to action of employers, but to the action of the public in ceasing to buy and also to the choice of the individual who may refuse to work or may not care to adapt himself to the kind of work available.

14. Insurance should be paid for by the parties who benefit. This furnishes the incentive to avoid the condition of payment. This bill does not directly assess the employee at all, nor the public.

Discuss this with your state senator and representative, your local editor, and with other employers in your city. Preserve this for future reference.

ATTACKING AN INDUSTRIAL MENACE¹

Senator H. A. Huber of Wisconsin has introduced a bill into the Wisconsin legislature providing for unemployment insurance of all workmen who receive a wage income less than \$1,500 a year.

A bill has also been introduced into both houses of Congress providing for the creation of a commission to further a policy of expanding public work in times of industrial depression.

Both of these measures are indicative of a measure of interest in what still remains as a grave defect of our modern industrial system. When honest workmen cannot find employment every one suffers. The tendency today is to seek methods by which recurring business cycles, and the havoc which they always raise, can be controlled and prevented. Therefore, the two measures cited are highly important as an indication of the ways in which improvement of conditions is sought.

It may seem that during a period of labor shortage is a poor time to discuss unemployment insurance and prevention. Yet one would be but a shiftless contractor who asserted that because the sun was shining there was

¹ From the American Contractor. March 3, 1923.

no occasion to put a roof on the building where plasterers were at work.

The Wisconsin unemployment insurance proposal follows in pattern the well known accident compensation laws of various states. It proposes that a fund shall be created by assessments upon employers, and that this fund shall be used to pay workmen thrown out of employment through no fault of their own. Various rulings and safeguards for the distribution and the administration of this fund are being considered, but these do not affect the general features just mentioned.

While undoubtedly such a law might have considerable value in a humanitarian and social way, it appears that the same end could be achieved by other means which need not carry the obnoxious features of the "unemployment dole" and the bureaucratic methods of administration.

The proposal before Congress has neither of these features. It is a proposal that in time of plenty provision shall be made for a time of lack. There are no limits to the amount of needed and essentially useful public improvements which can be constructed during times of depression. As was pointed out in these columns in the issue of February 10, the construction industry furnishes a possible outlet for a glutted market which usually induces a business depression.

There is a scientific solution to the unemployment evil. If the engineering staffs of the government were to cooperate with private industrial engineers in the laying out of plans for needed construction and improvements in both public and private enterprise there is no reason why a sufficient number of these projects could not be ready for construction when a period of depression set in.

The problem is intricate and has many ramifications. Yet on the face of it there seems no reason why it could not be made to work quite effectively. By creating a

reservoir of jobs there will be provided a form of unemployment insurance that would effectually prevent unemployment and maintain business at a more equitable level.

Of the two forms of dealing with unemployment the latter seems much the better. British experience with unemployment doles has not been highly successful. There has been considerable talk in England of stopping the doles and turning the funds into the construction of public works, even at this late day.

The men who are behind the national movement to stabilize employment should have the hearty support of the construction industry. Because the job is a big one and calls for all the ability and knowledge at our disposal, it is the more important that contractors and engineers everywhere give the problem their serious attention.

PRODUCTION VERSUS CONSUMPTION¹

It is frequently said that the capacity of American manufacturing establishments has been developed much beyond the ability of the country to consume their products. Of course it is necessary that in some lines we have capacity in excess of our own consumption, in order that we may have exports to pay for the goods which either of necessity or choice we are accustomed to import. After allowing for this, however, if we make more goods than we can consume it is either because we have over-developed some industries and under-developed others, or because the terms of exchange are out of adjustment. We can readily consume all that the labor of this country can produce, and a great deal more, if things are produced in the right proportions and are valued to each other in the right relations. It is simply a problem of arranging the exchanges. Our wants are ample enough.

¹ From the National City Bank Bulletin, July, 1924. p. 98-9.

The chief element of instability in the industrial situation at present is the high level of prices for manufactured goods as compared with the prices of farm products and crude materials generally. The producers of these low-priced products have not the purchasing power to take their accustomed quantities of manufactures. In like manner, the high cost of building houses puts that industry in a precarious position. There is want of confidence in the entire industrial situation, because it is felt to be on an artificial basis, and at the first signs of slackening activity alarm spreads in all quarters, causing losses to wage workers, employers and all business.

The country will come out of the prevailing depression when present supplies of goods are used up, but it should endeavor to understand the reason for these alternating periods of depression and activity. Why do goods accumulate in apparently excessive stocks, requiring shut-downs until they are worked off? Is it because there are more goods than the people want, or because the price relations have been disturbed and prevent the normal exchanges? If the latter is the case, as undoubtedly it is, all parties are interested in correcting the situation.

RESPONSIBILITY FOR UNEMPLOYMENT¹

It is all too easy for business to slip from sound into unsound conditions. Warnings are being sent out to business today against the dangers of over-expansion and rising costs and prices. Past experience is pointed to showing that the alternate raising of prices and wages invariably reaches an upper limit. The time comes when the prices will no longer be paid. Production more or

¹ From *Business and Financial Comment* by the First Wisconsin National Bank of Milwaukee, Wisconsin. April 15, 1923. p. 2.

less suddenly falls off and large numbers are thrown out of employment.

The responsibility for this is ordinarily laid at the door of the owners and managers of industry. There are those who would have laws passed compelling manufacturing firms to pay unemployment insurance on the theory that employers are responsible for unemployment and, therefore, should contribute to the support of the unemployed. Employers cannot be excused from responsibility insofar as they are guilty of taking too great risks and of neglecting to safeguard the future. But to the extent that they are compelled to pay more wages and cover with higher prices in order to stay in business, they can scarcely be held blamable for the consequences. Stability, which is so much talked about and desired, is just as much a matter of wages as of prices. We cannot be assured against periodical upsetting of the balance in industry, unless conservatism pervades all parties to industry.

The leaders in manufacturing and trade may be conservative enough. But there are a multitude of others who have less knowledge than daring and who borrow to accumulate stocks and expand plants on the guess that the demand for their goods will hold up however much prices may rise. To such as these the rise in prices is a temptation to go in strong and make a killing. An individual here and there may do it and succeed, but when all are trying to do the same thing, it is easy to see that the result will be disastrous.

Not much of the sort of thing just indicated has yet materialized. Full advantage is being taken of favorable conditions but at the same time there is a general appreciation that the way to keep the situation favorable is to control it rather than to be controlled by it.

BRITISH EXPERIENCE WITH
UNEMPLOYMENT INSURANCE¹

So much has been written upon the British experiment in unemployment insurance that a brief review of the conditions preceding its adoption may be pardoned. In Great Britain the responsibility for self-support was placed squarely upon the workman. He was encouraged to join a benefit society, one of the functions of which was to assist its members during unemployment. To the casual laborer, however, these societies were of little use and when a workman found himself incapable of supporting a family he was obliged to turn to the Poor Law authorities. Their answer to his appeal was usually the workhouse with its accompanying work test. Here he was provided with its barest necessities but in accepting even these he became classed as a pauper. He was given a rough kind of work, and from association with those who were usually found in these institutions a self-respecting workman was likely to degenerate. They undoubtedly fulfilled their original purpose of reducing the number of those who came upon the town, but as constructive agencies they seem to have failed.

In 1886 during a period of considerable unemployment, Mr. Joseph Chamberlin, at that time president of the local government board, advised municipal authorities to undertake outdoor relief work which was to be conducted outside the workhouses and was not to brand the recipient with the stigma of pauper. Again in 1905 during another period of unemployment, the Unemployed Workmen Act was passed. Under its provisions a number of labor bureaus were set up to serve as employment exchanges and relief agencies. Workmen were en-

¹ By William B. Bailey, Ph.D., of the Travelers Insurance Company, formerly Professor of Philanthropy, Yale University. The Eastern Underwriter, June, 1923. Reprinted in Plans for Unemployment Relief, p. 9-18.

couraged to emigrate to places where work was more plentiful. Although considerable experience was gained through this act it cannot be defined as either successful or popular. Conditions did not improve as rapidly as had been expected, and during the next few years investigation and discussion were the rule. This culminated in the passage of the Labour Exchanges Act in September, 1909, and early in 1910 these exchanges began to be opened throughout England. The purposes of this act were to bring together employers in need of workmen and unemployed workers. It was hoped to improve the condition of the casual laborer, and to gain definite information upon the general subject of unemployment, but the main purpose in the act seems to have been the provision of a working basis for the Unemployment Insurance Act shortly to be introduced.

On July 15, 1912, the National Insurance Act became effective. It made unemployment insurance compulsory for all workmen in several industries consisting for the most part of building, shipbuilding, and the engineering trades. This brought under the act about two and one-half million workers. In 1916 munitions workers were added to the group of insured and in 1920 the scheme was increased to embrace practically all of the industrial population. Persons engaged in agriculture, private domestic servants, government employees, and a few other minor groups were not included, but about twelve and one-quarter million persons came under the scheme. Under the original act each man paid into the fund a weekly contribution of $2\frac{1}{2}d$. The employer also paid a contribution of $2\frac{1}{2}d$. and the state added one-third of the joint contributions of the employer and workman. In return for these contributions benefits to the amount of $7s$. a week were to be paid for not more than fifteen weeks in a year to men who were unemployed when such unemployment was not due to a trade dispute, to loss of work through misconduct, or where the workman had not left his employer voluntarily with-

out just cause. There was a waiting period of a week after the unemployment was reported before the benefits were paid. Both the contributions paid and the benefits received by women and children were smaller than in the case of men.

In 1919, since a considerable reserve had accumulated, the benefits were increased from 7s. to 11s. a week for men. In 1920 benefits were again increased to 15s. a week for men, and to meet this added expenditure the contributions were raised to 4d. from the worker, 4d. from the employer and 2d. from the state. At this time the number of contributions required before a worker was eligible to receive benefits from the fund was decreased. In 1921 the benefit was again increased, this time to 20s. although as the act was originally introduced it called for but 18s. The contributions were increased to 5d. from the men, 6d. from the employer and 2¾d. from the state.

In June, 1921, benefits at the rate of £2,000,000 a week were being paid from the fund while the contributions were less than £350,000 a week. In three months the insurance fund had been reduced from £22,500,000 to £8,500,000. It was apparent that the fund would last for about another month, and, therefore, another act was passed reducing the weekly benefits from 20s. to 15s. for men and increasing the weekly contributions to 7d. from the men, 8d. from the employer and 3¾d. from the state.

Whenever an employee goes to work at present in Great Britain he leaves a pass-book with his employer and each week the employer fixes stamps in this book for his own and the employee's contribution to the insurance fund. This process continues as long as the employee is at work. If he loses his job he goes with this book to the nearest employment office, notifies them that he is out of work and asks for a new position or an out of work benefit. In case his application for benefit is approved this is paid to him until he has exhausted

his benefit or obtained work. He must report regularly to the employment office, sign his pass-book and prove that he is still out of work. In case suitable employment is found for him he is expected to accept this. He is not, however, supposed to accept work in an establishment where a strike is in process; at a rate of wages lower, or on conditions less favorable than those which he habitually obtained, nor in another district at less than the customary rate of wages. In case the benefit is refused or stopped by the insurance officer in charge of the local exchange the workman has the right to appeal to the Court of Referees appointed by the Ministry of Labour and in all cases where the Court of Referees and the insurance officer agree, the decision is final. In case of disagreement the insurance officer may appeal to an umpire appointed by the Crown. In looking over several hundred cases decided by the umpire it is evident that the most common cause for dissatisfaction on the part of a worker is that he should be obliged either to accept some position which does not appeal to him, or lose his out of work benefit.

HIGH HOPES NOT REALIZED

In reviewing the experience of Great Britain with unemployment insurance during the ten years which have elapsed since the act went into effect, it is evident that the high hopes which were entertained at its inception have fallen far short of realization. The employment exchanges proved to be an unwieldy and expensive piece of machinery. In 1917 the expenditure from the fund for benefits to unemployed workmen was about £35,000 while the contribution from the fund toward the cost of unemployment insurance administration amounted to about £450,000. Criticism of the exchanges became so general that in June, 1920, the Committee of Enquiry into the work of the employment exchanges was appointed. The committee reported to Parliament in November, 1920, and although they recom-

mended many changes, could "see no alternative but to continue the exchanges as the administrative machinery of unemployment insurance." They admitted, however, that "the exchanges have not succeeded in displacing, so far as was expected, other methods of finding work, and they are generally unpopular."

In a memorandum issued by the Management Committee of the General Federation of Trade Unions in 1921 we find these words:

Today the common assumption is that both boards of guardians and employment exchanges have failed. The failure of the machinery hitherto set up for the relief of distress is presumptive evidence of its unsuitability. . . . The chief points of employment exchange criticism are that they do not fulfill their primary functions—that of providing the employer with the worker he needs, or the worker with the employer he needs, and of affording media of relief to the genuinely unemployed without pauperization.

Writing in the *Times Trade Supplement* of March 11, 1922, Mr. Henry Lesser says:

The employment exchanges have been tried and found wanting, although, indeed, the work they have done has been in many respects necessary and useful. Except for the payment of unemployment benefits, they do not serve on anything like a scale commensurate with their cost, the purposes for which they were chiefly intended.

In the recent report of the Geddes Committee the suggestion is made that possibly each industry should bear its own unemployment burden as "it is only by schemes of this character that the taxpayer can hope to be relieved of the enormous expenditure involved in the labor exchanges."

THE NEW WORLD AS SEEN BY LLOYD-GEORGE

It may have been that the hopes for a new society held out to the workers at the close of the World War were too great for realization. Mr. Lloyd George in September, 1919, when describing the new world for whose establishment so many thousands of Englishmen had died said:

If we fail to honor the promise given to them, we dishonor ourselves. What does a new world mean? What was the old world like? It was a world where toil for myriads of honest workers, men and women, purchased nothing better than squalor, penury, anxiety and wretchedness—a world scarred by slums and disgraced by sweating, where unemployment through the vicissitudes of industry brought despair to multitudes of humble homes; a world where side by side with want there was waste of the inexhaustible riches of the earth, partly through ignorance and want of forethought, partly through entrenched selfishness.

The Prime Minister referred to a "new world where labor shall have its just reward, and indolence alone shall suffer want."

Although the benefits under the Insurance Act had been gradually increased from 7s. to 20s. a great cry of protest arose from the labor members of Parliament when, in 1921, it was proposed to reduce them from 20s. to 15s. a week and increase the contributions in order to save the fund from bankruptcy. Upon this occasion Mr. Clyne said:

It is a most amazing step even for this Government to take. The Government has chosen this method of dealing with the problem of unemployment. It has limited its action in relation to unemployment to insurance, and now we have the spectacle of unemployment becoming worse and daily deepening in every sense of the term, and at the very worst stage of the unemployment trouble, when great suffering is being endured, the Government comes forward to undo a good part even of the little which they have attempted in the way of providing relief or remedy by means of national insurance.

For some time the labor leaders had been claiming that a benefit of 15s. or 20s. a week was totally inadequate, and that they should be given at least 40s. a week. In his speech before the House of Commons, February 25, 1920, Mr. Spencer said:

This measure provides that in case of unemployment there should be 15s. and 12s. paid. I want to say on behalf of labor that we view this 15s. and 12s. as not only being totally inadequate, but as being an insult to labor. These sums are simply indications of the value that the Government is placing upon human life and human effort. Until we have an unemployment bill which guarantees that for every period of unemployment which cannot be avoided, a recognized standard of life

is going to be maintained, you are not going to encourage men to do their best to produce those things that ought to be produced.

Mr. G. D. H. Cole writes quite along the same line :

On June 17, 1921, there were 2,028,400 adults registered as "out of work" on the books of the employment exchanges. If to these are added the unemployed who were not so registered, the total number out of work at that time certainly cannot be put at less than 2,500,000. This means that at least 7,500,000 people found themselves deprived of their ordinary means of livelihood, and left, either without resources at all, or dependent on the "charity" of the state unemployment pittance, eked out in some cases by trade union benefits, and by the spending of the scanty savings of a life-time. The amount of misery, of semi-starvation, and of degradation of status and loss of self-respect which those facts involve is past computation.

It was undoubtedly unfortunate that from the beginning the unemployment benefit got the name of "the dole" and was thus linked up in the public mind with grants from the Poor Law funds. The hope that the unemployment benefit would keep able-bodied men and women from coming upon the town has not been realized. Unemployment insurance in England has not been successful in diminishing poor relief. The number of persons in receipt of Poor Law relief in England and Wales increased from one hundred and fifty-four per ten thousand on January 1, 1920, to one hundred and seventy-six per ten thousand on January 1, 1921, and has since then increased still further.

In commenting upon the amount of outdoor relief Mr. J. R. Clynes says :

The pronouncement of the Mayor of Poplar, on the morning he emerged from Brixton Gaol, included a statement that that impoverished borough was still paying £7,600 a week in out-of-door relief alone. The weekly cost to the whole country for the maintenance of the unemployed and their dependents must not be less than three millions! For that we get worse than nothing in exchange. We get a treble form of waste; the deterioration of workmen, the loss, which their idleness represents, and the further loss of paying to them the wealth which must accrue from the productive effort of other workmen.

Several English writers have questioned whether it would be possible to accumulate during a period of in-

dustrial prosperity an insurance fund of sufficient size to meet the demands of a severe depression. In a speech before the House of Commons on November 1, 1921, Lord E. Percy said:

I believe the fact of the matter is we could never hope to carry through a period of extreme industrial depression, such as we are now passing through, on an insurance fund at all. We will have to go to the poor law, whether we like it or not. We have to rely on it today. I do not suppose there is a single family which will be in receipt of benefit under this bill that will not have to go to the poor law guardians as well.

Inasmuch as unemployment insurance in Great Britain has failed to realize the hopes entertained at the time of its inception, many have been led utterly to condemn the scheme and to advise an approach to the general subject of unemployment along a different line. These opinions were reflected in the debates before the House of Commons during the month of February, 1920, after the original act had been in force for nearly ten years and when changes to the original legislation were being discussed. That there had been considerable malingering was admitted. In the Parliamentary debates of February 26, Mr. Billings is reported to have said:

So far as I can see, and a number of honorable Members will agree with me, when one introduces any form of unemployment dole, one is giving a bribe to idleness. . . . The real incentive to work is the desire to get something. . . . In introducing unemployment doles we are introducing a pernicious system. It is betraying honest labor to adopt a program of giving money to people who do not work, and if this is done we shall soon have England largely a nation who do not want to work.

The speech of Mr. Jesson was reported on July 2, 1920:

My reason for proposing to vote against this Amendment, is that, speaking as a trade union official of twenty-five years standing, I regard this idea as the most demoralizing that can possibly be conceived, as far as the workers are concerned. The idea of constantly giving the workers something for nothing is not good for the worker. I want the workers to have backbone, and I desire to detain this provision so that they can feel that they are bearing a fair share of the responsibility like everybody else.

One argument which had been advanced in favor of unemployment insurance in Great Britain was that it would stir the workman to his best endeavor and that without this incentive he was unwilling to do his best through fear that he would work himself out of a job. The claim has been made that it was a part of the British Labor Union philosophy that a workman must go slow to make the work last.

The rank and file of labor believe that improvements bring unemployment, and no one has ever succeeded in convincing them that they are wrong. Nor is it any use to argue and make agreements with the leaders of labor; it is the instinctive action of the rank and file that counts. An immense potential increase in the productivity of industry awaits release, and only the complete removal of the menace of unemployment can release it.

But the promise of a benefit of 15s. a week from the unemployment fund was apparently not sufficient to stimulate the British workman to do his best. He wished to be assured of full wages during his periods of unemployment. On this particular point Mr. Spencer spoke in February, 1920, when an amendment to the unemployment act was before the House of Commons by which the benefits were to be increased to 15s. a week.

What is the position, so far as he is concerned, provided by the provision of this bill? He sees clearly before him when by his skill and energy and labor he has contributed to a state of things which will be identical with the state of things that previously existed, that when there was over-production, instead of deriving the advantages of that happy position, he is told by this bill that the standard of living is going to be reduced to one-fourth of what it is actually at the present time. Is that a happy position for a man to survey, or a state of things which is going to create amongst working men the spirit to put forth their best? Until we have an unemployment bill which guarantees that for every period of unemployment which cannot be avoided a recognized standard of life is going to be maintained, you are not going to encourage men to do their best to produce those things that ought to be produced.

Mr. J. E. Barker tried to meet this objection to increased output on account of labor by a different approach:

Apparently the industrial states of the world suffer from an unduly great output. In reality over-production is impossible.

Distress cannot be caused by too much, but only by too little; it cannot be caused by over-production, but only by ill-balanced production. That may be seen by an elementary example. Let us assume that a number of people live in a self-supporting island, and let us further assume that half are engaged in the production of food and of raw materials, while the other half turn out manufactured goods. The more the inhabitants produce, the more food, house room, clothes, fuel and amusements will there be for all, provided of course, that raw materials, food and manufactured goods can be freely exchanged. The greater the production is, the greater will be general prosperity and contentment. If, however, after a period of intensive production, free exchange and general happiness, some agitators should arise and suggest to the makers of manufactured goods that they could benefit themselves very greatly by restricting output and insisting upon an increased remuneration, the position would rapidly change for the worse. The agriculturists, who were accustomed to exchange an ox for a dozen shirts, would refuse to exchange it for two or three. The manufacturing industries would come to a standstill, and if the unhappy situation should be prolonged very greatly the agriculturists would reduce their output, limiting their production to their own wants. Thus greed on the part of the industrial workers would lead to unemployment in the manufacturing industries which eventually might be followed by starvation.

CLAIMS OF RADICAL GROUPS

Certain radical groups in England taking advantage of the general dissatisfaction with the unemployment insurance scheme, are claiming that the only way out of the present situation lies through the abolition of the entire capitalistic system. They claim that one of the corner stones of this system is a continual over-supply of labor, and that inasmuch as capital has proved itself unable to make use of the available supply of labor the system should be scrapped and something else introduced in its place. In the debate before the House of Commons reported on February 26, 1920, Colonel Wedgwood spoke as follows:

Unemployment is at the root of the whole of the social evils of the day and at the root of the capitalist system, and any legislation must deal with it from the point of view of destroying unemployment rather than of making unemployment tolerable. Employment depends upon the primary trades getting access to their raw materials.

Mr. Malone spoke along the same line in a debate reported on October 21:

Unemployment is the logical development of the present capitalist system, which cannot do better even if its supporters want to. It is absurd to have tinkering schemes brought down to this House by both sides. It can only be patchwork. The capitalist system may be patched here and there in order to keep it propped up, but you cannot deal with unemployment in that way. You cannot deal with it unless you deal with the root causes and abolish the system on which it depends. . . . A dole here, an extra insurance grant there, that is all we are offered. What are these doles? If capitalism cannot maintain itself without unemployment, if it cannot prevent itself collapsing without unemployment, then I hope it will collapse very soon, and any assistance which I can give it in that direction will be given gladly.

CAPTAIN HERBERT'S OPPOSITION

Captain A. S. Herbert is opposed to the present unemployment insurance plan:

Of all economic and social devices the unemployment dole is perhaps the worst. It blesses neither him that gives nor him that takes. From the taxpayer's point of view it is, apart from the duty of humanity, pure loss, because no return is made for the money. From the point of view of the recipient it is equally unsatisfactory as necessarily constituting less than a living wage.

He would not go so far as to abolish the capitalistic system, but would apparently have the government take over industries, guaranteeing to the holders of securities a definite and fixed rate of interest or dividends. The government should then appoint for each mill an expert manager at a liberal salary, and bonus on profits. Employees should be guaranteed continuity of employment during their active life, and a pension for old age. The surplus earnings during good times should be set aside to provide continuous employment, or wages. If private companies could compete with the government managed industries along these same lines, they should be allowed to do so, but no concern should be allowed to stop production during a period of depression, and throw laborers out of employment to be supported by doles.

This plan has much in common with that advanced by the guild socialists. In a recent monograph, Mr. Cole speaks for this group quite clearly. He blames the capitalistic system of production for profit, for the present unfortunate situation in England. He claims that since the employer can make a profit from the laborer only when there is a market for commodities, he flings the worker into the street when he is no longer needed. If this reserve of labor is necessary to capital, the payment of continuous wages to workmen should be part of the cost of production. This is the system of "industrial maintenance" which is one of the corner stones of guild socialism. This expense should be borne not by the state, but by industry. What they demand is not state charity, but an "industrial right, a plain recognition that the workers in industry have a claim to continuous maintenance out of the product of their common labor." The claim that capital bears the risk of industry, is stigmatized as a "ghastly lie." The capitalist distributes his risk by dividing his capital among a number of different industries and trusts to the accumulation of a reserve for a continuous return during good and bad times alike. "The worker, on the other hand, daily risks his whole livelihood." This risk must be assumed by the industry which profits from his labor. The present employment exchanges might be maintained, but they should be administered by the trade unions. This change to "industrial maintenance" might come gradually to one industry after another through pressure from the workers, but Mr. Cole prefers through legislation to impose the obligation of maintenance upon every industry. The monograph closes with these words:

The workers are sick of doles and charity, by whatever name they may be called. They are sick of going cap in hand to the State in order that it may protect them from starvation; for they know that the Government is a faithful servant of capitalism and will succor them only enough to prevent them from revolting and to preserve their lives for future exploitation. They are seeking, not a charity, but the recognition of a

right, and, if capitalism cannot, or will not, concede that right, it is not the workers, but capitalism itself, that must give way. The right of which the workers demand the recognition is simple; it is merely that, when a man is willing to work at his trade for the public service, that trade shall be so organized as to find for him work to do, or, if it fails in this, shall pay him the income to which he is entitled as a willing worker. The State bondholder gets his interest regularly, though he does no service for it. Shall not the worker, who is prepared to do his day's work, get his income regularly, too? To deny him this is to treat him, not simply as an inferior being, but as a mere commodity, a thing without rights—in fact, a slave. Chattel-slavery has been abolished; now it is wage slavery's turn to go. And a necessary step towards its destruction is the recognition for all workers of the right to continuous maintenance out of the product of their common service.

This idea of making the industry responsible for the support of the unemployed is not new, although some writers have urged that the industry and the state together should bear the expense. Mr. Spencer in a debate before the House of Commons, February, 1920, said that in his mind:

The best way to proceed is to tackle the industry itself rather than try to make provision for unemployment. If, however, you have to make provision for unemployment, it should be made, not out of wages, but it should be a charge on the industry in which the man works and the State jointly.

THE INADEQUACY OF THE BRITISH UNEMPLOYMENT INSURANCE ACT¹

There has been a proposal from a group of British employers for an alteration of the provisions of the Unemployment Insurance Act, 1920, that would yield to each unemployed person a proportion of his or her weekly wage, adjusted to the number of dependents, and that would, further, fix the contribution of the worker and the state, leaving each industry as a whole to bear the residuary cost of its own unemployment. The scheme has been issued anonymously "in order that it may be

¹ From an article by Clarence H. Northcott. *Political Science Quarterly*. September, 1921. p. 426-32.

discussed on its merits without the advantage or disadvantage of names." The writer, who is acquainted with the employers concerned, can guarantee that they represent big, progressive business enterprises and bear names of repute in the business world. In their discussions, they have been assisted by financiers, economists and statisticians and have consulted freely with all schools of labor.

The opening paragraph of their scheme is one which bears quotation, as showing the economic motive behind the proposition:

The suffering caused by unemployment has been generally recognized, but too little attention has been paid to its reactions on production. Industry moves in a vicious circle. Additional production is necessary if poverty is to be abolished and employment relieved. Yet uninformed labor instinctively resists every kind of productive improvement lest it should cause unemployment. Improvement in machinery, in the reorganization of labor with a view to using more effectively skilled grades by means of dilution and in other ways, the introduction of system of payment by results which have been proved to stimulate production, are all resisted more or less openly, and in every case fear of unemployment is largely responsible for the resistance. It is true that the fear may be largely unjustified and that "ca' canny" may accentuate the very evil it is intended to prevent. But such facts are irrelevant. The rank and file of labor believe that improvements bring unemployment, and no one has ever succeeded in convincing them that they are wrong. Nor is it any use to argue and make agreements with the leaders of labor; it is the instinctive action of the rank and file that counts. An immense potential increase in the productivity of industry awaits release, and only the complete removal of the menace of unemployment can release it.

They proceed to characterize the present unemployment act as "a palliative, rather than a remedy." Its benefits are insufficient for the human needs of labor, and hence cannot "banish the fear of unemployment or the industrial policy to which this fear gives rise among the workers." The state is called upon to admit the claim of all adult wage-earners, able and willing to work, to either employment or "adequate maintenance," that is, unemployment benefits varying with the needs of the worker and his family. Their proposals would apply

to all manual workers and to salaried workers receiving not more than £400 a year, between the ages of sixteen and sixty, the other exemptions of the unemployment act being accepted.

The rate of benefit proposed is 50 per cent of the average earnings of a single person, with 10 per cent additional for a dependent wife, and 5 per cent for each of not more than three dependent children under sixteen years with a maximum payment of £5. As under the state scheme, benefits would be payable after three days' unemployment, and would be limited to one week for every six weekly contributions previously made, but could extend for a period of twenty-six weeks in any single year. The limitation just mentioned of one week's benefit for six contributions is intended as a safeguard against such unsatisfactory workers as might practically be uninsurable.

The employee's contribution to the fund is placed at 1 penny in every 10s. of wages, that is, less than 1 per cent of weekly pay. The state is asked under this scheme to contribute £4,000,000 plus the cost of administration. The balance needed to enable the fund to pay the statutory benefits would be a levy upon employers and is calculated to equal 2 per cent of their wage bill. To enable the scheme to be put into immediate operation even during a period of abnormal trade depression, it is proposed that employers' contributions should be fixed for five or seven years, and then reassessed on the expiration of that term. During the initial period the state should act as an insurance company, taking the profit or carrying the loss.

In most other respects, especially in regard to short time and methods of administration, the proposal is supplementary to the Unemployment Insurance Act. It is of interest that the employers concerned state their opinion that the administration of employment exchanges can be made adequate for the prevention of malingering.

The characterization of their scheme by the promot-

ers is indicative of their social outlook. "Essentially," they write "the proposal is one to compel industry to create a *wages equalization fund*, and to give employers an incentive to eliminate every removable cause of unemployment. It is suggested that not only would such a policy be worth almost any cost in the suffering it would alleviate, but that it would prove in practice to be just as sound a policy as is a dividends equalization fund."

The possibilities of this proposal have been exemplified in the case of the firm of Rowntree and Company, cocoa and chocolate manufacturers, York, England, who have set up from January 1, 1921, a scheme based very largely on the above project, but drafted in the light of the firm's position, industrial and financial. They propose to set up an unemployment fund by putting aside an initial reserve of £10,000, and adding to it yearly from 1921 onward sums equal to 1 per cent of their wages bill, until the fund reaches £50,000 or 5 per cent of the wages bill, whichever is the greater. Thereafter they will set aside such sums, not exceeding 1 per cent of the wages bill, as will be necessary to keep the fund at this figure.

Benefits will apply to all employees of the company discharged through shortage of work caused by depression in trade, provided they are between twenty years and pension age (sixty-five years), and have been employed continuously for at least six months before dismissal. The period of benefit has been fixed with a view to recognizing long service, and equals one week for each two months up to two and a half years of service, with one week for each complete year beyond that standard.

The rate of benefit is to be the same as that in the scheme copied, with the addition to the percentages and the maximum named therein of a minimum payment of 25s. per week. This was added because of female workers, 50 per cent of whose average earnings would not

in every case reach the figure of 25s, which is regarded as a necessary minimum. In these percentage totals are counted the benefits paid by the state and trade unions. The state benefits are 15s. a week for men and 12s. for women. Trade-union benefits range from 1s. a day upward. The National Union of General Workers, which covers in its membership 95 per cent of the men and over 50 per cent of the female employees of the company eligible for membership, pays 6s. a week. This sum is added to the state benefit, and the company undertakes to pay the balance between that total and the percentage of earnings to which an employee is entitled. Thus, if a single man, without dependents, becomes unemployed, having earned during the previous quarter an average wage of 74s. he receives, unless otherwise disqualified, 15s. from the state, 6s. from his union, and 16s. from the firm, making his total benefit 50 per cent of his average earnings. If a piece-worker with an average wage of 96s. a week becomes unemployed through depression of trade, and is a married man with three dependent children, he normally receives state and union benefits as above, plus 51s. from Rowntree and Company, totaling 72s. or 75 per cent of his average wage. The same provisions are to be applied to short time, but do not operate till piece-workers have lost 15 per cent of time and timeworkers 10 per cent.

This scheme is obviously supplementary to the government insurance scheme. A person is disqualified under it as under the government scheme unless he effects and keeps effective a suitable registration at the local employment exchange, and, in general, if his claim for unemployment allowance is not accepted by the local unemployment exchange, and, where there is not the three days' waiting period required by the state, and in the fact that long-service employees receive benefits longer than fifteen weeks. Where, also, a person eligible for benefit for a stipulated number of weeks obtains temporary employment for a period, the benefit will be con-

tinued immediately on the cessation of the temporary work, the duration of which will, however, be taken into account.

Another point in the scheme is of considerable social importance, namely, the obligation imposed upon most of the beneficiaries to contribute to trade-union funds. The National Union of General Workers requires a payment of 2*d.* a week from each member in return for the benefit it proposes of 6*s.* a week. Messrs. Rowntree and Company, upon representations from the officials of this union, made a contribution of not less than 2*d.* a week to a trade union or other society for the purpose of assuring unemployment payment a necessary qualification for securing benefit under their scheme. The reasons given for this decision were, "first and chiefly, a desire to protect the position of the unions, and secondly, a feeling that help should be confined to those who are prepared to help themselves."

Attention should also be called to the fact that nothing in the scheme compels an unemployed man to accept work where a trade dispute has broken out, or to accept a rate of wages lower than those generally obtaining in the locality. Where unemployment is directly due to a trade dispute, whether at the company's works or outside, benefit ceases until the dispute is settled.

The firm reserves the right to discontinue this scheme should the state or industry set up an adequate alternative, and may, on giving three months' notice, reduce or discontinue its contributions to, or discontinue, the fund. It has the right to make and amend regulations, and to vary the conditions and amount of benefit, with the consent of the Central Works' Council of its employees, who were consulted in the formulation of the present scheme, five of their worker delegates co-operating. The fund is to be administered by a committee of nine appointed by this same council.

This project, like that which is suggested for national adoption, aims to take the burden of unemployment off

the workers' shoulders and place it on the industry. Behind it is the view that capital, having taken the profits, cannot absolve itself from the risks of industry. . . .

DISASTROUS DOLES¹

In the huge wastage of public money which is going on at the present moment in countless directions there is probably no more mischievous extravagance than the haphazard payment of "unemployment benefit." There are hundreds of thousands of women and girls who once were domestic servants. During the war they were engaged—some of them only for a few months—in hospital work, munition making, and other similar emergency employment. These employments have now, of course, ceased, but the girls have not gone back to their natural domestic work. Nor are they likely to do so as long as they can draw unemployment benefit, at the rate of 16s. a week. Hundreds of thousands of houses in the country are anxious to engage their services. The work is there, and they will not accept it. Their business is no longer domestic service. They are munition makers, and in the absence of that employment, till the next great war, let us say, it is open to them to refuse any other occupation as unsuitable, and they continue to draw unemployment doles. An exactly parallel case would be that of the tramp of a generation ago, who, when arrested for vagrancy, stated that his trade was the smoking of glasses for witnessing the eclipses of the sun. Owing to the scarcity of eclipses at the time, he was, of course, suffering from want of work. Under our present order of things he would have been entitled to unemployment benefit! The whole arrangement is Gilbertian. Thousands of these recipients of state doles, it should be noted, are living with their parents in comfortable homes. There may be three or four of them in

¹ From *Scottish Country Life*, reprinted in the *Open Shop Review*, April, 1922.

the house together, and their united "benefit," it will be seen, provides quite a tidy little income, which enables them to live without working, and makes the discovery of employment the very last thing they could wish.

It does not seem to occur to these people that there is anything dishonorable or dishonest in thus horning on their hard-pressed fellow-citizens. They are so accustomed to think of it as a payment by government that they do not connect it with the demands of the tax-collector which are making life a tragedy for their hard-working neighbor in the next street. So seriously has the dole system deteriorated the common honesty of the people that such cases as the following are quite common. At a large Scottish ironwork a few weeks ago a young man drew over £4 as his week's pay. In handing it over the cashier asked him jocularly if he was not drawing unemployment pay as well. The answer, given with the air of a shrewd fellow, was that he had drawn 15s. of "benefit" that week. The employee's firm reported the case by telephone to the local Labour Exchange, only to receive the astonishing reply that, if they would submit the matter in writing, duly authenticated it would be enquired into, and, if the statement were found correct, the young man would be—requested to return the 15s.!

One cannot but feel that the whole idea of unemployment benefit is not only industrially unsound, but morally bad. It takes away the entire incentive to work, it saps the spirit of independence, and it destroys the habit of thrift. One has heard of a case in which a young school teacher in a working-class district noticed one of her pupils day after day distributing expensive sweets to her classmates. On reporting the matter to the headmaster she was advised to pay a visit to the pupil's home. She did so, and was approaching the subject of her errand as delicately as possible, when the pupil's mother good-humoredly interrupted, "I see what ye've come about," she said, "but ye needna think ill o'

our Lizzie. It's a' right, she has plenty o' money to spend." Then she proceeded to explain. The father was bringing in a big wage, £7 a week; so were two of the sons and a growing daughter. All the money was just put into a bowl on a shelf, each of the family, including the schoolgirl Lizzie, when going out, simply put a hand into the bowl and took what he or she wished. "And whiles," concluded the proud mother, "when the next pay day comes, the bowl is no' empty yet."

Will anyone say that such a family is benefitted by the knowledge that it need have no care for the future, since, when hard times come, it has the unemployment benefit to rely upon? The weekly loss thus caused to the country by unchecked waste and extravagance must be enormous. One knows of a Clydesdale rivetter who was earning £20 a week during the war, and, having no responsibility for the future, spent every farthing, week by week, as he got it. He is now out of work and drawing unemployment benefit. There is surely something wrong with the system which allows a man like that, after spending riotously all he himself has earned, to live on taxes levied on industries and frugal citizens who never in their lives had half his income.

It has been a common demand among labor leaders of late, that the manual worker should be freed from the fear of unemployment. They seem to forget that it has always been within his power to free himself from that dread by the same means as are used by other people less well paid than himself, by restraining his desires and laying past a part of his earnings. Recent legislation, however, has sapped his independence, socialist teaching has induced him to become a pauper, and where his fathers, a generation ago, would have scorned to touch a penny of the public money, he is content to eat the bread taken from the mouths of the children of more honest men. The fear of unemployment and the fear of starvation are the natural incentives to induce men to exert themselves. Relieved of these very proper and

wholesome fears the majority will merely loaf and degenerate.

But besides the effect upon personal character, there is the public interest to consider. A time when every man should be working hard and long to retrieve the losses of the war is surely no time to be offering a premium to idleness. And a time when the country has need of every farthing to pay its just debts is certainly not a time to be throwing millions away, in pensioning the lazy, the useless, and the improvident.

THE DEAD HEADS OF THE DOLE IN ENGLAND¹

Now that the English people have had time to think of their new budget, they are deeply disappointed that there has been no change in the national policy of subsidizing the unemployed. They would like to save money by getting out of Palestine and Mesopotamia, too; but they expect in the long run to get the worth of their money out of those countries. Spending money on Mesopotamia is investment; but spending money in the subsidization of the masses is waste—that is a comparison that Englishmen are thinking about at the moment. The new budget reduced the income tax only 10 per cent. If the doles had been abolished, it could have been reduced 50 per cent.

This matter of the dole is one of the most serious social problems in England. Its results are now becoming visible and the English people are alarmed. Last year more than \$500,000,000 was spent on doles—weekly payments to the unemployed. This is equal to half the income tax. The fact is, that the "dole disease," as it is called, has become an epidemic. It is undermining the character of the working people, without adding to

¹ By Herbert N. Casson. Written for the Boston News Bureau from London, reprinted in the *Open Shop Review*. November, 1923.

their contentment. It is stopping the habit of saving, and turning tens of thousands into professional idlers. It has created a standing army of "unemployables."

England is today a paradise for the lazy and incompetent. Idleness is being subsidized. Laziness is being rewarded. There are at the moment nine hundred and forty thousand men and women who are drawing doles amounting to \$4,000,000 a week. The masses now have the idea that they have a right to be supported, whether they work or not. They are even demanding "full maintenance" pay at trade union rates while they are idle.

In every respect the dole has failed; and the present predicament of England is a lesson to all the world. Instead of allaying discontent, it has proved to be a wedge of communism. It has created a spirit of truculent laziness. At hundreds of mass meetings, agitators are now demanding that the dole shall be doubled.

What with one million pensioners and one million dole-takers, England has now a burden of dead-heads that is crushing enterprise and initiative. More than 15 per cent of the people are riding on the tax-payer's back. The dole is now everywhere unpopular, except with the loafers and the labor department. The self-respecting worker despises it, as mere charity; and even the daily press has recently turned against it. So, down goes another of the political panaceas, which are so easy to start and so difficult to stop.

FALLACIES OF UNEMPLOYMENT INSURANCE¹

Dr. Commons covered such a broad field that it will be impossible for me to cover the same. But on his main proposition I have prepared some notes in advance which I will follow for brevity.

¹ By P. Tecumseh Sherman, attorney, member of the Foreign Inquiry Committee of the Social Insurance Department of the National Civic Federation. *The Monitor*. February, 1922. p. 8-11.

I appreciate just as much as Dr. Commons that unemployment and under-employment are among the greatest curses that afflict humanity; and for years I have participated heartily and earnestly in the search for a remedy. But that disease has existed for centuries and a cure is long to seek. And there is grave danger that, through impatience for a cure, we will be induced to experiment with panaceas which will make the disease far worse. It is my very interest in finding a true remedy that now is putting me in the distasteful and unpopular position of opposing measures proposed for the relief or mitigation of this evil because, in my opinion, those measures will only make the evil worse.

For the government to take money from taxpayers, who normally would spend it in ways to provide employment for others, and to use such tax money to hire, induce and corrupt workpeople to remain idle, *manifestly* must make the disease worse.

And exactly that, in my opinion, is what has been a result of the British unemployment insurance law, which Professor Commons proposes to follow; although such result has been mitigated by the extremely low rate of the insurance benefits under the British law, and has been obscured by the yet greater evils from the system of public out-of-work doles, which for a time, in Great Britain, supplanted or supplemented the unemployment insurance. Professor Commons lays great stress upon the prevention of unemployment, the stabilizing of employment. I would like to get some method or means that would be effective for such a purpose.

When the British unemployment insurance was inaugurated, it was claimed by some and hoped by more that it would tend to reduce unemployment. For that purpose there were provisions in the original law offering incentives to employers to stabilize their employments. But if you will look in the law, the British Unemployment Insurance Law, as amended in 1920, you will see that those provisions have been discarded. They have

been cast aside, like junk, under political pressure and now the British unemployment insurance is no longer thought of really as a means for reducing unemployment but has become simply a rough system of taxing industry all it can bear in order to raise funds for poor relief. In other words, it is now a plain reversion to the old policy of Imperial Rome—of bread and circuses for a discontented and submerged proletariat.

I emphasize this change in the British system, from bad to worse, in view of the fact that the advocates in this country of similar projects of social insurance are asking us to experiment with them in crude and undeveloped forms, trusting to perfect them afterward in practice. We must carefully avoid that. When a measure of so-called social reform in a *democracy* starts by demoralizing a large class of the voters, the situation is like trying to climb a greased pole. The way up is slow and difficult, whereas the way down is swift and easy—and the general course of developments, consequently, is downward. That has been the case in England and I fear and believe that such would be the case with any experiment we should try in this country along similar lines.

Professor Commons, as I understand it, is of the opinion that the British unemployment insurance has been successful and socially beneficial but that the plan he has proposed for Wisconsin contains variations which are improvements. Now I believe that the British scheme has failed conclusively, with great harm to the community, and that the only question is whether some variation of that scheme can be devised which would make it workable and beneficial. I have studied the Huber bill, introduced in the Wisconsin legislature last year which, I believe, expresses Professor Commons's plan and find that it contains all that I consider the fatal faults in the British plan and that the variations in no way avoid my objections.

What, in my opinion, is the vital fault in the British

scheme is that the risk insured against is uninsurable. That is a technical proposition but it is very important. What is that risk? Involuntary unemployment? Oh, no. That is not the risk. That risk is inability to obtain *suitable employment*. But how define and determine what is "suitable" in each case and under all conditions? That word "suitable" is partly undefined in the British statute, being left to be defined at the discretion of a public official in each particular case; and, in so far as it is defined in the statute, it is either impossible of fulfilment in the long run and in periods of depression or is possible of fulfilment only at tremendous and harmful social waste, "Suitable employment," under the British law, means roughly employment in the workmen's last occupation, in the same grade or better at the same wages or better, under the same working conditions or better, and (unless the official umpire decides that removal will involve no undue hardship) in the same town or district. Now that is very valuable insurance for a man to procure for himself but can the state provide that insurance for everybody? Think what it means. It means that every insured employee may take a fifteen or twenty weeks' vacation, on the benefits, before making any concession from the *status quo ante* in order to secure new employment. That might work reasonably in boom times, when the market for labor is rising; but, in a falling labor market or in a crisis, such as recently occurred at the war, which involves a necessary change of occupation on the part of many persons, the effect of this insurance would be (as it has been in England) to retard inevitable readjustments and to produce immense waste in the period of retardation. The only hope for insurance of a risk so defined lies in placing the benefits so low as to offer no attraction to idleness on such benefits; to any class of the insured, under any circumstances. Now, when you place the benefits so low, they are utterly inadequate and insufficient to do any good for the better class of workmen. Now, that has been the plan

in Great Britain but, even with the benefits placed shockingly low, that scheme has gone bankrupt.

As mentioned, the definition of suitable employment is, to some extent, left to the discretion of an official umpire. It would, of course, be possible to leave that definition yet more to the umpire. But the more you leave the definition of an insured risk to the discretion of an official or officials—call him or them judge, umpire or industrial commission—the more uninsurable becomes the risk from the actuarial standpoint. For, upon the discretion of the umpire will depend whether the risk will cost 1 per cent or 10 per cent of wages. And no one can estimate in advance at all approximately the political influences that will eventually govern the umpire's decisions and, consequently, the cost of the insurance.

The very first step then, in my opinion, in formulating a system of unemployment insurance is clearly to define the conditions upon which the insured shall have the *right* to benefits, and to so define such conditions as to enable funds to be raised through fixed periodical contributions in advance that will pay the promised benefits beyond doubt or peradventure. The British plan of unemployment insurance does not even approach a solution of this actuarial problem. It ignores it. Lacking thus the first element of insurance, my principal and fundamental objection is that it is misleading to call it "insurance" and dangerous to rely upon it as insurance.

Professor Commons' plan differs from the British, so far as I have noted, in two important features. He would have the insurance carried in employers' mutual associations, instead of by a bureaucratic state organization; and he would put the entire charge on the employers instead of dividing it between the employers, the insured employees and the public and the state.

In the first of these variations from the British plan, I would see possibilities of great improvement in the way of reducing the risks of unemployment, if the employers' mutuals were to be voluntary and competitive associ-

ations. But, under this bill, the associations are to be grouped by a state bureaucracy, in fact, controlled by a state bureaucracy with voting rights in each association arbitrarily fixed by law. In such political organizations, I can see no probability of improved efficiency or economy over a plain direct state bureaucracy. They would not be efficient as voluntary competitive associations are in procuring employment for their workmen. They would distribute the cost roughly by votes, just the same way the cost of running the city is distributed by votes, the way the cost of running a country is distributed by votes, not in any way so as to reduce expenses and I can see only disadvantage in placing the entire cost of the insurance on employers. From the standpoint of pure economics, it would be all right to do so; but under the influence of human psychology, it would work out all wrong. The successful operation of this plan of unemployment insurance requires that the rate of benefits should be below the wage rate of the lowest paid wage-earners practically. In the British plan, the weekly benefit is now (or recently has been) 15s.; in Professor Commons' plan the daily benefit is \$1. But, *politically*, it would be impossible to keep the rate down to this essential lower level except by doing as they have done in England, placing part of the charge on the workmen, so that any increase in the benefits immediately touches the pockets of the workmen. Otherwise the beneficiaries of this insurance, feeling that the benefits all come out of the pockets of the employers, would promptly demand and get the legislature to increase the benefit to the amount of a decent living wage, and then this scheme of insurance would be unworkable.

So, I regret to say, I find Professor Commons' plan no more promising than the British.

Let me now turn briefly to another aspect of the British unemployment insurance. Under that plan the benefit has been and, as I have stated, is still shockingly low. Originally, it was seven shillings per week; now

it is fifteen shillings per week. It is generally admitted that, under this plan, the benefit must be kept thus extremely low since otherwise, it would act as an overwhelming incentive to idleness on the part of the lowly paid. But, obviously, a weekly benefit at that rate is grossly insufficient for the high paid men with families, who, occasionally in normal times and in large numbers in periods of severe depression, also lose their jobs. But, we are told, those steady workers can and must make extra provision for themselves. That's just it! Under this plan, the great mass of steady workers, although they pay the lion's share of the cost in England, are not insured against unemployment, sufficiently, adequately or reasonably. The insurance is not for them—it is meant and suited only for the half-timers, the hangers-on, the odds and ends, and the boys and girls who abuse it tremendously, and cannot be fitted to meet the needs of the high grade workers without being unfitted for the lower grade. Now I contend that whatever we do, we must not follow that course. Let us try first to build up voluntarily or, as best we may, insurance for the steady and willing workers that will help them in time of need and under which they will secure benefits in proportion to their wages and contributions and then, as a separate matter, take up the problem of the lower grade workers, the off-timers. How to deal with them I don't know; I have never found anybody that does know. But if it should be determined to apply to them a scheme of insurance like the British, and such as is proposed by Dr. Commons, let us call it what it is, "poor relief," and not disguise it under the false name of insurance.

In conclusion, the present political situation in this country seems to me this: Professor Commons is urging that this experiment be tried on the industries of Wisconsin—an unwilling subject; and the other advocates of this plan are urging that it be tried on the industries of Massachusetts, of New York, and other states. And

the basis of this urgency is the proposition that in Great Britain the plan has been an unquestionable success.

Now, what I advise and urge is that before trying this dangerous experiment, we pause to make sure that the proposition that it has been successful in Great Britain is true. All my information is to the effect that it is untrue. So I simply say, let us go slow. This is a very interesting proposition of Professor Commons'. This is a very rightful subject to be brought up and discussed but we are dealing with dynamite, so let us be careful.

MORE FALLACIES OF UNEMPLOYMENT INSURANCE EXPOSED¹

The role I have to fill this morning is that of the neutral, and recent European history has shown how unenviable that role can sometimes be. I am neither proponent nor opponent of compulsory industrial insurance and I represent also a board (the National Industrial Conference Board) that is approaching the subject simply from a scientific point of view and is trying to find out the truth from both sides in order that the truth might soon be expressed in the form of a resolution.

The National Industrial Conference Board has for some time been studying unemployment insurance, through an analysis of the theory underlying it, through the practical experience which this form of insurance in Europe and through the facts regarding the practicability of and the need for unemployment insurance in the United States, in order to provide a basis for answering the question viz: whether unemployment insurance is needed or practicable in the United States; if it is, then in what form, and particularly whether any form of legislation is desirable and practicable. The results of this study will soon be published by the board in a report which makes a broad interpretation survey

¹ By Captain Leslie Vickers, chief investigator of the National Industrial Conference Board. *The Monitor*, February, 1922. p. 11-18.

of the question without taking a definite position for or against unemployment insurance as such.

In order to obtain an understanding of the problem in its broadest aspects, it is necessary to have a clear grasp of the theory and underlying principles. The movement for unemployment insurance is based upon certain theoretical principles and upon certain social doctrines of which it is a special application. Theoretically, all social insurance so far developed is, in a broad sense, unemployment insurance, since it aims to provide for loss due to interruption of earnings of wage-earners. Unemployment insurance, properly so-called, is a special form of social insurance designed to provide income for the worker during those periods when he is idle through no fault of his own. The principles underlying unemployment insurance are first: the general principle of insurance, and second: the principle of social liability and responsibility. It is important to note that either or both of these principles may be applied to the unemployment problem, resulting in different forms of provision for meeting the problem. The insurance principle alone may be, and has been, applied to the unemployment contingency; the theory of social responsibility alone has been applied to it, with a view to providing relief measures which are not insurance measures; and both principles have been combined in various forms of social insurance against unemployment.

The insurance principle itself is a means of providing against any contingency by distributing the loss over a group, according to the average risk. It is part of the principle of insurance that the larger the group covered, the more certain the determination of the average risk, and the more nearly the risk is reduced to the minimum, the more economical and satisfactory the provision. This principle may be applied to any contingency, and may be entered into by any number of individuals under various agencies either for private profits or mutual aid, or both. Hence there are many forms of insurance,

depending upon the contingency covered, the group interested and the agency and purpose involved.

When the general principle of insurance is joined with the theory that it is the duty of society as a whole or of any social group, to provide or help provide for contingencies affecting individuals or groups within it, one arrives at the concept of social insurance. Social insurance is the application by the state of the principle of insurance, to provide for risks to which the individual or a class are subject, by distributing the burden of this provision in part or wholly over the whole group or a portion of it. Such insurance implies that the state determine the degree and incidence of the risk and the distribution of the burden of the provision as well as the benefits.

Social insurance may imply various degrees of state connection with the insurance machinery. It may be applied to various contingencies, either for the purpose of merely providing against risk or with a view to promoting reduction of the risk.

In theory, social insurance is based upon the same assumptions as are necessary to private or commercial insurance with which it is in contrast, namely that the risk of the contingency is irreducible or at least definitely determinable, that the burden should be distributed over as large a group as possible, and that all participants should benefit out of the provision according to the degree of risk and the degree of participation in the cost.

In practice, however, social insurance plans as they are found in modern society do not consider the reducibility of the risk nor the accuracy of the determination of it. They are applied to restricted groups and benefits are not based strictly upon the risk or upon the participation in the cost. Most social insurance schemes depart from the practical principles of insurance in these and other ways so far that they in effect cease to be practical insurance schemes and become rather relief

plans in which funds to provide for a contingency are gathered from one group and distributed to another according to more or less loose actuarial principles, in such a way as to be, if possible, self-supporting and not profit-making. The essential thought behind social insurance is rather that it provides relatively a more certain relief for certain inevitable contingencies affecting the individual in modern industrial society and that it stimulates effort to reduce the risks in question. Implied in it is the thought that society as a whole should bear part of the burden and make up for the actuarial defects of the system.

All insurance, private or social, costs more in money to the group covered than the benefits derived, but insurance as a principle is considered justified in that it relieves anxiety to all and mitigates suffering to those whom the contingency affects, and that it encourages efforts to reduce the cost by reducing the risk to a minimum. Social insurance invokes the further ideal that, regardless of the cost, this device should be applied to groups who are unable to protect themselves by private effort and rests upon the assumption that certain groups in modern society are unable to apply the insurance principle themselves.

The theory of social insurance as applied to the unemployment problem is that modern industry necessitates the maintenance of a labor reserve, the burden of which should be borne in part by industry and in part by society, since the worker is unable to bear the burden himself.

This theory involves several questions which are the central points of the problem of unemployment insurance:

1. Can sound insurance principles be applied to unemployment? That is, is unemployment a constant and determinable risk; is it an irreducible risk; and finally is it possible to select, as is done in all insurance, the types of risks covered?

2. Whether or not *sound* insurance principles can be applied, is it justifiable to apply them anyway? That is, is it true that the wage earner cannot provide against the risk himself without outside assistance; and would it encourage efforts to reduce the risk of unemployment?

3. If it is justified to apply the principle of insurance to unemployment, how shall the burden be distributed?

The development of and experience with various forms of unemployment insurance in foreign countries throws some light on these questions and assists us in attempting to answer them as applied to the United States.

The development of unemployment insurance abroad has gone through three stages, namely: private insurance schemes, assisted insurance schemes and state compulsory schemes. A study of this development brings out the following main points:

a. Through the unassisted unemployment insurance schemes, which in Europe have been all trade union schemes; and through a better collection of statistics available in Europe, the risk has been determined with fair accuracy and it has been reduced to a minimum through voluntary trade union efforts and through labor exchanges, resulting in an automatic tendency to eliminate bad risks.

b. Further application of insurance principles to unemployment has been sound enough in Europe. It has been necessary, perhaps because the European wage earner has not, relatively speaking, been able to provide for himself because of the comparatively low wage level, to extend their principles because they have not been inclusive enough or strong enough to withstand unusual industrial depressions.

c. As they have been extended, the basis of application of the insurance principle has been disturbed, and it has been necessary to supplement private efforts to reduce risk, through labor exchanges and through legislative control and to resort to special applications of the

scheme to special industries. In other words, as they have broadened and come to rest more and more upon public support, the voluntary incentive to reduce the risk of unemployment has been diminished.

d. The burden has been shifted more and more to the public treasurer. That is, they have taken on, especially in periods of severe depression, the character of poor relief schemes rather than insurance schemes.

The British unemployment insurance plan may be called the most comprehensive, elaborate and thoroughly worked out compulsory insurance scheme so far developed. This system of insurance was a development of poor relief measures and of unemployment relief measures, historically leading up to the establishment of labor exchanges which, it must not be forgotten, are a basic part of the unemployment insurance plan in Great Britain. These labor exchanges have been elaborated and have grown in number from two hundred and fourteen in 1910 to four hundred and six main exchanges and one thousand and eighty-four branches in September, 1921. The system of compulsory insurance against unemployment in Great Britain became effective in 1912 and the legislation was amended and extended in 1920 and again in 1921.

The British act was originally compulsory for workers sixteen years of age and over in seven different organized trades such as building, construction, shipbuilding, etc. In addition, voluntary insurance was to be encouraged among associations of workers outside of those specifically included within the act by certain provisions for government subsidy of such association's unemployment funds. In subsequent years, down to 1920, the act was broadened to bring within its scope, workers among other industries and, also, to permit workers who were not covered by the compulsory system to obtain benefits of the insurance scheme at their own request with the consent of their employers, under certain conditions. Extended in this and other ways, the act at

present covers, according to the best estimates we can get, approximately 12,250,000 in practically all occupations except agriculture and private domestic service.

The administration of the British act is directly under the control of the Board of Trade, a single department of which has charge of both the labor exchanges and unemployment insurance. The labor exchanges are so widely distributed throughout the United Kingdom as to bring an office within five miles of every principal body of insured workmen; and a system of divisional offices located in most important industrial centers, with an umpire appointed by the Crown and independent of the Board of Trade to decide questions arising from disputes, build up an elaborate system for the administration of the act.

Contributions of employers and work people are paid in the first instance by employers who are required to affix in unemployment books handed them by their workmen, insurance stamps to represent the joint contributions of themselves and their work people. These books are carried by every member of an insured trade and are deposited by the worker with his employer during the period of his employment. Each book is current only for the stated period such as the insurance year, and at the end of the period it must be returned to the local office in exchange for a new book. When a workman leaves his position his book is returned to him by his employer and then is turned in at the local labor exchange, where the workman, if he wishes to claim benefit must fill out a form. Thereafter he must appear at the local exchange at stated intervals to sign the unemployment register as evidence of his lack of employment or furnish by post a certificate of being unemployed. In certain cases he must appear every day or every alternate day, and in certain cases he must send in a certificate or letter. These claims for benefits together with a statement of the contributions, which have been made by the claimant are forwarded to the divisional office where

the claim is verified and if allowable, is paid at once. If the local employment exchange brings to the notice of the workman an opportunity for apparently suitable employment which the latter refuses, benefits are suspended and the case is reported to the divisional office for decision.

The cost of unemployment insurance is borne jointly by the employer and the employee with an additional state subsidy originally equal to one-third of this joint contribution. In the original act this was 5 cents per week for each employer and workmen and $3\frac{1}{3}$ cents for the state. In 1920 the amended act distinguished between contributions paid by men and women, boys and girls, and put slightly more of the burden on the employer than on the employee. Thus weekly contributions in 1920, for men, were 8 cents from the employer, 8 cents from the employee and 4 cents from the state. In July 1921 owing to the great drain on the fund from the continued unemployment of a large number of workers, rates of contributions were raised to 30 cents for men, while the state's contribution remained unchanged.

Benefits of \$1.70 per week for men and women were originally payable under this act for the first week of unemployment in proportion of one week's benefit for over five weeks contributions and no workman was to receive benefits for more than fifteen weeks. The period of unemployment was not deemed to commence until application had been made for benefits in the prescribed manner. This included the provision that the workman had been employed in an insured trade in each of not less than twenty-six calendar weeks in the preceding five years, that since the date of his application for benefits he had been continuously unemployed, that he is capable of work, unable to obtain suitable employment and that he has not exhausted his right to benefits under the act. The workman is disqualified for unemployment benefits if he has lost employment by reason of stoppage of work due to trade disputes, through mis-

conduct or voluntarily leaving employment without cause, or while he is an inmate of a prison or workhouse or while he is in receipt of sickness or disability allowance under the Health Insurance Act.

I shall not go through the long process by which these benefits were increased and the conditions somewhat changed, but simply state that in March, 1921, the benefits were \$4.86 per week for men and \$3.98 for women. During the first half of 1921 unemployment increased steadily and with a constantly increasing drain on the treasury of the fund so that by the end of June only a few million of the nearly one hundred million pounds sterling with which the year was started, remained in the fund, that is, by the end of the first six months. In July 1921, the benefits were reduced to \$3.65 for men and \$2.92 for women with certain changes in the conditions for receiving them.

Another special aspect which probably had a good deal to do with draining the funds of the treasury was the addition to the provisions for unemployment contained in the National Insurance Act of out-of-work donations granted immediately after the war as a kind of bonus to demobilized members of the naval and military forces. In 1918 civilians were included if they were not already insured against unemployment. Conditions of receipt of these donations were practically the same as for the unemployment insurance except that the total cost was borne by the state, and, therefore, they became poor relief-doles, and not insurance at all. The total amount spent for such donations up to October 1921 when they practically ceased, is placed by the Ministry of Labour at \$299,000,000. It was because of dissatisfaction with the results of the out-of-work donations that the Unemployment Insurance Act was extended in 1920 to include practically all wage-earners.

It will be recognized that one of the most difficult problems to solve in this connection is the prevention of malingering. This has been taken care of under the

act by providing that if a workman knowingly makes false statements he is liable for a prison term, and if either employer or workman fails to pay contributions for which he is liable he is subject to fine. Where a workman has received benefits to which he is not entitled, these benefits must be returned to the unemployment fund.

The development of unemployment schemes of insurance in Europe up to the comprehensive British system and the experience with the latter, indicates the following general considerations regarding unemployment insurance plans:

The first is that it is necessary to have a basis of wide voluntary effort, a highly industrialized thickly populated country like Great Britain coupled with a system of labor exchanges and proper controlling legislation, in order that the risk of unemployment be fairly accurately determined and reduced to a minimum.

Under the British system the influences which are at work tending to reduce unemployment, may be summed up as follows:

1. Its cooperative functioning with labor exchanges.
2. Certain provisions in the insurance act aim directly to regularize employment and promote its continuity such as the provision whereby employees who have paid five hundred contributions and have reached the age of sixty will have refunded to them all contributions which they have paid in, with interest with the deduction of unemployment benefits actually received.
3. Specific measures taken to regularize and govern continuous employment to casual labor as a class.
4. The tri-partite contribution of employer, employee and the state provide an incentive to these three parties to the insurance contract to reduce unemployment.
5. The tendency of unemployment insurance to stabilize the purchasing power of the community because of the fact that people at all times will have money, certain money with which to buy the necessities of life.

On the other hand, the aspects of British unemployment legislation which tend to encourage rather than diminish unemployment are:

1. Tendency to decrease the morale of the workman and promote inefficiency.
2. The tendency to encourage idleness and to live off an unemployment benefit.
3. Tendency of employers to lose personal interest in employees.

The second outstanding feature of the British experience is that it would appear necessary to extend the scope of the unemployment insurance scheme as widely as possible and couple it with special donations in order in the first place to reduce the cost and make it financially sound in normal periods and in the second to make it able to weather periods of severe depression. At the present time, as Mr. Sherman has already said, the British treasury for unemployment insurance is practically bankrupt and will not be in a stable condition again until about June or July of this year.

The possible reason for such success as the British system has had is that through the development of the scheme, as well as through industrial and labor conditions in Great Britain, unemployment as a risk had been determined more nearly on an actuarial basis and reduced to more or less definite average. From this point of view of attempting to apply sound insurance principles to the unemployment problem, the situation differs very greatly from that which is found in the United States.

In Great Britain, as in certain other European countries, a body of fairly accurate statistical data upon which to base an insurance scheme was available. It is estimated that the average or normal unemployment in Great Britain is between 5 per cent and 6 per cent; whereas according to such inadequate information as is available in the United States it lies between 12 per cent and 15 per cent. Not only do we lack in the United States, the

scientific actuarial basis for determining the unemployment risk of the average wage-earner but all indications point to the fact that this risk is very far from having been reduced to a definite minimum. As has been pointed out, the primary requirements for applying the insurance principle to any such contingency as unemployment, is that the rate be fairly accurately determined and that there be some clear assurance that the risk has been reduced to a definite relatively irreducible minimum through individual voluntary private effort. These conditions, so far as authoritative studies of the unemployment question in the United States indicate, do not exist in this country.

Again in Great Britain and most European countries, unemployment insurance legislation has been developed out of a built-upon and established structure of private voluntary insurance effort by well organized trade unions. It would appear that compulsory state legislation had not been brought to bear upon the problem until private individual efforts, at least on the part of workers' organizations, had done their utmost to solve the problem themselves. This consideration is especially pertinent when it is considered that the political and social conditions of these countries have not tended to develop so great a potentiality for the exercise of individual initiative, as has been the case in the United States.

These considerations indicate the possibility that there exists in the United States a wide and unexplored field for industrial and private effort to reduce the unemployment risk for the American wage-earner before attempting to apply compulsory insurance principles to the American unemployment problem. A recent study of the unemployment problem by the National Industrial Conference Board has brought out clearly some of these possibilities for the exercise of individual initiative. Through providing greater regularity in the supply of raw materials, standardizing products, coordinating the activities of sales and production departments, reducing

labor turnover, developing the diversity of local industries, centralizing local labor markets, dovetailing employments, and devising systems of transfer and promotion, and in other ways, many concerns are inventing means of reducing unemployment due to impersonal factors within individual establishments. Improvement of systems for collecting and disseminating information showing the trend of prices, costs of operation and revenues from industry, are assisting in establishing a basis of control over a normal production, distribution and consumption and over the fluctuations from prosperity to depression. There is a wide field for improving co-ordination between transportation and other industries, and the problems arising out of the interdependence between nations have scarcely been touched. Attempts to centralize the labor market and to distribute more efficiently the available labor supply, will remove one of the largest underlying factors in the relatively large volume of unemployment existing in the United States during normal periods. Emergency relief measures such as part-time work, the undertaking of construction work and repairs, the reduction in prices of present stocks of goods held by middlemen, have been widely resorted to in the present industrial depression.

It should be emphasized that some effective efforts have already been made by individual employers and trade union organizations to reduce the problem of unemployment to a workable minimum. Many American national trade unions already have a working system of unemployment benefits such as the cigarmakers, certain typographical unions, locals of boot and shoe workers, pattern makers and photo engravers. A large number of local unions and twenty national unions provide for the exemption of dues of those out of work. Though these beneficiary measures in American trade unions have been far slower in development than in European unions,

this private means of meeting the problem is being resorted to increasingly by American labor organizations.

Every day brings us new information that among employers carefully worked out plans for regularizing employment and for providing forms of unemployment insurance are being developed within American industry. For instance the plans of the Dennison Manufacturing Company; the recently developed system of combined sickness, unemployment, old age and life insurance established by the Delaware and Hudson Company; and the organized effort made by the American Multigraph Company of Cleveland to secure employment for such of its wage-earners as had to be laid off—these and other individual efforts differing according to the nature of the industry and the circumstances of the individual company have attracted wide attention and are likely to be followed and further developed by American employers as the need for promoting continuity of employment and protecting the interests of the wage-earner is felt by those in control of industry. The National Industrial Conference Board, in its report on the unemployment problem just issued, after a careful survey of the extent and causes of unemployment, and of the measures that may be and are being undertaken by individual employers and labor organizations, has gone on record as follows:

As a matter of principle, it may be said that unemployment insurance, as a remedy for unemployment, should not be applied until a fair chance has been given management to reduce unemployment to a minimum through the stabilization of industry and efficient distribution of the labor supply. To the extent that unemployment insurance is advocated and used for a remedy for conditions which need more far reaching treatment, industry will only be confronted with a cumulative problem. Moreover, the result will be an increasing bill of costs upon producers and consumers as the price of inefficiency in the coordination of the industrial system.

WHY I AM OPPOSED TO UNEMPLOYMENT
INSURANCE¹

In addition to requesting general information on the subject of the Huber Unemployment Insurance Bill, (inquirers) have asked me specific questions ranging about as follows: Will the bill reduce unemployment? What are the essential features of the bill? What is the weakest feature of the bill? How much unemployment exists? What is your personal opinion of the bill? I will answer these questions categorically as follows:—

1. This bill will not only not reduce unemployment, but will undoubtedly increase unemployment, for the following three reasons; (a) it will subsidize idle men to remain idle; (b) it will place such a burden on industry as to force it to curtail employment; (c) the fear of the penalties of the bill will deter employers from relieving distress when it exists.

2. The essential feature of the bill is the \$90 liability which industry assumes with each man it hires.

3. The weakest feature of the bill is the fact that every cent paid in doles would be wasted, from the point of view of economics. In my personal opinion, if every man who received doles was required, as a condition precedent, to work six hours a day on some public works (leaving the other hours for job-hunting), then the payment of doles would be productive rather than unproductive, and the system would stimulate the unemployed to look for jobs, rather than to remain idle. If such a scheme were adopted, a large number of employers might conceivably support the measure. I really believe that the chief basis of the opposition is the tremendous *waste* that would be involved in expending a billion dollars a year on a pauperizing form of charity.

4. Anyone who attempts to give statistics of un-

¹ By Roger Sherman Hoar, M.A., L.L.B., attorney for the Bucyrus Manufacturing Company; author of Constitutional Conventions, The Tariff Manual; formerly Massachusetts State Senator, from a paper read before the 1923 Wisconsin State Senate. Reproduced in mimeograph for negative high school debaters.

employment can be made a monkey of, by quoting from pages of "Employment Hours and Earnings in Prosperity and Depression," by the National Bureau of Economic Research.

5. My individual opinion, which I believe coincides with that of practically every committee or prominent individual that has studied the matter, with the exception of the inventor of the bill (Dr. Commons), and the American Association for Labor Legislation, is that it is one of the most futile, dangerous and wasteful political measures ever conceived.

COMPULSORY UNEMPLOYMENT INSURANCE

The merits of the question may be classified under the following heads: The Huber bill is modeled after the British law, which is well known to be a failure; it would demoralize the men whom it seeks to aid; the supposed analogies of workmen's compensation, the present (alleged) protection of invested capital, and private unemployment schemes are not analogies at all; it would build up a tremendous Federal bureaucracy; at most the bill is a mere palliative; it would increase, rather than decrease, unemployment; other measures should accomplish more.

The Huber bill has been rejected by all who have studied it.

The following references will hereinafter be referred to by letter: (A) Report of the President's Conference on Unemployment. (B) Report of the Massachusetts Special Commission on Unemployment. (C) "Business Cycles and Unemployment," by Government Printer, Washington. (D) "Unemployment Insurance," Research Report Number 51 of the National Industrial Conference Board. (E) "Compulsory Health Insurance," National Civic Federation. (F) "Second Report of the Committee on Foreign Inquiry," of the National Civic Federation. (G) "Report of the Committee on Preliminary Foreign Inquiry," of the National Civic Federation.

(H) "Business Cycles and Unemployment," (I) "Unemployment Insurance Conference," pamphlet by the National Civic Federation.

THE HUBER BILL IS MODELED AFTER
THE BRITISH LAW

This enables the advocates of the bill to argue that, if you regard the British system as a success, you should favor the Huber bill because of its similarity; but if you regard the British system as a failure, you should still favor the Huber bill, because it is so different.

The British law (and similarly the Huber bill) can be looked at from two viewpoints, on the question of success or failure; *i.e.*, it can be studied either for its palliative or for its preventive features. As to its success as a palliative, opinion seems to be divided. British labor men regard the law as a failure, and assert that what they want is not unemployment insurance, but rather employment. (I. page 15) The latest report on the situation is the one prepared by the National Bureau of Economic Research for the President's Conference on Unemployment. This report, published in May, 1923, states (H. page 340) that "conditions in England undoubtedly have been considerably better than they would have been in the absence of the insurance." But this is merely the finding of a single investigator, and the Board dissents from this conclusion in a foot-note. Certainly conditions in England could not be much worse than they are now.

But as a preventive, the report agrees that the law has been a failure, saying, "It is with regard to the problem of unemployment prevention that the English scheme has made its smallest contribution. Yet it is just at this point that progress is most necessary." (H. page 341)

IT WOULD DEMORALIZE THE MEN WHOM IT
SEEKS TO AID

The introduction to the report of the National Civic Federation on their Conference on Unemployment Insurance refers to:

The situation in England as it existed in the fall of 1921 when twenty-eight millions out of a population of forty-eight millions were receiving public assistance in some form, according to statistics put out by Mr. Geoffrey Drage, Chairman of the Dennison House Public Assistance Committee of London. Also, by reason of the fact that in Great Britain it is recognized that the system of doles and unemployment benefits have so undermined individual independence and self-respect, the only barriers against pauperism, that there is now a general tendency toward a disinclination to work and an inclination to seek help from the Government. Expert students believe that the drift to compulsory insurance in Europe is only one current of a broad tide moving toward some form of Socialism rather than toward the economic independence of the citizen.

The unemployed man under compensation will not, even though the compensation be less than he can earn, be eager to find a job and continue a useful citizen in his community. Security against want has always been an incentive of idleness, and fear of what the future may have in store has always been the greatest incentive of thrift, saving and industry. Just as far as compensation is provided to the worker, his morale will be lowered, his spirit of independence, self-reliance and self-respect will be destroyed and the incentive to thrift provided by compensation will be gone. The employee who knows that if discharged he can have compensation will not be interested to be efficient and will not be alert to make good in his job, and when he is out of a job he will take no steps whatever to find another.

From the corn-laws of Rome, down to the present day doles in England, government support of the idle has always bred more idleness.. The Unemployment Insurance Bill is well-named, for it would certainly insure plenty of unemployment. (See under heading 6, hereinafter.) As Mr. Hoffman, vice-president and sta-

tistician of the Prudential Insurance Co., aptly stated in an article in *The Economic World* for March 26, 1921, "A government can have all the unemployment it is willing to pay for; and, by holding out larger cash benefits and a longer duration, every incentive is given to those who will take advantage of the state to idle, to malingering or otherwise to impose."

The Massachusetts interim commission says (B. page 45), "It taxes the ambitious and rewards the sluggard." In the depression of 1920-21, the author was in Massachusetts when that sensational minister was "selling the unemployed on the auction-block" on Boston Common, to call attention to their plight. Yet at that very time the scouts from the New Bedford mills were offering every inducement to get men; but the unemployed preferred to loaf on park benches of Boston, than to travel a few miles to get a job. How much worse this would be if, in addition, we subsidized these men to remain idle.

The Huber bill purports to exempt farmers from its operations, but it cannot exempt farmers from its economic effects. One of nature's automatic adjustments is that, in hard times, when men are out of work and prices are depressed, the pressure of these same unemployed men to secure farm jobs, reduces the cost of farm labor and enables the farmer to sell successfully at reduced prices. But, with the Huber bill in force, this would not occur, and depressions would hurt the farmer worse than anyone else.

THE SUPPOSED ANALOGIES OF WORKMEN'S COMPENSATION, THE PRESENT (ALLEGED) PROTECTION OF INVESTED CAPITAL, AND PRIVATE UNEMPLOYMENT SCHEMES ARE NOT ANALOGIES AT ALL.

The three arguments of the supporters of the Huber bill which appear the hardest to meet until they are carefully analyzed are; (1) that the manufacturers opposed workmen's compensation, so also will they come to favor

unemployment insurance after it is actually in practice; (2) that the laborer is entitled to the same security in his job that capital now receives in its investment; and (3) that private unemployment funds are already in successful existence.

The first argument is based upon a false premise, for the employers of this state *avored* workmen's compensation and assisted in bringing it into effect. But the supporters of the Huber bill reply by calling attention to the Falk case, which took the constitutionality of workmen's compensation to the Supreme Court. However, it is no more fair to blame manufacturers in general for the activities of Mr. Falk, than it is to blame them for Mr. Dennison's support of the Huber bill.

Penalties for accidents are imposed only when they happen in the factory of the employer or in the regular course of employment. Penalties for unemployment would be assessed when the causes are beyond the confines of factory walls and beyond management's control. This distinction is most forcefully indicated by the specific provision of the compensation law that employers are not liable for payment of benefits when workmen are disabled outside of factory and not in regular course of employment. A similar reservation in the unemployment insurance plan would, of course, destroy it utterly. Yet such a reservation should be made, if the supporters of the bill are sincere in their analogy.

It may be said that accident compensation liability exists even where accidents happen through the fault of the workmen. It is well to remember, however, that the premises are in the control and possession of the employer and that he can protect himself by providing safety conditions. Not so with unemployment, for the public will never consent to the control by industry necessary to influence conditions that cause depression and the resultant cancellation of orders.

The answer to the second argument is that capital is *not* now protected. Invested capital receives no divi-

dend in hard times, and runs the risk of losing its entire investment if the business should fail. This puts capital in a much worse position than labor, which can take its investment (*i.e.*, body and brains) elsewhere, and at most loses only a small part of its interest (*i.e.*, wages.)

The answer to the third argument is that private schemes, like that of Mr. Dennison, are created entirely for the effect of local *esprit de corps* and for their advertising value. In some instances, they have been forced upon the employer as a part of a wage settlement. They are divorced from politics. They rest upon an entirely different theory from that advanced by Professor Commons in support of the Huber bill. Among small groups of workmen fairly well-known to each other, the possibility of malingering is reduced to a minimum. (D. page 20). It is significant that the President's Conference recommended such schemes and did not recommend obligatory unemployment insurance.

IT WOULD BUILD UP A TREMENDOUS BUREAUCRACY

The following British figures compiled by the National Industrial Conference Board (D. page 56-7) show that most of the money goes to political office-holders, rather than to the unemployed, figures in thousands of pounds sterling:

Year	Paid to Unemployed	Administrative Cost	Unemployed Received Only
1912-13	208	640	25 per cent
1913-14	531	769	41 " "
1914-15	419	764	35 " "
1915-16	79	834	9 " "
1916-17	34	905	4 " "
1917-18	86	1,168	7 " "
1918-19	153	1,950	7 " "
1919-20	1,009	3,613	22 " "
1920-21	34,000	4,593	—
1921-22	—	6,039	—
1922-23	—	5,020	—

These figures are staggering! The Massachusetts Commission (B. page 78) estimated an average annual cost of \$6,985,000 in that state for the payments alone, which would mean about \$250,000,000 per year for the whole United States. From British experience, we may regard the administrative cost as roughly three times the doles; which would therefore amount to \$750,000,000 per year for the United States. This would make even the huge bureaucracy of the prohibition forces look like a small coterie of pikers in comparison.

AT MOST, THE BILL IS A MERE PALLIATIVE

We have already seen that the preventive features have been discarded in England. As the investigator for the National Civic Federation says (I. page 9), "Let us call it what it is, 'poor relief', and not disguise it under the false name of insurance." The President's Conference recommends (C. page 21):

"Because of the large expense involved it appears fundamental to the success of such experiments that cyclical unemployment be reduced to its minimum before any general relief measures are attempted." It thus classes the Huber bill as a mere relief measure.

IT WOULD INCREASE, RATHER THAN DECREASE, UNEMPLOYMENT

Professor Commons, inventor of the Huber bill, bases *his* appeal for the bill upon the alleged effect which this law would have on the business cycle (D. page 110). For a good discussion of the business cycle, see A. pages 157-62. This attempt to control the business cycle by discouraging over-employment, is in the opinion of the present author, exactly the same idea as attempting to cure typhoid fever by putting a hot-water bottle on the patient's body. In the first place, the fever is a symptom, rather than the cause, of the disease. And in the second place, the hot-water bottle would increase rather

than decrease, the temperature. Let us see if this analogy holds:

In the first place, the over-expansion and contraction of credits is merely one of the many symptoms of the business cycle, so the Huber bill attempts to cure a disease by attacking merely one of the many symptoms. In the second place, the proposed bill would probably increase, rather than decrease, unemployment. The competitive burden placed upon American business would render good times less prosperous and hard times harder in this country than elsewhere. Then too, if we assume with the proponents of the bill that in times of prosperity an employer would hesitate to employ an unnecessary man, for fear of a \$90 liability, years later when the next panic comes, he would be even more reluctant to relieve a man of unemployment at a time when the \$90 fine was immediate and impending. If this bill becomes a law men will walk the streets in hard times begging for jobs which they could freely obtain if it were not for the penalties imposed by the bill. This, in the opinion of the present author, is the most vital objection to the bill.

OTHER MEASURES COULD ACCOMPLISH MORE

It is interesting to note that the President's Conference proposed a large number of remedies for unemployment (C. page 9) *not* including the Huber bill. Relative to this bill they said:

Other plans have been put before the Conference with the indorsement of various bodies, such, for example, as the Huber Unemployment Prevention Bill now pending in the Wisconsin Legislature. All these topics and perhaps others unknown to the Conference might be taken up by the proposed committee on the prevention of unemployment or left alone, according as the committee saw or did not see a prospect of rendering service by an investigation. Certainly the committee should not be burdened with the duty of investigating every proposal that has been or may be made for the accomplishment of its object.

Of the proposed plans, the regulation of public works most appeals to me. The President's Conference says (A. page 160):

The action of the States of Pennsylvania and California in making a provision for the control of public works to this end is one of the most interesting and important economic experiments in the country. A rough calculation indicates that if we maintain a reserve of but 10 per cent of our average annual construction for this purpose we could almost iron out the fluctuations in employment.

And again (H. page 237):

The distinguished British statistician, Bowley, estimated that if for ten years between 3 and 4 per cent of the ordinary annual appropriations for public works and services had been set aside in normal years and the accumulation expended in times of depression, the amount would have been sufficient to offset the wage loss during the decade due to industrial depressions.

THE HUBER BILL HAS BEEN REJECTED BY ALL
WHO HAVE STUDIED IT.

The Huber bill has been studied and rejected by the President's Conference (A, C, and H), the National Industrial Conference Board (D), the National Civic Federation (I), and an interim commission of the Massachusetts Legislature (B). Note that Massachusetts adopted compulsory workmen's compensation before Wisconsin, and so cannot be regarded as reactionary.

Hadn't we better wait, before plunging the whole country into such a dangerous experiment?

MANUFACTURERS ASSOCIATION ESTIMATE
OF COST¹

According to the United States Census of Occupation of 1920 there were 995,549 persons gainfully employed, ten years of age and over, in Wisconsin. From this number, there will have to be deducted all those to whom

¹From Proposed Unemployment Insurance in Wisconsin. A brief prepared for the Wisconsin Manufacturers Association, typw. p. 144-6.

unemployment insurance would not apply under the provision of the Huber bill, as follows:

1. Persons gainfully employed in agriculture	308,050
2. Persons in other occupation, ten to sixteen years of age	11,026
3. Persons engaged in government work, in- cluding school teachers	40,000
4. Persons in establishments with less than six employees and employers	200,000
5. Persons whose income from non-manual labor exceeds \$1500 annually, in addition to all others excluded above	10,000
	Total.....
	569,076

The net total of persons to whom the Huber bill applies would therefore be four hundred and thirty-three thousand as of January 1, 1920. To this number there would have to be added those who have since entered the ranks of gainfully employed, or an increase of 5.7 per cent in the five elapsing years on the basis of the increase between 1910 and 1920. As of January 1, 1925, the number of persons subject to unemployment insurance under the provisions of the Huber bill would, therefore, be about four hundred and fifty-eight thousand.

Figures as to the employment in Wisconsin were not collected carefully by the Industrial Commission before 1920; there are quarterly estimates for 1915 and thru the war but these cannot be used because they do not represent accurate data of employment in 1919 as ascertained in the United States Census of Manufacturing, and carrying this series forward with the aid of the monthly data furnished by the Wisconsin Industrial Commission, it is found that the average maximum rate of unemployment in the past six years has been 14.1 per cent in manufacturing enterprises. Both 1920 and 1922 were severe years, the maximum rate of unemployment reaching 23.1 per cent and 20.4 per cent respectively; in 1923, it was 6.6 per cent. The average rate of unem-

ployment has; however, been 6.9 per cent in this six-year period. The average rate was highest in 1922, with 10.8 per cent, and the lowest in 1923, with 3.5 per cent. In view of the fact that only two-thirds of the total number who would be subject to unemployment insurance are manufacturing industries, the average rates of unemployment for the entire group would be somewhat lower. The average unemployment would, therefore, be about 6 per cent, instead of almost 7 per cent, and the average maximum unemployment would be 12 per cent instead of 14.1 per cent.

In 1925 there is, therefore, likely to be unemployed an average of twenty-seven thousand five hundred persons drawing \$6 per week for three weeks or \$18 per annum per person. To this sum would be added the 10 per cent fee to cover the costs of administering the act. The annual cost to employees would, therefore, be at least \$545,000. If thirteen full weeks of unemployment compensation were allowed each person, the annual cost on the basis of the average rate of unemployment during the past six years would be \$2,360,000. Should 1925 prove to be as poor a business year as 1922, when the maximum rate of unemployment was 10.8 per cent, employed would be called upon to compensate wage-earners to the maximum of \$4,250,000.

The probable cost which the Huber bill would place upon employers in Wisconsin will probably range from \$545,000 to \$4,250,000 annually. It is most likely that the figure will have to be considerable higher than the minimum sum herein given since the insurance company will have to exact a charge that will not only meet the average costs based on past experience but will also be sufficient to build up a strong reserve for years of unemployment.

AN EVALUATION OF THE PROS AND CONS OF OBLIGATORY UNEMPLOYMENT INSURANCE¹

As civilization advances the question of the social obligations of society, with respect to wage-earners of the sort who, without fault of their own, are the victims of the existing capitalistic industrial scheme, in so far as it touches upon ordinary accepted comforts of living, becomes ever increasingly important. The problem, while not generally understood or estimated at its true worth in this country, is not a new one. Unemployment is constantly with us, is a problem of the first rank in importance, constitutes a major social question throughout the civilized world, and has very properly been variously termed "the shadow side of progress" and "the by-product of the capitalist scheme of production."

Having observed the workings of the various unemployment insurance schemes in other countries, we are now confronted with the problem of what and how much can be accomplished in this country. Despite opposing theories of underlying causes and the possibilities of their removal, unemployment as an actual fact is prevalent to an alarming extent and is demanding recognition in increasingly vigorous fashion.

On the other hand, in defense of the voluntary system, we have the theory that compulsion trespasses upon individual rights; that compulsion is the thin edge of the wedge designed to ultimately socialize all enterprises; that compulsion tends to destroy individualistic effort and to strangle ambition and reduce the desire to shift for one's self; that compulsion stagnates the responsibility of saving and striving to maintain independence. In defence of the compulsory scheme, we have the theory that unemployment relief is too vast, general and far-reaching to be administered in any fashion other than by

¹ By George F. Haydon, M.A., casualty insurance engineer, manager Workmen's Compensation Rating Bureau. A Narration of Unemployment and Unemployment Insurance and Funds. p. 1-17.

a centralized government; that under a voluntary scheme the individuals of the unskilled and unorganized type representing the majority of unemployed would not be reached; that through a system of voluntary insurance the best interests of all could not be served. From these opposite expressions we are reminded that we have a fundamental problem of state craft of the sort for which each generation and each country must find its own answer. Always the quest is for the maximum liberty of the individual and for the highest efficiency in the state. At one time liberty will be sought in some form of policy; at another time, in emancipation from the fetters of archaic revolution; and at yet another time, in an extension of the forms of government control.

Viewing the problem from the standpoint of determining the causes of unemployment and their corrective measures, coupled with the necessity of erecting means to ameliorate the incident suffering, the situation resolves itself into the following:

a. Is unemployment a natural circumstance impervious to solution, carrying with it the social necessity of a permanent broad scheme of relief during distress?

b. Are the causes of unemployment within the control of human forces, thus indicating the possibilities of mechanical correction?

Doubtless there will always be advocates of both theories, and probably any scheme to be evolved will be a compromise of both views; this finds confirmation in recent happenings, for judging by the bill which was submitted (and failed of passage) in the 1923 legislature of Wisconsin it would appear that claim may be properly made to such compromise. The bill, it will be recalled, was framed so that the entire burden would be placed on the employer with the intention of forcing the employer into the position where he would be compelled to bend his efforts to bring the points of depression and prosperity in the business curve closer together, through a better balanced system of production and distribution,

while in the meantime—pending perfection of the scheme—during periods of unemployment, employees would be compensated in part. The introduction of the bill developed a state-wide spirited discussion, during which the advocates and opponents gave free reign to the expression of their respective views, the following being a brief summary of the claims which were made, both in favor and against:

FOR THE BILL

1. It would tend to keep suffering and distress within reasonable bounds in those cases where such distress and suffering would be unavoidable. It would recognize a principle of social obligation, such as is becoming more pronounced as the age progresses.

2. Provided the form of contributions are so fixed that the employer shoulders the burden, it would make for a stabilization of business, continuous employment, and the flattening of the business curve. In short, business will so order itself that it will find it more economical to guard against unemployment than to compensate workmen during such periods.

3. It would place labor in the same class as borrowed capital. Business protects loans when plants are idle, which is a consideration not extended to workmen.

4. Unemployment creates unrest. Unrest creates radicalism. Radicalism creates revolution.

5. Under the present system it is the general practice for management, and, to a great extent, clerical office workers, to retain their positions regardless of whether production is being maintained at maximum or otherwise. Unemployment insurance would remove the discrimination.

6. It would induce wage-earners to settle down, with the prospect of a large increase of home owners.

7. It would remove from employees the fear of losing their jobs, and, consequently, the incentive to prolong work and limit efficiency would cease to exist. It would

be of assistance to farmers, since the purchasing power of employees would cease to fluctuate as at present.

AGAINST THE BILL

1. The advent of unemployment insurance would not tend to stabilize business, even if business carries the entire burden of contributions, for the reason that bankers and business managements are already fully alive to the evils of credit expansions.

2. Due to the uncertainty of styles, of demand, of foreign relations, of climatic conditions, changing seasons, and fickle human notions, it would be impracticable to run along on an even keel with the intention of building up reserve supplies calculated to be sufficient to absorb the shock during the peak of demand. Therefore, unemployment insurance would not serve any useful purpose in this respect.

3. Admitting that management is maintained during times of depressions, it is an axiom that such be so, both for the benefit of capital and labor. Management forms the nucleus for organization and constitutes the directing force. Consequently there appears no intentional discrimination for unemployment insurance to remove.

4. It is true that interest for bond issues is generally maintained during periods of depression, but it must be borne in mind that the rate of such interest is absurdly small in comparison to the wage rate, and, under the present system, it is mandatory that capital be borrowed if employment is to be maintained at the maximum, and business is to progress. Therefore, the payment of interest on loans holds out no excuse for unemployment insurance.

5. Under a system of unemployment insurance, business would look upon emergency orders somewhat fearfully, owing to the penalty carried with it at the close of the work.

6. It prejudices the constitutional element of free-

dom and liberty, in that during periods of depression, workmen are practically compelled to work at the dictation of labor exchanges or other equivalent.

7. It will remove the spur of the natural desire to perform a fair and reasonable amount of work on the part of the employee, when it is known that the difficulty of obtaining another job is largely removed. The individual must be spurred before the best endeavors are put forth. Remove the incentive and stagnation results.

8. Unless the system be Federal in extent, it would place one state at a competitive disadvantage with the next, and would invite numerous undesirable workmen into the state of its adoption.

9. In most schemes the benefits, at the inception, are comparatively low. Such benefits very seldom remain at such a level. Greater and increased demands are continually made with the result that ultimately the demand becomes that of a "living wage." And no system of unemployment relief can possibly match such demands.

10. It is not definite that labor itself is wholeheartedly in favor of the scheme. By this is meant that such workmen who are of the kind that can demand steady and constant employment, do not relish the idea of others not being so employed, but at the same time receiving compensation. Also, numerous workmen revolt at any measure which carries any suspicion of charity.

11. On the assumption that all wage-earners lose an average of thirty working days per year, then, on the basis of a total wage of \$450,000,000 (Wisconsin wage figures), the expenditure would be \$13,500,000, with an additional 10 per cent for management and labor exchange expense, making a total expenditure of \$14,850,000 (this being equivalent to a rate of \$3.50 on every \$100 of payroll, on the assumption that the average wage per employee is \$1,000 annually) which would constitute a business problem of the first order.

12. It is inequitable to guarantee returns to labor during periods of unemployment, when the same treatment is not accorded to invested capital (not loans) during the same period.

13. It would make for a restless citizenry due to domination of labor exchanges, and the necessity—for the best workings of the scheme—to change residence more often than under the present circumstances.

14. There is no real economic demand for the plan in that a certain amount of unemployment seems to be necessary for the best success of society as a whole, and, further, unemployment insurance is already virtually being paid to those workers engaged in industries most susceptible to unemployment periods, by reason of the higher scale of wages which is more or less prevalent in such cases.

VOLUNTARY UNEMPLOYMENT PREVENTION AND RELIEF

HOW EMPLOYERS MAY PREVENT UNEMPLOYMENT VOLUNTARILY¹

To meet the problem of casual unemployment we may profit from the experience of dock employers at Seattle. Formerly fourteen hundred and twenty workers were required to supply the employers' needs. Work was irregular, for from 40 to 70 per cent were constantly unemployed until "their boat came in." A man dared not seek employment elsewhere for "each must wait his turn" or "lose his seniority." In 1920 the problem was tackled jointly by employers and employees. By September 1921 only six hundred and twelve men were being employed to do the work that was formerly portioned out to fourteen hundred and twenty. The six hundred and twelve thus obtained more regular work, and their income rose from between \$50 to \$60 in 1920 to approximately \$150 per month in 1921.

How? Dock employers were required not to have each his own reserve army of unemployed "in waiting." They were required to requisition all labor needs to a central placement office, or exchange. All unemployed labor reported to the same office. The market was organized. Employers were now enabled to get sufficient labor when needed. On the other hand, labor got a job as he applied without "trotting the rounds" of the town, and without being subjected to quack fees of "agencies." That this attempt at "decasualization" has in this case proved to be most satisfactory both to employers and laborers is indicated by the following article from *The Seattle Longshore Log*, November, 1922:

¹ From Stabilization in Industry. Woodlock and Goebel. p. 52-9.

Longshoring is perhaps the most casual of industries. In addition to the general unemployment from which industries suffer during depression, and the seasonal unemployment of shipping, longshoring suffers from extreme fluctuation of employment, daily and hourly, which places it in a class by itself. The waterfront is often thought of as the last resort of the "down-and-outer."

"Casual work makes casual workers"—the adage seems to apply particularly to waterfront work. Experience has taught longshoremen and waterfront employers to believe there is no way of avoiding an extreme fluctuation in labor demand; the public takes it for granted there is none. The Seattle waterfront employers and employees are endeavoring to demonstrate that there is. Seven hundred and fifty longshoremen, including truckers (or dockers, as they are known elsewhere) and twenty-seven steamship, stevedore and dock companies in Seattle have cooperated to prove that this fluctuation can be overcome. In an experiment which covers a period of fifteen months they have decasualized the "beach."

The first need was to eliminate the surplus men. To determine the point at which the principle of "no unnecessary men" should be applied was extremely difficult; it may never be done exactly, but it has been done approximately. In September, 1920, 1,420 longshoremen were registered as eligible workers; by August, 1921, this number was reduced to 612. The machinery for this reduction was developed out of a Joint Organization Plan based on the recommendations of President Wilson's Second Industrial Conference. Briefly, the constitution and rules of this organization provide for a joint executive committee of fifteen men elected by secret ballot and fifteen representatives of employers, and for three joint standing committees, each of four men and four representatives of employers. Of these standing committees, the joint employment committee is in charge of all matters relating to employment and conduct of the dispatching hall; the joint standard practice committee handles operative problems and questions of hours and wages; and the joint safety committee devises methods of reducing risk and preventing accidents. There is also a central council of the men in an advisory capacity.

The task of decasualization fell to the joint employment committee, which, using the existing central registration system, adopted the simple device of preventing the return of the floater who had drifted away from the waterfront. This left available the steady men, mostly men of family. The surplus was further reduced by eliminations based on deliberate examination into every man's qualifications, including length of service on the "beach," family status and skill. The men who were retained had a claim on the industry and were competent.

So much for the policy of "no unnecessary men." The companion principle is "equalized earnings." It is characteristic of waterfront work that a favored few make very high wages;

the main body of the men earn a moderate amount and a considerable group on the fringe must supplement their meagre earnings to exist. This is an unwholesome condition for any industry; in Seattle it challenged the Joint Organization to cooperate effort, which resulted in a plan to equalize earnings which came to be called the "Gang System" and it has now been in operation about a year.

Under the new system, which seems to meet this situation more adequately than any other, two kinds of permanent gangs were formed: Company Gangs, those selected by and working for a single company, getting first call on such company's work; and Hall Gangs, those formed by the joint employment committee and held in reserve at the central dispatching hall available to meet the needs of all companies. Each company selects as its own as many gangs as it can assure reasonably steady work; after that all companies use the same reserve of gangs to meet their peak needs.

The system has been in effect long enough to disclose its strength and weakness. Demonstrated advantages are these:

1. Each man has a sure, steady job in his gang, from which he is "fired" only for cause.
2. Earnings of gang men are equalized.
3. It is easier to arrange for enough men, without surplus, by gangs than by individuals.
4. Responsibility for satisfactory work is better fixed in the gang than in the individual.
5. There is a regular supply of skilled men available for work, and obligated to take it as it comes.

The weaknesses developed are apparently in operation rather than inherent in the system. To correct them requires further cooperation between men and management, which is steadily developing. The outstanding weakness is that some gang men abuse their security of job by deliberately slowing down and in other ways failing to cooperate. An interesting and unexpected development is the disciplining of such men by the gang, frequently by "canning" them.

While the gang system is of major importance, it is only one of the advantages made possible through the Joint Organization Plan. Space does not permit more than a mere listing of other interesting achievements:

1. Men are not required to waste their time awaiting a job; the dispatching hall notifies them in advance.
2. The dispatching hall is becoming the central pay station at a saving of time and convenience to the men.
3. The development of statistical information has based decisions on fact and reason instead of opinion and emotion.
4. Employers and employees, through regular and frequent contact in committees, develop a mutual respect and forbearance.
5. Pilferage is reduced.
6. More important than the foregoing—men's earnings have increased.

The comparative results before and since the adoption of the Joint Organization Plan are surprising. The average monthly earnings records show a steady, strong increase month by month from low earnings before the beach was decasualized

to fairly good earnings since. The latest figures are not yet compiled. In the case of the Hall Gangs the average monthly earnings per man from May, 1921, to date closely approximate \$150.

Good will and understanding, orderly and efficient operation, improved conditions of work, a stabilized industry, can be traced to the joint organization and decasualization. The effort is young; it has proceeded far enough to show large possibilities for the future. They will depend upon the continued effort and intelligent interest of men and management.

SEASONAL UNEMPLOYMENT MAY BE DEALT WITH IN SEVERAL WAYS

a. By reorganization of production so as to adapt itself to the seasons, such as is now practiced by progressive managers in the building industry. Pittsburgh National Builders Association reports that seasonal character is now past history. The Federated Engineering Society's recent report on the building industry contains information and suggestions. The building trades as a whole can do much in eliminating the seasonal character by adopting modern business methods, says the bulletin of the American Construction Council in the reports of the United States Department of Commerce. As an aid to further stabilization the following recommendations will prove valuable:

That banking interests curtail the financing of speculative building until after the close of summer.

That wide publicity be given to the increasing trend of construction costs, both in labor and materials.

That governmental, municipal, state, county and town construction departments be urged to delay their work as much as possible until September or October.

That the cooperation of newspapers and trade publications be sought to keep the public informed of the monthly increases in construction costs, and that they be requested to exercise their influence in curbing the demand for construction until early months of fall.

The American Construction Council issued a state-pointing out that the building program as projected for the year was larger than could be properly and successfully taken care of with our present resources in manufacturing, transportation and labor, as follows:

With these resources all overtaxed, the inevitable outcome is a bidding or auction process that means a very wide and exorbitant spread of prices between the manufacturer and the dealer and consumer, with consequent rising costs to the manufacturer, to the dealer and to the contractor, each of whom protects himself against "futures," the result being inflation.

Similarly, there is competitive bidding for labor, resulting not only in rising wage scales, which is the least part injurious to the public, but in bonuses.

This accumulative program of construction has resulted in making the cost of construction at the present time too high. An authoritative statement of conditions given to the public will help to a better understanding, and with a better understanding the peaks of construction should eliminate themselves. Particularly for the small investor it is unwise to do construction during peak times, such as exist today, and which give fair promise of being worse tomorrow. It is to the small investors that authoritative information should be given in the daily press of the trend of costs of construction and of the trend of future demands of labor and material in construction, so that they may judge of the present situation for themselves.

Mr. R. G. Cohen, statistician, Illinois Department of Labor, makes the following suggestions for remedying unemployment:

1. The free employment offices should be utilized. They were originally established to further a solution of the unemployment problem, and they can effect relief in a measure by being the central bureau through which jobs are cleared. If all the unemployed would register with the free employment offices, in the several localities of the state where they are maintained, and if employers would report all vacancies promptly to these bureaus, employers would be certain to get their labor needs met expeditiously, and an amount of unemployment would be prevented in the most practicable way.

2. Employers should be encouraged to spread the work so as to keep as many as possible of their workers earning something, instead of giving steady work to a small number. From the social point of view, part time work is far superior to any kind of aid that might be given. Nor do employers suffer by this process. During the business expansion that went on in 1922 and 1923, employers learned that good skilled workers could not be had. Those employers who had rotated their help had not only built up esprit de corps that was valuable in their business, but had a reliable source of reserve trained help. They had only to give steady work instead of part time work when more man power was wanted.

3. Public works should be expedited. The use of public works to take up the slack in industry was much talked about during the last business depression. In a few localities some-

thing was realized in this way. More can be accomplished at the present time. It is known that in certain Illinois localities improvements involving large sums have been authorized, but no work has been started. Plans should be expedited and the work pushed, so that employment will be available while work is slack. It is the practical thing to do from every point of view. Obviously many improvements can as well be pushed now as at some other time. While the credit needs for industry are low there is a most excellent bond market, with low interest rates. Bids can be had on public projects at lower prices due to the fact that labor costs are not as high as in a bull labor market. It also means that if these works are constructed now, labor will not have to be diverted from the production of goods later when industry is again active.

4. During periods of unemployment, the private agencies, such as the charity bureaus, are subject to great strain. People who never have gone to charity organizations were obliged to ask for assistance during 1921. Philip Klein, in his book on the "Burden of Unemployment," summarizing his observations during the 1921 depression, reported that "skilled workers, mechanics, small business men, and even representatives of the professional classes," sought aid. On account of the important place that these agencies have during periods of unemployment, it is particularly desirable that at such times, those who are able should be liberal in their contributions.

Eventually some better basis for relief may be developed for handling unemployment. These four—centralization of job placement, encouragement to rotation, stimulation of public works, and support of charity organizations—are necessary elements in any plan for meeting unemployment.

THE INCREASING BURDEN ON INDUSTRY AND PROGRESS¹

Shut-down of industry due to cyclical depression of trade, over-production, under-consumption, over-speculation, changing fashion, hoarding, inventions, changes in governmental policies (taxation, tariff, banking, etc.), immigration, labor laws, strikes, lock-outs, seasonal work, fluctuating consumption, child labor, female labor, and casual labor—here is an example of a list of causes of unemployment.² To these should be added such factors as labor turn-over, unwise credit, personal defects

¹ By J. Read Bain, University of Oregon. *Commonwealth Review*. January, 1922. p. 26-32.

² *American*. Vol. 27. p. 278.

(which will not be considered in this paper) exhaustion of public land, world politics (foreign trade, exchange, wars, etc.) and psychological factors difficult to analyze.

For brevity of treatment these causes will be summarized under five heads, it being understood that they are all more or less interrelated, as all social facts are: 1. Cyclical Depression. 2. Speculative Business. 3. Seasonal Industries. 4. Labor Turn-over. 5. American Business Man.

The last term needs a word of explanation. That specialized workman whom we call the American business man is held to be the fundamental, though the indirect, perhaps unwilling, and certainly the unintentional, cause of unemployment. This follows from the fact that he is the most important factor in the creation and operation of the industrial system. This may appear to be a startling statement as well as an unjust one. It is intended neither to startle nor to accuse. It is a logical and moral fact. If his energy, ambition and imagination had not built industrial America we would still be a nation of isolated hand working, semi-independent farmers. Or would we be a nation at all? We would have no unemployment problem, but outside of that, we also would have little else of which to be proud. That aspiring, democratic spirit which makes America the hope of the world, would not exist.

So we have the business man to thank for a great deal of our progress. We also have him to thank for a great many of our social problems, among them, unemployment. It is a frictional by-product of his machine, and as such, he must eliminate it or his machine will never run smoothly, and may even be destroyed. He must accept this responsibility. He who has succeeded in so much, will not fail in this. Every consideration of good business, justice, humanity and democratic civilization are calling him to this task. He cannot escape it even if he desired to do so. But he will accept the challenge and he will not fail. He will humanize indus-

try, stabilize employment and put a "soul" into the soulless corporation.

The business man is thus morally responsible for unemployment; he is its "first cause"; he must be its "final remover." His position as a good democrat, as the leader of American life, as the creator of its tone and trend, demands that he solve the unemployment problem.

WHAT, THEN, CAN BE DONE?

In the first place, production can be regularized. That is, business must be so organized that production will be steady rather than an alternation of feverish activity and moribund stagnation. Customers can be induced to place orders far enough ahead so that production may be carried on throughout the year. This applies particularly to seasonal work dependent upon styles, festivals, goods consumed in certain seasons of the year. Side-lines and by-products can be developed so that workmen may be shifted from one department to another. Repairs and extensions of plant may be reserved for slack periods. New staple articles can be manufactured during dull times. Production for stock, retardation of deliveries during rush times, shortening of hours, increase of vacations and holidays are other means of keeping the working force intact.

The consumer must play a large part in the regularization of production. People must be taught not to retrench foolishly when "hard times" are threatened, often by a whispered propaganda or a panicky press. The business man tries to stabilize consumption with his slogans of "Shop Early," "Do Your Christmas Shopping Now," "Get Your Fuel in Summer" and so on, usually offering price inducements as an added persuasion. Hoarding and excessive economy are almost as bad as wasteful spending.

Regularization would do a great deal to prevent cyclical depression. Perhaps a proper use of credit would

completely eliminate it. Modern business is built upon the idea of credit. It is not difficult to understand why men are reluctant to extend credit during bad times. They have been bred up in a tradition of "hard money" and suspicion. They are largely lacking in the imagination and faith which makes credit possible. Here enters in the "psychological factor." It is a truism that a financial crisis could be brought on at any time by a loss of faith and optimism, by a refusal of credit and a demand for cash. Thus, since we always recover from these temporary depressions, since people must go on living and consuming, credit during "hard times" it just as sound, logically, as it is in good times. Perhaps, we may say it is sounder, since, if given, it must rest upon faith, reputation, character, judgment and be secured by a measure of tangible wealth; but during "boom times," credit is often extended in the hope of speculative profits, unearned increment, or some other gambling motive. A flexible banking system, an elastic currency and a persistent business faith are the requisites for a scientific credit system.

But there is another side to the use of credit. When business is "booming," the entrepreneur sees a chance to make great profits by extension of plant and increase of working force. He rushes to the banker who is likely to have funds available for investment. A mushroom growth of industries is the result, each employer striving madly to "out-develop" his rival. The wave of fictitious prosperity swells for awhile and then breaks with an engulfing roar. The rush orders cease and calamity comes. The fine new plants stand idle, the unemployment spreads, infects the whole social structure and prepares the way for another cycle of artificial activity and inevitable collapse.

The "psychological factor" accentuates these movements. There is a psychosis of expansion as truly as there is a psychosis of depression. The scientific banker and financial specialist will try to control these manifes-

tations of business pathology by refusing to extend credit in "boom" times and by giving credit in slack times. The modern banker furnishes his clients with the services of an "industrial engineer" whose work it is to show the business man how he may increase his output without an expansion based upon credit. Consolidation and improvement, better organization of sales and production departments, decrease in costs by elimination of wastes and development of by-products are recommendations during good times. This may seem strange counsel, that the bank whose business it is to loan money should discourage borrowing at a time when it has the most money to loan. In normal times, the bank will extend credit to the conservative business man who can show the industrial engineer that he will be able to maintain the advances made. Since banking gets its profits from interest, largely, and interest is dependent upon the steady productivity of capital, sound banking must discourage the extension of plants in "boom" times. Credit in bad times and restraint in good times will eliminate the speculative cause of unemployment.

But the most the state can do is to adopt a scientific distribution of public construction and to require the quasi-public corporations to do the same. Briefly, this is the plan. Public works should be planned in ten-year units, and only 80 or 90 per cent of the annual appropriation utilized, the accumulated funds being used in periods of excessive unemployment. Now the public works program within the year could be timed to fill the slack periods between seasonal occupations which cannot be otherwise dove-tailed. This would be especially feasible in a state like Oregon where public works (even building) can be carried on throughout the year.

Now this proposal must not be confused with "making work" by employing people at public expense to "relieve" unemployment. Such "relief" causes more unemployment than it cures. It is public sabotage and cannot be too severely condemned. The idea is simply to use

foresight and organizing ability in carrying out necessary public work. The plan as outlined is indorsed by the leading economists in this country and has been successfully tried in Sweden, France, Germany and Great Britain.

If the industry is such that none of these means can handle it, (longshoring, perhaps) and we succeed in eliminating casual labor to a very large extent, the workman must be paid enough during working seasons to tide them over the unavoidable periods of idleness.

LESSENING THE LABOR TURNOVER

Labor turnover unemployment includes all unemployment in a sense, since the turnover includes all the workmen who change employers during the year, from whatever cause. If the turnover were reduced to a minimum, there would be no unemployment problem. That part of the turnover which results from a man's desire to get a more congenial, healthful, profitable or inspirational place to work is not to be condemned. If this sort of mobility were lacking, we would have an industrial caste system. As a matter of fact, it represents a very small per cent of the labor turnover. The big causes are "resignations" because the workmen want more wages, or do not like the foreman, or working conditions, or have a vague feeling of unrest which makes them want "to try something else"; increases and decreases in force by the management; and "industrial conditions."

The labor turnover ranges from 100 to 1000 per cent. It costs the employers from \$50 to \$200 per man. This is due to the time required to re-hire, the extra clerical expense, loss of product while breaking in new men, wear and tear and breakage on machinery under new tenders, lower efficiency of the new men. The cost to the workman is also great. He loses time, money and skill while hunting a new job, is more liable to acci-

dent in unaccustomed work, and is menaced by the demoralizing effects of idleness if he fails to find new work.

Both from the standpoint of the workman and employers the labor turnover is more important as a symptom than as an unnecessary cost. To quote Slichter:

It is a symptom of inefficient hiring methods which place workmen in positions for which they are unfitted or for which they are less adapted than for other positions; it is a symptom of severe and disagreeable work; of bad working conditions; of piece rates placed below a fair level; of inadequate methods of instructing the workmen in the job when hired; of defective management resulting in friction, inefficiency and often open conflict; of lack of opportunity for workmen to advance on the basis of merit; of peak load and an unnatural low load; and of lack of co-ordination and co-operation between industries whose busy seasons dovetail.¹

But the labor turnover problem is being attacked. A large automobile manufacturer reduced his turnover from 73.7 per cent in 1911 to 36.3 per cent in 1915. An eastern railway system had 4,153 leave its employ in 1911, but only 1,438 in 1915 although the total working force was much greater in the latter year. The Philadelphia Rapid Transit Company lost 3,226 by resignation and 1,287 by discharge in 1906; in 1916, only 275 resigned and 117 were discharged, although the total force was much greater in 1916. The clothcraft shops had a turnover of 150.3 per cent in 1910 but only 33.5 per cent in 1914. The Dennison Manufacturing Company had 68 per cent in 1911 and 28 per cent in 1915.

This shows that the American business man is already beginning the attack on unemployment. He is recognizing his responsibility for its existence and also sees a sound financial reason for reducing it. As Henry Dennison says, "The labor turnover problem suggests the possible prevention of unemployment. I know that people think it is silly to talk about preventing recurring cycles of unemployment, but unemployment has to be prevented, and we (the managers) have to take steps in that direction."

¹ S. H. Slichter. *The Turnover of Factory Labor*. Appleton, 1921.

STEADY INCOME GUARANTEED¹

Our business is one of manufacturing and selling, under different brands, a household necessity of daily and regular consumption. Speaking generally, we do not believe there is much variation in the daily consumption of our products by the ultimate consumer. This being so, theoretically, our daily production should equal the daily consumption, all the variations in the demands made upon us being due to the varying size of the stocks of our goods carried by the distributors and dealers between us and the ultimate consumer. From our knowledge of our own industry and business we estimate our probable sales for the ensuing six months, and base our daily production upon such estimate. By the middle of each month we schedule for the following month the the different brands to be produced correcting any error due to the estimate of the preceding month.

There are, of course, wide differences between the daily or monthly orders received and our daily or monthly production. These differences are taken care of (1) by adequate warehouse facilities, and (2) by controlling our deliveries to the dealer so as to maintain his stock upon an approximately normal basis. The dealer is quite ready to cooperate with us in doing this. His order is received and entered for whatever quantity he desires to buy and we to sell, but his deliveries and payments upon that order are made as his trade demands the goods, and he, of course, is saved the investment and storage of unnecessary stocks.

Before announcing the present plan, we tried the system out for a period of two and one-half years, and have had no difficulty in maintaining regular operation. The character of the business requires a two weeks' shut-down a year to overhaul the plant. With these ex-

¹By Colonel Wm. Cooper Procter, president of the Procter and Gamble Company, Cincinnati, O., in a letter to Allen B. Forsberg reproduced in *Guaranteed Year Round Employment*, p. 11-15.

ceptions our plants have been in continuous operation since the system was adopted.

I do not think there is anything peculiar in the soap business that makes such a plan more adaptable to it than many other industries. I believe that in the very great majority of industries the average annual consumption is approximately the same, without much fluctuation from year to year, and that the problem of providing for the distribution and warehousing is not a difficult one to work out if study is centered upon the special industry. I believe, from the economic side, the plan is sound. With proper knowledge of the business, shut-downs should be so exceptional that the corporation could well afford to pay the wage-earners during such period. The advantage of a regular production and a satisfied and permanent force of workers would easily more than offset such possible shut-down expenditures.

We are very glad to be able to put this system into effect in our corporation. We have believed, and we think we have demonstrated, that it is possible under present economic and industrial conditions, to so organize the business as to satisfy all proper wants and aspirations of its workers.

Mr. Rowntree has well defined the needs of industrial organization as follows:

1. Industry must so organize that it will become possible to pay all workers of normal ability wages which will at least enable them to live in reasonable comfort.
2. Their working hours must be such as will give them adequate opportunities for recreation and self-expression.
3. The workers must have a share in determining the conditions under which they shall work.
4. They must have a direct interest in the prosperity of the industry in which they are engaged; and, finally
5. Measures must be taken materially to increase

their economic security, notably with regard to unemployment.

I think we can claim that all conditions covered by Mr. Rowntree in the above statement have been met by the Procter & Gamble Company. The first four mentioned by him have long been in effect in the Company, *i.e.*,

1. We have not only always paid slightly in excess of the prevailing scale of wages, but have also provided sick benefit, old age pension and life insurance.

2. We have been operating for years under a fifty hour per week schedule.

3. We have for years had a Conference Committee before which all matters concerning working conditions are brought up for discussion.

4. Since 1887 we have had a profit-sharing system in effect, through which the employees share in the prosperity of the company.

5. We are now undertaking what I personally believe is the most important, namely, protecting the economic security through providing against unemployment.

Finally, I can say, so far as this company is concerned, I believe that all these conditions of employment have been inaugurated and maintained without cost to the company, although it may not be possible to show on paper the exact financial return. The regularity of operation with contented and loyal employees has an economic value hard to define. While the above statement as to the value of the company of conducting the operations in the manner it does is beyond question. I have no doubt that none of them separately, or all of them combined, would pay if inaugurated by a corporation for the purpose of making profit out of them rather than the higher motive of right dealing with its workers.

PLANT INSURANCE AND WORK GUARANTEE¹

Hoboes are made by seasonal employment alternating with "off-seasonal" unemployment, and a well-known magazine writer has pointed this out, but failed to suggest a remedy. Now, however, comes a definite effort toward cure by guaranteeing a life job with all-the-year-round work, and the experiment begun this month by the Procter and Gamble Company, is widely and, as a rule, sympathetically commented on in the press. "The plan," so one paper observes, "takes into account the idea that workmen and their families have to live somehow for fifty-two weeks a year, that the standard of living is determined by yearly income, not by weekly wages." Describing the plan, Colonel William Cooper Procter, president of the company, tells the *New York Times*:

The company guarantees full pay for full-time work for not less than forty-eight weeks in each calendar year, less only time lost by reason of the customary holiday closings, or through fire, flood, strike or other extreme emergency, and subject to these provisions.

The company reserves the right to transfer an employee to work other than that at which he is regularly employed, provided he is compensated for the work at his regular wage rate per hour.

The company reserves the right to discharge any employee at any time and for any cause, and further reserves the right to terminate or modify this guaranty in whole or in part at any time after serving six months' notice to that effect.

The guaranty is limited to those who participate in the company's profit-sharing plan. These employees, however, compose most of our working personnel.

The employees, of course, derive benefit from the guaranty in the assurance of regular work and regular income. The company, however, draws a twofold advantage from it. We are able to schedule our production and run regularly. If you acquire a steady stride in business you move along with more efficiency. There is a little added expense in carrying the stock that previously lay in the cellars of jobbers; but this is more than offset by the economy and regularity of operation.

Then there is the fact that we are going to increase the contentment of our employees, to solidify their interest in the

¹ From the *Literary Digest*, August 18, 1923.

company, by means of this guaranty. Contentment and interest are hard to measure in actual money.

Ultimately we may have to provide some reserve fund in case we have made a mistake in guaranteeing employment. This may be from 5 to 7½ per cent. of the employers' wages. But I do not expect we shall be obliged to do this.

If dull times come, we may reduce the size of our employees' force. We might make a 10 to 15 per cent. reduction in personnel, for example, without cutting into the ranks of our old employees, because this percentage would represent a natural turnover of those who retire, who leave, or who are discharged.

This, then, is the guaranty plan we have worked out. We expect it to prove successful. I would recommend that other large industries take it up. By standardizing their production they may increase their production. Coal-mining, for instance, may well adopt it. By using our principle of selling, the mines may give their miners work the year round.

In a broader view of the plan, I believe it will lessen industrial unrest by relieving the minds of the working class of the uncertainty of employment. If it could effect this great end it would be worth thought and initiative by industrial leaders to bring it into being.

Tho "obviously commendable," such a scheme is "of little importance when put into effect only by individual corporations," thinks *The New Republic*: as—

The stress of competition is strong enough in most lines to make general application necessary throughout the trade in order to avoid penalizing the fair-minded innovator. It is also of less importance in occupations where year-round employment is the rule than in the seasonal trades where the worker suffers the severest hardships. While chance generosity of individuals is by no means a substitute for country-wide compulsory unemployment insurance, the action of Procter and Gamble, which recognizes the fact that the employee is entitled to protection is welcome if only as an indication of developing public sentiment.

As the *Scranton Times* reminds us, "some experiments along the line of the Procter and Gamble Company made in the past met with criticism and even objection from workmen themselves because of attempts to impose certain conditions as a qualification for participating in the benefits," tho—

It should be possible to inaugurate a life guaranteed job plan without asking that men surrender all freedom of action to be beneficiaries.

Commending the plan as "evidence of that growth of a new relation between management and men which neither the reactionists of capital nor those of labor can stop," the New York *Evening Mail* observes:

Insecurity of employment is the chief reason for the existence of many of those trade union rules which come in for fierce criticism from time to time. To it, according to the unionists themselves, is to be attributed the practise of what the Scotch call 'ca' canny,' the limitation of output. The workers fear to flood the market with their product and so bring about a period when the plants in which they are employed must shut down. That this fear is based on an ultimately false economic idea has often been pointed out, but without avail. The workers persist in thinking of wages instead of real wealth. They do not understand that money is only a symbol of wealth and not wealth itself. They will not recognize that the more that is produced the more there will be to go around. The fear of unemployment is too great to overcome.

Unavoidably "there will always be a large amount of seasonal business," but as the Pittsburgh *Gazette Times* remarks, "the example set by the soap company is worthy of emulation by every manufacturer who can adjust his business as this one has done, and, in the opinion of the New York *Evening World*:

The all-year work idea is bound to spread. If it could be introduced in the building trades, in the garment trades, in coal-mining, and steel, it would put an end to some of our most troublesome industrial problems.

HOW TO PREVENT UNEMPLOYMENT¹

Unemployment has been a disease of civilized society for centuries, but the organized search for a cure has been of only recent origin. "The poor we have always with us"; likewise earthquakes in Japan, hurricanes in the Indian Ocean—and unemployment. That was formerly the prevailing idea, entrenched in the minds of both employer and employee to such an extent that wave

¹ From an article by Ernest G. Draper, president American Creosoting Company; member Committee on Industrial Relations, New Jersey State Chamber of Commerce. New York Times, September 11, 1921.

after wave of intense depression could not dislodge it. But the great war came and with it the cake of custom cracked in so many different ways that even our time-worn attitude toward unemployment has undergone a profound change.

We are beginning to realize the material waste in these periodic wrenches of our industrial machinery, to say nothing of the spiritual waste involved. The high peaks and low hollows of seasonal trade, followed by orgies of hiring, firing and hiring again are, we notice, infinitely more expensive than more or less stabilized production. Just because we cannot measure exactly this difference in waste is no proof that it does not exist. We know that it does exist and operates inexorably if no steps are taken to lessen its effect.

According to the Federal census for 1900, over six million persons were unemployed during the year 1899 for periods varying from one to twelve months. The American Association for Labor Legislation has estimated the total annual loss of wages of these workers at over \$1,000,000,000 which had to be underwritten by society in some way, either through public or private relief, loss of savings of the unemployed or permanent crippling of the physique of those unemployed, which in turn lessened the productive power of the country.

We are also beginning to sense more vividly than ever the deep-seated power of unemployment to breed labor unrest. Some authorities go so far as to prophesy the virtual collapse of unhealthy restlessness on the part of the workingman if only he can feel a real tenure in his job. The experience of Whiting Williams, a former vice-president of the Hydraulic Pressed Steel Company, who deliberately went to work as a laborer to learn what was on the worker's mind, confirms this prophecy. He writes:

When we regularize industrial processes and when we make it possible for men to get out of their daily jobs the same sort of satisfaction that keeps you and me going on ours—

in the overcoming of difficulties and the solving of problems and getting into our souls our sense of worth and a certain amount of recognition from our friends—then we are going to find men desiring less and less of these strange Utopias that worry us and trouble us and make us wonder what kind of minds these men can have.

The stakes involved, then, in reducing unemployment, are tremendous. They are so great as to challenge the very best of effort on the part of every one in touch with the situation. This effort is peculiarly an obligation of the employer, because after all, he is not only as interested for material reasons, as the employee, but no real advance, short of compulsory legislation or ultimate revolution by the workers, can be made without his cooperation. But, besides employers, the whole rank and file of society is involved in this problem. It is deeply involved for the simple reason that every member of the community is either directly or indirectly affected by its existence.

Unemployment can undoubtedly be reduced, first, by attacking the problem in a personal way through the effort of individual employers, and secondly, by attacking the problem in a public way through the adoption of various expedients.

How can individual employers reduce unemployment in their own plants? The best answer to that question is to cite the experience of employers who have already done it.

Besides methods of decreasing the pressure of seasonal demands, and evening out the inequalities, we can meet seasonal employment by conforming ourselves somewhat to it. We can balance the decrease in work of one department against the surplus of another. We can transfer operatives not needed in one line to another where there is work on hand. In doing so we make it a rule to transfer our operatives to the same off-season work each time, so that they will develop proficiency in these off-season trades.

Some of the same expedients have been adopted by

the Hills Brothers Company, importers and packers of dates. Originally the demand for dates was confined to the fall and early winter, and particularly to the holiday season. By judicious advertising as well as sales effort the season for eating dates has been lengthened so that now dates are considered appetizing (as they should be) from September to June. Even so it is inevitable that a peak of demand will exist in the early fall.

To meet this demand a cold storage warehouse was erected into which is placed the daily production. Plans are so made that packing these dates continues month in and month out at a comparatively even rate, but, as sales fall off in the summer, a surplus is built up and held in the cold storage warehouse, ready for instant release when the fall demand becomes insistent. W

As a result of this system, the regularization of employment has been remarkable. The whole factory morale has been strengthened by the avoidance of hiring and firing wrenches which were so upsetting under the previous conditions.

Although numerous other examples of this nature could be given, their number is pitifully small as compared with the number which might be given, if only the requisite amount of foresight and planning were used by all employers alike. To grant that all business is more or less seasonal is not to grant that deep hollows of production must always remain deep. Probably 90 per cent of all business today could become more effective as well as more regular in the employment of its workers if the peaks were left alone and persistent, careful thought were given to the question of leveling up the hollows. Apart from the gain which would accrue to continuously employed labor, direct results in the form of increased net profits would undoubtedly result. Efforts to regularize employment, then, are not charitable in the sense of being undertaken without hope of pecuniary reward. They are efforts that spell at the

same time economic security for the worker and larger profits for the employer.

There remains to be mentioned one more vital way of warding off unemployment. That is the adoption by states of compulsory unemployment insurance. Just how such a plan would be worked out is beyond the scope of this article but it is fair to say that various workable plans have been suggested, in particular a very carefully considered one by the American Association for Labor Legislation. The main points of this plan include the taking out of insurance by the employer, all details as to rates of disbursement, amount of premiums and the like to be under the supervision of a state board on which would sit representatives of the state, employers and employees. In addition there would be established by the state at important centers of population, governmental employment agencies so that the freest possible interchange between employer and employee would exist. There are many other important features of the plan, but the simplest way to characterize it as a whole, is to say that in its own field it would operate much as the workmen's compensation laws now operate to cut down the number and severity of accidents.

DEPRESSION INSURANCE: A SUGGESTION TO CORPORATIONS FOR REDUCING UNEMPLOYMENT¹

With respect to unemployment and some other plagues, prevention is more important than cure. We can afford to spare no pains in attempting to put in motion such measures as will tend to greater regularity. While perfect regularity, like perfect health, is an unattainable goal, regularization—seasonal or cyclical—is a perfectly feasible social project. I doubt if the task of bringing

¹ By Henry S. Dennison, president, Dennison Manufacturing Company. American Labor Legislation Review. March, 1922. p. 31-6.

within reasonable control the recurring palsy of unemployment will require one-half the effort which has been expended to restrain smallpox, or which is being expended in control of yellow fever, bubonic plague or tuberculosis. The steps which must be taken have been listed several times already. For seasonal control they are: planning ahead, inducing early ordering, adding supplementary merchandise, training operatives to two jobs, inventing devices to protect against weather.

For cyclical control: furnishing statistical information, planning ahead, adapting credit facilities, establishing labor exchanges, cultivating thriftiness.

The very practical man may object as to most of these measures that they require an enormous amount of public education. I believe our friend, the very practical man, is in this case quite right. Therefore, we should set about it promptly. If we can run cancer weeks and local health demonstrations, we need not be afraid to undertake jobs of a similar nature in the economic field. After all, specific public education isn't such a bad thing on its own account; if we had more of it there might not be so many very practical skeptics.

But as that God-sent visitor to our shores, B. Seebohm Rowntree, said: "After we have educated and done all else we know how within this generation, there will still be some unemployment. Industry cannot as yet go on without its reserve of labor any more than an army can do without its reserves of men. Shall we ask this reserve to support itself or shall industry contribute?"

In answering this question I beg that sentimental consideration be left out of sight. If the guiding consideration is pity for the working man, then the appropriate means to be recommended is an extension of charitable relief. To be sure, the phrase "business is business" has covered enough sins to make charity look like a lady's pocket handkerchief; yet we are here considering social measures which can affect the going efficiency

of the commercial and industrial structure, and we must deal in a businesslike way with business affairs. We must not mix business and charity.

I believe that industry must contribute to the support of its reserve of labor. I do not come to that belief out of pity for the working man; I am brought to it by the sort of consideration of stress and strain, of force and friction which guide the engineer in his handling of copper and steel and electrical currents. It is better social cost-keeping to add the overhead burden of unemployment to those goods which are responsible for irregular employment, than to draw it from the savings of the working group. The whole burden put upon wage-earners and reacting upon their knowledge of their helplessness to affect its causes, arouses resistances and irritations which make smooth running of the social organization impossible. Industry has a considerable share in the opportunities for mitigation of unemployment, hence industry must be spurred to their exercise by carrying part of the burden.

Industry's contribution to an unemployment relief fund, however, whether direct or through taxation, may take such a form that the adverse influences it sets up entirely overcome the forces tending to social health and leave a resultant of negative magnitude. It may take the form of an assessment in proportion to pay-roll, thus rewarding irregularity of management; it may make its conditions of payment disturbing and its payments so small as to irritate or so large as to kill initiative. Many tests must be brought to bear upon any project for unemployment insurance. The most important single test I think of is this: That the scheme should exert a balance of influence toward regularizing employment.

Some day through the devoted work of men in organizations such as the American Association for Labor Legislation, we may know enough about the fundamental forces in the field of social engineering to calculate in formulas such influences as these. The youngest man

among us will have long white whiskers before that comes to pass. Just now we must plan as wisely as we can and then experiment. That is what I have to suggest here in particular: That in the field of unemployment insurance we make at once some intelligent experiments.

The state of Wisconsin is a social laboratory, extraordinarily well equipped to work out some project of state legislation which shall impose a definite penalty on the man who cheerfully over-expands during times of pseudo-prosperity, or upon the man who rushes an over-time crew every fall and drags a quarter-time crew every winter. Wisconsin has obtained already a measure of that active cooperation between business management and the state which absolutely must obtain before any unemployment insurance scheme will respond favorably to the crucial tests. For after all, as soon as we realize that society is more than the straight-line mechanism conceived by the autocrats, legislation as a social force loses its directness and simplicity and is seen to be only one element in an intriguing complex of forces. Legislation directed to a wholesome end may therefore be in net effect neutral or negative, as the other component forces may determine. The more obvious examples are found in laws counter to public opinion, laws advanced beyond their enforcement technique, and laws whose field of force leaks over into unintended territory or encroaches upon the executive field where exceptions are commoner than rules. To be wholly safe a law should merely set forth accepted standard practice, and force the laggards into line; only under exceptional circumstances and with a nucleus of persistent devotees can a law be its own assurance of good practice.

My personal field of interest, however, is not civil government but industrial management. I want, therefore, to suggest experimentation by corporations in mitigation of unemployment, especially a working out of the field of mutual insurance by groups of corporations. I

am the more sure that no study in this field will be wasted even if unemployment insurance legislation should be adopted with record speed, because its expense will force its payments so low that some manufacturers will want to find means to supplement them as Rowntree has done in England. Such works as Deering, Milliken and Company has done and we ourselves have done to a lesser extent in providing unemployment funds is of course the first step in experimenting, but only the first. The special need right now is a joint experiment by employers with just enough men in a group to give the experiments variety in application. This is the way we have made our best strides in this country. Small groups have blazed the trail at their own risk. Larger aggregates have been able to follow where the roughest undergrowth has been cut away.

Several such groups should get together for the purpose of exploring the possibilities of unemployment insurance through mutual companies following the mutual fire insurance companies in their insistence on preventive work. Their puzzles will be many, but the experience in several countries having unemployment funds added to our own wide range of experience with the mutual companies ought to offer a basis for their answers.

There is one field of possibilities which has been suggested to us by some of the problems which we have been meeting in the handling of our own unemployment relief fund. Upon a fairly large class of goods we found it would be cheaper to manufacture to stock and store for long periods than to pay unemployment relief for idleness. This class is determined by the ratio of labor to total cost, by overhead and by storage charges. Upon such goods, therefore, sound economy and good social practice meet together. If only we could provide the necessary funds we could in the case of this particular class of goods use employment to cure unemployment. So we are proposing to set aside a part of the present

unemployment relief fund as a special depression insurance which will be used under appropriate rules to finance making for stock more of certain staples than we could make without the help of this fund. It is this idea of depression insurance, as yet barely more than a suggestion, which I hope will be given thought by any groups of corporations which may begin to discuss mutual action in mitigation of unemployment.

Any project of depression insurance will necessarily vary widely in its outer form according to the special problems of the industries with which it attempts to deal. It is obvious on the face of it that certain industries can find no place at all in such a plan; the rather rare case of an industry making goods wholly to specification with no opportunity to make standard parts would be excluded, as would some other industries whose material is of great value and labor cost ratio always low. On the other hand for the greater number of industries the project of depression insurance is merely making specific and compulsory the wise policy of refraining from a part of the excesses of expansion during boom times for the purpose of avoiding the worst of the financial prostration during depression.

Any group organizing itself for this sort of insurance would have first to provide for the necessary capital. This has been done in the past by immediate contribution or through the device of charging very heavy rates upon which an annual rebate is declared in script during the first years. In the latter case the insurance fund must, of course, be projected by immunity from use until it shall have had time to reach a safe figure.

The most fortunate method would be to find some mutual insurance company ready to sit with the discussion, possibly anxious to extend its operations, as some have already done into use and occupancy insurance, and thus prepared to furnish part of the capital. Aggressive mutual insurance companies are not averse to extending their field of usefulness and this proposition of

depression insurance may incite some of them to take the lead in inviting employers into conference of the subject.

With the capital once in hand the duty of the treasurer would be to invest it in such a way that it would be most likely to be liquid when times were hard; any rate of interest that he might make upon it must be entirely secondary to this consideration. There must be established as in the mutual fire companies an inspection force which shall make itself familiar in advance with the conditions obtaining in the business of its members so as to assist in adjustments and in determining the premium rate for each member. Then upon call from one of the policy holders stating that their business had reached such and such a state of subactivity, and that they had come to the agreed point of financial strain, the insurance fund must put at the company's disposal appropriate amounts of cash with which the company agrees to make a specified class of goods, or to undertake such repairs and renewals as come within their original agreements.

In order to cover the moral hazard some measure of co-insurance must be worked out. The insurance company, for example, might take title to the goods made with these funds and would then stand half the loss in case of their eventual sale below cost; or it might be sufficient for the funds to be lent to the corporation, the loan to bear no interest at all for a period from nine to fifteen months and then to go on a heavy rate, say 10 per cent, passing on to a rate of 20 per cent after another six months. In either case it should be the plan that these funds advanced during hard times should sooner or later be returned to the insurance association, the special function of the association being to see to it that such funds are available and to act as a distributor of losses in case of misfortune. Its premium will need to cover only a return on its capital, its expenses, loss of interest on advances, and defaults. If funds

were lent outright as suggested above, the scheme would be in part an extension of ordinary banking facilities, but with this very important proviso: That the use to which the extra credit facilities are put, is a matter to be agreed upon in principle in advance. It would be obviously inappropriate that such funds should be used to buy stocks of raw material at a low price in hope of a rise, or to use them for gambling on the stock exchange. Special agreements, therefore, must be entered upon and special enforcement machinery perfected, hardly suitable to usual banking practice.

The administration of such an insurance fund quite obviously presents a lot of new difficulties, and I have no doubt that long before this our friend, the very practical man, will have said, "It can't be done." But there are as a matter of fact no difficulties more severe than have been met and surmounted by mutual fire insurance companies, mutual accident insurance companies and credit unions. No project of the sort could possibly be expected to pass its first three or four years in intellectual comfort but we have a right to expect that it would reap the advantage of all the years of trial and error other mutual insurance associations have gone through.

This whole proposal is frankly in the project stage at which the impossibilities always look enormous and ways out are slow to suggest themselves. However, we have been through in the business world a good many hundreds of such projects and, if the results are worthwhile, have found our way out to success. The result in this case is as worthwhile as any social project which could be suggested.

A LABOR PROPOSAL FOR COMPULSORY UNEMPLOYMENT RESERVES¹

The crisis of unemployment which now confronts the country has been dwelt upon by numerous speakers be-

¹From a paper by John L. Lewis, president of the United Mine Workers of America. Proceedings of President Harding's Conference on Unemployment, and Mine Workers Journal, January, 1923.

fore this conference. Nevertheless, I sometimes wonder whether the full significance of the situation is grasped by those who have spoken and by those who have listened. In the comfort of the conference room it is easy to forget that the unemployed are not merely a problem to be solved by debate and discussion but are a living army of human beings who a few months or weeks ago had "jobs" and are now jobless and for the most part penniless.

It is easy, I say, in the comforts which surround us here to forget that what we call the unemployed are not mere statistical abstractions to be added up in tables with percentages carefully drawn, but that they are individual men and women, remarkably like you and me, except that they have no work, no prospects of getting work and with their savings either already exhausted or closely approaching exhaustion.

Under our industrial system, the average working-man can never get far from a hand to mouth existence. If he is frugal and farsighted, he may save a little in times of prosperity. But the opportunities are very limited, for under the best of circumstances few workers receive sufficient wages to permit of much of a margin for savings. Add to this the recurring periods of unemployment which affect almost every trade, and it is evident how difficult it is to lay anything by for the proverbial rainy days. In the coal mining industry the number of days of enforced idleness, according to the findings of the Bituminous Coal Commission of 1920, has never averaged less than seventy-eight days per year, even in the best of years. Thus, even in good years, the mine worker must be able to finance himself for a quarter of each year out of the earnings of the other three-quarters. Extend, by weeks and months, this usual period of enforced idleness, and all his resources will be exhausted. First, his savings will be drawn from the bank. Then will go his Liberty Bonds, if he is so fortunate as still to have any that he might have bought

during the war at the urging of the government. With his cash assets thus used up, he will then borrow wherever possible. But at best the borrowing capacity of the average worker is very limited, as the banks will not lend to him without security. His next to the last resort will be to sell or pawn whatever he may have to sell or pawn. His last resort will be to charity.

In framing a program for the future, principal attention must be centered not on palliatives for unemployment but upon preventive measures. Palliatives have their place and may always be necessary to take care of certain temporary dislocations of industry. But such dislocations should be only minor ones. There should be no long continued periods of unemployment bringing idleness and loss of income to millions of our citizens. Remedies must be found. Unemployment with its attendant evils of idleness and suffering among the workers can no longer be regarded as a necessary evil. No thinking man believes it is a necessary evil. Certainly the workers no longer believe in its necessity. Indeed a suspicion is abroad among the great body of workmen that the periods of business depression are in large part created by, or at least are not unwelcome to certain influential business or financial interests who profit by such occasions. It is unfortunate that such a suspicion should exist. Its existence is not conducive to industrial harmony and efficiency. But there is no question as to the wide extension of this suspicion.

My own opinion is that business depressions are not deliberately created by any interests or groups of interests. But I am convinced that the controlling interests do not do what they ought and might do to prevent their occurrence and spread. As a matter of fact, most of our so-called "captains of industry" fall far short of their responsibility as officers. Their mental attitude is more like that of camp followers. When everything is going well, when the industrial army is advancing, they are out in front cheering the boys on. But when the

slightest reverse comes, they are the first to fly to the rear, pack their strong boxes, and retire to their own fortified bases, leaving the army of privates to bear all the shocks which may come. The workers thus become the residual sufferers from industrial dislocations.

The workers object to this attitude. They are willing to fight and to suffer, but if they are to have industrial leaders they want leaders who will lead in good times as well as bad, who will regard their positions as places of trust and responsibility and hold their duty as more important than their baggage.

Therefore, the plan I am about to propose as a preventive of unemployment will place more emphasis upon the responsibility of the industrial leaders than upon the safety of their baggage. No great results can ever be accomplished without risk. Thus far the workers have borne all the risk and the time has now come when it must be shared. Moreover, under capable leadership, there is every reason to believe that the total risk will be greatly reduced and perhaps entirely eliminated.

By the creation of proper reserves, the risks to capital engaged in industry have been largely eliminated. A similar policy must be adopted for labor. Industry must solve the problem itself. Lloyd George, in commenting on conditions in England similar to our own present conditions has effectually put forward the idea which should now be our constraining motive. He said:

Unemployment in December, 1919, with its injustice for the man who seeks and thirsts for employment, who begs for labor and cannot get it, and who is punished for failure he is not responsible for by the starvation of his children—that torture is something that private enterprise ought to remedy for its own sake. Sweating, slums, the sense of semi-slavery in labor, must go. We must cultivate a sense of manhood by treating men as men.

To prevent unemployment in the future and to protect the wage-earner, measures must be taken to insure that up to a certain determined point, the cost of unemployment shall be borne by the employer. Legislative

provision to bring about this desirable end would be fundamentally, as follows:

1. Every corporation, firm, or individual engaged in interstate commerce should, out of net profits and before any dividends are paid, be required to build up a reserve labor fund equal to one-half of its annual payroll.

2. This reserve labor fund should be used to pay the wages of employees who would otherwise be summarily dropped for lack of work.

These provisions can readily be enforced by making them applicable to all corporations engaged in interstate commerce. If necessary such corporations could be required to take out a Federal charter, in which these provisions would be incorporated. As most of the large employers of labor are engaged in interstate commerce, the great majority of the workers would thus be covered.

This plan would go far to relieve the suffering incident to unemployment. Every employed worker would have the assurance that he would not be suddenly thrown out of a job as soon as the business of his company showed a falling off. Between the workers and idleness there would be the buttress of the reserve fund which, if the whole industry was shut down, would carry them for a period of six months. As a matter of fact, business establishments seldom shut down in full, and to this extent the reserve fund would usually be sufficient to carry those who were not immediately needed for a much longer period than six months.

The fact that all the workers were still receiving their pay would, in itself, tend to lessen the severity of a business depression and promote rapid recovery. The trouble at present is that when men are once thrown out of work their purchasing power ceases, and this causes further depression in all lines of business. Under this plan, there would be no serious diminution of purchasing power for six months at least, and this would be ample

time for business to recover from its dislocations, whatever they may be.

Of even greater benefit, however, would be the effect of such a plan in preventing periods of unemployment. Every day of unemployment would draw upon the reserve fund, and these drafts would have to be replaced sooner or later out of profits of the business, profits which would otherwise be available for dividends. This would bring quick and effective pressure upon the corporation to see that periods of unemployment did not occur. I am convinced, that under such pressure, the employers and financiers would find ways actually to prevent or at least to reduce to the vanishing point the occurrence of periods of so-called depressions and unemployment. At present they are under no such pressure. Even now every employer no doubt desires to run his plant as fully as possible and earn as much as possible, but, at the first cloud on the horizon, he finds it easier to run to cover than to do anything positive to prevent the storm. Under this plan I now propose, he and with him all employers and all the large industrial and financial interests, would be under the strongest kind of pressure to do something active and constructive to prevent loss of dividends.

If it is contended that this proposal would place too heavy a burden upon the employer, I might point out that there is probably not a single large industry in the country whose excess war profits alone were not sufficient to establish such a fund. Take for example the United States Steel Corporation. In 1916 its net profits available for dividends were \$271,000,000, whereas its total payments for wages and salaries (including the salaries of thousands of supervisory officials) was only \$263,000,000. In that one year the corporation could have set aside one-half of its earnings for a reserve labor fund (which would not have had to be added to for several years) and still have paid dividends twice as large as the average for the preceding several years.

Even in normal times when profits are less huge, there is probably not an industry which could not build up the suggested fund over the period of a few years without undue suffering. And, even if there were some inconveniences in the form of decreased dividends, this would not render the proposal less desirable. Unemployment always involves suffering, but at present it falls upon those least able to bear it. Under this plan, the burden would fall upon the industry and from there would be distributed upon everyone through the medium of price adjustment. Moreover, for reasons pointed out, I do not believe the burden would be a heavy one, as every incentive would then exist for the business men of the country to work out a practicable measure of avoiding periods of depression, and I have not the slightest doubt that this would be done with promptness and efficiency.

National banks are required to accumulate reserves from earnings as a protection to depositors.

In conclusion, I have one further suggestion to make. This is in regard to the demands of the business interests that labor must be deflated before normal conditions can be restored. The charge implied in this demand is that labor has obtained and is obtaining an undue proportion of the value of the product.

I believe this charge is absolutely without foundation. Labor constitutes, as a rule, but a small portion of the final price of any article. This price is created by the accumulating of profits by the producer, the jobber, the wholesaler and the retailer. This was brought out strikingly in our experiences during the war. An increase of 10 per cent in wages would be used as an excuse for increasing prices by 20, 30, or even 40 per cent. This happened over and over again.

In most lines of industry, especially the larger corporations, profits were not only doubled but even tripled and quadrupled. In a very careful analysis of war time profits submitted to the Railroad Labor Board in June,

1920, it was developed that the profits in the combined larger industries of the country increased from approximately $8\frac{1}{2}$ per cent on their capital stock in 1912-14 to some 24 per cent in 1916-18.¹ It was also developed that the increases in the retail price of bituminous coal were four times as great as the increase in labor cost, and the average return on capital stock of seventeen large coal companies increased from $7\frac{1}{2}$ per cent to 27 per cent during the period referred to.

Figures of this character could be cited in great volume. I will not attempt to do so at this time. The illustrations cited are sufficient to establish my point, which is that all the evidence available indicates that profiteering and waste are at the root of the trouble, not wage increases and labor costs which in comparison with profits, appear modest indeed. One of the worst results of this epoch of the war and post-war profiteering was that the business world generally came to regard these excessive profits as their right, and began to complain loudly when these were cut into. Much of the present outcry is due to this. The business men are unwilling to accept reasonable reduction in their profits, or to stand the loss incident to present conditions. They wish to retain their war time profits at the expense of labor.

These same tendencies have also been characteristic of developments in Great Britain and Europe since the armistice. Mr. H. G. Wells in his "Outline of History" briefly outlines the tendencies abroad as follows:

Private enterprise in Europe in 1919 displayed neither will nor capacity for meeting the crying needs of the time. So soon as it was released from control, it ran naturally into speculation, cornering, and luxury production. It followed the line of maximum profit. It displayed no sense of its own dangers; and it resisted any attempt to restrain and moderate its profits and make itself serviceable, even in its own interests.

The rich and adventurous man, and particularly the new war profiteers, were making their plans to prevent such developments as that air transport should become a state property, and

¹ Relation Between Wages and Increased Cost of Living. Washington, 1920. p. 7.

to snatch back manufactures, shipping, land transport, the public services generally, and the trade in staples from the hands of the commonwealth into the grip of private profit; they were securing the possession of newspapers and busying themselves with party caucuses and the like to that end.

Prices rose and rose with an infuriating effect upon the wage earner. On the one hand was the employer resisting his demands for more pay; on the other hand, food, house-room, and clothing were being steadily cornered against him, and, which was the essential danger of the situation, he had lost any confidence he had ever possessed that any patience or industrial willingness he displayed would really alleviate the shortage and inconveniences by which he suffered.

In this country, the developments have been worse, due in part to the absence of any restrictions since 1919 on profits and prices which were continued in some European countries after the cessation of hostilities. The Comptroller of the Currency in his Annual Report for 1920 (Volume I, page 6) in discussing the deplorable attempts of producing and distributing corporations to maintain excessive war profits made the following pertinent comment on the iron and steel and coal industries:

This tendency was particularly conspicuous in the steel and iron and coal industries. By closing down mills and mines the output of steel and iron was reduced, approximately one-fourth the year following the armistice, in order that manufacturers and miners might obtain, because of the insistent and preemptory demand, the exorbitant profits realized during the war rather than the more moderate profits they would have had to accept if a maximum output had been maintained. While the profits of steel manufacturers and coal operators were swelled the country became poorer from the lack of production brought about by the unnecessary closing down of mills and mines and the incidental idleness of labor.

The increase which has taken place in wages since the war does not excuse present prices for steel and iron products. A careful analysis which was made of the reports of one of the largest and most important steel and iron companies shows that the company in the last year of the war, 1918, charged, on an average for every ton of steel which it produced, at least \$25 per ton in excess of a price which would have enabled the company to pay full dividends upon its very large capital stock. The report of the same corporation shows, furthermore, that its net earnings were so enormous that the company could have paid its accustomed dividends upon its shares even if it had paid its employees wages 100 per cent higher than the wages it actually did pay.

I realize that this is not the place to go into an extensive argument on this point, as the truth can only be determined by a thorough investigation of the facts and figures. So important, however, are the questions of wage deflation and profit deflation, that I urge that an impartial investigation of this character be made by the proper governmental authorities. The Department of Commerce and Labor and the Federal Trade Commission would be the most satisfactory agencies for such an investigation. If, as a result thereof, it is established that labor is inflated and requires deflation, I am sure labor will agree to such a policy provided the business representatives will agree to a proper deflation of profits if the facts show that the fault lies with them. Labor has been traduced and misrepresented long enough on this point. We are anxious for the facts to be known. We are willing to abide by the facts. It is the duty of employers to let the public know the real truth that excessive profits, and not labor costs, are responsible for the maintenance of unwarranted prices.

UNEMPLOYMENT PREVENTION IN THE WALL PAPER INDUSTRY¹

The prevention of unemployment is not a new idea in the Wall Paper Industry. A guarantee of steady employment for a certain period of each year has been in effect in this industry for some time. Because the Wall Paper Industry is, or perhaps I should say was, an extremely seasonal industry, our trades formerly suffered greatly from unemployment. Twenty-eight years ago the fourteen hour day was the rule for three or four months of the year and there was total idleness for from one to four months.

When the Wall Paper Trust was formed in 1891 the old National Association of Machine Printers and

¹ From a statement issued by Edwin Guntzler, secretary, United Wall Paper Crafts of North America.

Color Mixers first tackled this unemployment problem. In 1894 an agreement was presented to the Wall Paper Trust calling for a guarantee of half pay for all time, exceeding one month in the year, through unemployment caused by the manufacturer. A strike resulted that year over the demand, but after the strike was in effect one day a conference was called and the demand conceded. Then in 1896 a new demand was made guaranteeing eleven months full pay, and two years later a succeeding agreement became effective which guaranteed twelve months full pay out of the year. Later the union itself had this reduced to read fifty weeks out of a year with full pay; with the passing of the Wall Paper Trust this was again reduced to read forty-five weeks with full pay and five weeks at half time for any idle time up to fifty weeks out of a year.

At first glance, this seems to throw the burden of the whole matter on the employer, but in reality it has helped to change to a large extent a highly seasonal industry to an almost year-round industry. There is a sampling season during which period the samples for the succeeding year are made. This is followed by the slack period of the year in which two weeks vacation is given. The productive season begins about September first and covers approximately eight months, the first four being rush months because of the fact that the first runnings are made of the samples prepared previously and the jobbers then want samples from each running they select for their line in order to make up their own sample books. These books are to be used to make their showings to their own trade beginning early in January of each year, and it is in order to get all of these out in time for the first of the year that the last months of the preceding year are rush months.

The guarantee in the agreements has helped to get both jobber and manufacturer accustomed to the idea and the practicability of starting to place and run orders early and to spread them over the whole productive part

of the year instead of having to crowd the entire year's production into three or four months and being idle the balance of the year.

The assurance of certain and steady employment in our trades enables us to make some concession on the wage rates. If there was the risk of unemployment in our trades that there is in the building trades and other industries, then the wages would, of course, have to hold a higher level in order to properly compensate and offset that evil. This is always kept in mind when agreements are made.

Our experience of over thirty years has brought us to a few definite conclusions as to the preventability of unemployment: (1) We have great faith in the ability of capitalistic enterprise to remedy the evils of industry. (2) The prevention of unemployment, being a problem of management and organization, is not only possible but profitable. (3) The best results come with some steady pressure from outside. The profit motive is not enough of a spur to get business to level out employment. The present unemployment condition is a complete admission of its failure. Coercion in the form of unionism or legislation, or both, is necessary, for when the responsible party is compelled to pay part of the unemployment cost the seriousness of unemployment is then fully appreciated and prevention follows. Necessity is the mother of invention.

UNEMPLOYMENT IN THE COAL INDUSTRY¹

The United States bituminous coal commission, in suggesting a remedy for the evils resulting from over-expansion, and from seasonal irregularity, makes certain suggestions regarding the stabilizing of the marketing of coal. These suggestions are, briefly: that the railroads

¹ From an article by Philip Murray, vice-president, United Mine Workers of America. *American Labor Legislation Review*. March, 1922. p. 39-40.

move their own coal in the otherwise dull months; that the public utilities and the large industries, such as steel, increase their storage capacity in order to purchase early in the season; that the Interstate Commerce Commission make necessary provision to permit the railroads to provide sufficient cars; that the banks consider eligible for rediscount a paper drawn against coal and storage.

These suggestions meet with the complete approval of the United Mine Workers of America, as we believe that if they were followed out in practice, it would result in the elimination of a great many of the evils growing out of the present irregularity of employment in the coal mining industry.

But despite the fact that the United States Bituminous Coal Commission recommended the adoption of this plan, yet so far as I know not one of these proposals has been carried out in sufficient earnestness to appreciably reduce the evils complained of. The only practical course to be followed in putting into effect this plan would be for the government to adopt a drastic regulatory measure, and, of course, this could only be made practicable by making it financially profitable to all the parties affected to carry out their recommendations. A measure such as this one, if carried out, would, of course, have for its purpose the safeguarding of the interests of not only the mine worker, but also those of the consumer and the employer.

The need for stabilizing the coal industry is immediate and urgent. Practicable measures to this end should be undertaken at once. Every year the industry is destroying hundreds of millions of tons of the finest coal which would be saved to society by more thorough working of the mines. Along with that goes human waste—lost time, slack work and unemployment. This leaves the worker with reduced efficiency because of worry, insecurity and fear. The burden of unemployment in the mine is heavy on all users of coal, but it falls with crushing weight upon the miners and their families.

What the miner wants is not less work, but more work—a regularization of the industry that will insure steady employment. We earnestly hope that the American Association for Labor Legislation, which has done such magnificent work in this field, will succeed in bringing about the adoption of legislative measures that will result in the permanent prevention of unemployment and remove forever from the coal industry, as well as other industries, the menace of involuntary idleness.

EMPLOYMENT INSURANCE IN THE CHICAGO CLOTHING INDUSTRY¹

The hectic prosperity of 1919 raised the standard of expense among the workers, impaired their habits of thrift, and left them peculiarly unprepared for the depression which so suddenly descended upon industry in 1920. That depression—with millions of workers thrown into voluntary idleness—compelled the whole country to consider with increased seriousness what measures can be taken to combat unemployment. In the case of Hart, Schaffner & Marx, as well as practically all of the other manufacturers of men's ready-made clothing in Chicago, it stimulated both the company and the Amalgamated Clothing Workers of America to redoubled thought and planning, the result of which is the much-discussed agreement establishing an unemployment insurance fund for the industry.

Our experience has led us to believe that there is a fair chance of solving most of the difficulties in industrial relations if we put our minds to it. Frequently, the solution is of positive benefit to both parties. Thus we have overcome in part the inertia and reluctance to experiment which is so general in business. The unem-

¹ From an article by Earle Dean Howard, Ph.D., Professor of Economics and Finance, Northwestern University; labor manager, Hart Schaffner and Marx; formerly Secretary Industrial Relations Committee, Chamber of Commerce, United States of America. *American Labor Legislation Review*. June, 1924.

ployment fund will not retard but will rather accelerate our efforts to reduce the slack seasons.

The fund is a natural development of the well-known labor agreement which had brought about a good working relationship between the company and its employees.

Beginning in 1911 with the establishment of a permanent board of arbitration, or industrial court, and an agreement, or industrial constitution administered by a labor department, the system has developed and spread in the clothing industry as a definite institution. Its most important and novel feature is the voluntary giving up by both management and union of the final determination of any disputed matter. Such determination is delegated to the board of arbitration whose decisions become the law, the governing power in industry, which both parties are pledged to support. Credit must be given to the Amalgamated Clothing Workers of America for holding its membership during fifteen years to the principle of the rule of law where some unions have attempted to impose their own will upon employers.

The clothing industry is highly seasonal, due to the buying habits of the retailers and consumers and the rapid changes of style. This fact accounts for most of the problems of the industry and the conditions now existing; comparatively high wages, high labor cost, difficulties of administering the piece work system, attempts to limit the hiring right of the employer, and the periodical resentment of workers because of short time lay-off.

The unemployment insurance fund accomplishes to a degree for the worker what a dam does for the water supply for the city; it changes an irregular and varying flow of income into a more regular and uniform stream of purchasing power. It distributes the burden of unemployment more equally over the group of workers and requires the employer to duplicate the amount contributed by the workers for the purpose. Thus, for every dollar the worker pays in on the average, he will

draw out two, and at a time when the utility value of a dollar is multiplied many fold.

The widespread interest that has been manifested not alone by employer and labor groups, but also by the general public, in the joint action of the employers and trade union in the Chicago clothing industry indicates that the results of this voluntary experiment in unemployment insurance are likely to be far reaching. If the plan lives up to its promise in practical operation, it will prove an impressive demonstration that an unemployment fund, with the basic purpose of prevention, can be effective in overcoming the evil effects of involuntary idleness even in a highly seasonal industry. Such pioneer experiments should be of value to those who, as a result of their own independent studies and observations, believe the time is coming when the advantages of unemployment insurance will, through the aid of legislation, be made universal.

GUARANTEED EMPLOYMENT IN THE CLEVELAND GARMENT INDUSTRY¹

The trouble with most unemployment insurance plans is that they approach the problem from the standpoint of the old-fashioned charity organization, providing only a palliative in the form of a dole. We still look upon the matter of seasonal unemployment much as our great-grandparents looked upon cholera—as a scourge of God against which it is futile to struggle. With such a viewpoint we have naturally made no more progress in the elimination of unemployment than they made with cholera and yellow-fever and smallpox. The first step in the conquering of these diseases was the recognition that they were due to errors in human living. So it will be with unemployment.

The plan adopted three years ago in the Cleveland

¹ By Fred C. Butler, manager, Cleveland Garment Manufacturers' Association. *American Labor Legislation Review*. June, 1924. p. 137-42

garment industry is based, not upon the maintenance of an ambulance at the foot of the cliff, but upon the erection of a fence at the top of it. The plan is primarily not an unemployment insurance plan at all. That enters into it only secondarily or even incidentally. The primary purpose of the Cleveland plan is the elimination of seasonal unemployment through the device of offering an incentive to the only one who has it in his power even to attempt it—the employer. The employer is not always in a position to eliminate unemployment but he is the only one who can try to do so.

The burdens of idle factories and weeks of non-production are so great that employers will deny that they need any other incentive than their urge. This, however, is not the case, at least with many if not most. Recurring seasons of unemployment are so much a matter of course in certain industries that they are accepted as something inevitable, something routine, something merely in the day's work. The manufacturer usually tries to turn them to some use by taking inventory or making repairs to his plant while they are on. It is doubtful however, if the great majority of employers have ever given the time and thought to the prevention of these periods which their seriousness deserves. So in the Cleveland garment industry we are offering a very desirable reward to that manufacturer who succeeds in holding down this seasonal unemployment to a minimum.

We have learned that incentives in order to be most effective must be both individual and immediate. A group bonus becomes less effective in proportion to the size of the group and a reward likewise loses its efficiency in proportion to the time it is to be given. The Cleveland plan is, therefore, a shop incentive and not a market one. There is, in effect, placed upon the desk of each manufacturer daily a sum of money which becomes greater each week and this sum of money is to become the property of the manufacturer only in case he does a certain definite thing. The result is dependent solely

upon his own efforts and not upon those of brother-manufacturers whom he cannot control. His task is to be performed not in the indefinite future but each and every day. Built upon these well-known laws of incentive, is it at all strange that the Cleveland plan has been effective?

A UNIQUE AGREEMENT

In December, 1919, the Cleveland Garment Manufacturers' Association and the International Ladies' Garment Workers' Union signed an agreement which was unique in many of its provisions. Among these were the recognition of the open shop, the creation of an impartial board of referees, the surrender of the wage-setting prerogative, the elimination of intimidation and coercion and the payment of wages in accordance with individual skill and application. In accordance with the last-named provision, standards of production were established based upon time studies.

In accepting this somewhat revolutionary method, the union frankly stated its fear that this incentive might result in some of its members working themselves out of their jobs. The manufacturers recognized this difficulty and desiring to remove any fear from the workers' minds that might interfere with full production, offered to give some guarantee of a definite period of employment. At first they considered an out-and-out guarantee of a certain number of weeks' work with pay each week. Careful study, however, indicated this to be impracticable, particularly in seasons of industrial depression. There must be some limitation to the employers' responsibility so that the operation of the plan would never threaten his financial standing.

The subject was a matter of many conferences and much thought. In April, 1921, the Board of Referees handed down a decision which reduced the wage scale then in effect by approximately 15 per cent. They made a part of this decision, however, the employment assur-

ance plan which has since been in effect and of which I am speaking. In this decision they said:

Since July, 1918, when the Board of Referees undertook its duties in Cleveland, two notable advances in the conditions in the industry have been made—(1) the establishment of a standard wage affecting all shops and all classes of workers; (2) The adoption of production standards now well on the way to installation. The next desirable step to be taken is to break up one of the vicious features of seasonal industry by providing for as much continuity of employment as is practicable. We believe that the reduction in wages decided upon will of itself tend toward this result, but we do not feel that this will be sufficient or that the risk should be thrown entirely upon the workers. We therefore believe that the time has come when the regular workers in the industry are entitled to a guaranteed minimum period of work or compensation for the lack of it. Such guaranty is a proper and necessary burden on the industry.

Under these circumstances we are of the opinion that the regular workers in each shop should be guaranteed twenty weeks of work in each half year. Failure to live up to the guaranty shall entitle the worker during the period in default to a sum equal to two-thirds his minimum weekly wage, with a limitation however, of the employers' liability to $7\frac{1}{2}$ per cent of his direct labor cost for the guaranty period.

Each employer shall establish a guaranty fund by depositing with the Impartial Chairman each week a sum equal to $7\frac{1}{2}$ per cent of his direct labor payroll for the week or shall furnish to the Impartial Chairman security acceptable to him for the enforcement of the guaranty up to the limit of his liability.

HOW THE PLAN WORKS

It was finally decided that it would be necessary for each worker to accumulate his full period of permissible unemployment before he would be entitled to draw upon the fund. While this threw upon the worker the full year's unemployment hazard all at once, yet this was his only contribution to the fund and in no other way could the plan be made simple and easily workable. While the referees' decision divided the year into two periods of six months each, this was later changed so that each calendar year is a unit. The proportions have also been changed as business conditions have changed. Next year each worker is to receive forty weeks of employment or be paid one-half of his minimum pay

from the fund which shall be 10 per cent of the direct labor payroll.

In brief, the *modus operandi* is as follows: When any worker is laid off involuntarily, he is given a lay-off slip which contains the date laid off and where possible the date to return to work. When he returns, his slip (as well as the original slip held by the employer) is marked with the date of return. The worker retains these slips and as soon as he has accumulated twelve weeks of unemployment, he is then entitled to draw upon the shop fund at half-pay. Each worker thus knows every day his exact status with relation to the fund.

The manufacturer has a record card of individuals by departments with fifty-two squares following each name. As soon as any worker has had a week's idleness an X is placed after his name in the proper square. It is obvious that the manufacturer's task is to see that no worker gets more than twelve Xs. This he does by distributing the work of each department equally and by making special drives for business to fill up his valleys of depression.

The manufacturer submits to the impartial chairman weekly reports showing the amount of the payroll, the amount in his unemployment fund and the amounts paid from the fund. The fund is figurative only as each manufacturer gives a surety bond in lieu of setting aside the cash.

So much for the creation and administration of the fund. Now what has been the result?

In the six months, June 1 to December 1, 1921, 34 per cent was paid to the workers and 66 per cent retained by the employers. Five employers retrieved their entire fund; four lost it all and the balance, twenty-four, saved 57 per cent.

In the year 1922, 21 per cent was paid to the workers and 79 per cent retrieved. Eleven employers saved their entire fund; three lost it all and the rest, ten, saved 59 per cent.

In the year 1923, 13 per cent was paid to the workers and 87 per cent reverted to the employers. Seven saved their entire fund; two lost it; and the others, eleven, saved 80 per cent.

In the first two and a half years of the fund 21 per cent was paid to the workers and 79 per cent saved to the employers.

There are no definite figures as to the amount of employment given in the market before the institution of the fund but the average probably did not exceed thirty-six weeks annually. It will thus be seen that the fund has caused the elimination of a considerable amount of seasonal unemployment. The fund has acted as an automatic graduation of the wage scale. The manufacturer has paid a scale in the net which has been in direct proportion to the amount of his unemployment. It will readily be seen that some of the employers have had a scale 100 per cent of the referees' legal one while others have paid 101 per cent, 102 per cent and up to 110 per cent.

AN EFFECTIVE INCENTIVE TO REDUCE UNEMPLOYMENT

The Cleveland plan is simple and practical. It is effective in its incentive for the reduction of unemployment periods. It is fair in its limitation of the liability of the employer. It remunerates the worker in accordance with the amount of work given him. It graduates the wage scale as between employers. No plan, however, can be perfect. There are defects in the Cleveland plan but it is possible that these will be inherent in any plan that seeks to eliminate unemployment.

The fact that the employer has been able to save a large portion of his fund each year does not mean that that has cost him nothing. On the other hand, so great have been the efforts put forth to salvage the fund, that

in many cases the employer has probably gone to an expense equal to that of the fund. He has brought in work in other lines which he has had to make at less than cost. He has increased his own selling efforts and consequently his expense. He has taken greater gambling risks on materials cut ahead of sales upon which he has later taken losses.

Another defect of the plan and perhaps of any similar plan, is that the valley of unemployment is narrowed very often at the expense of the workers in other lines. The manufacturer in the endeavor to give his own people work, takes in orders from kindred lines which he makes up without profit or even at a loss. He is very fortunate if such orders can carry some part of his overhead expense. This helps him but it becomes unfair competition for the other trades. If the makers of women's garments during their slack seasons make up men's clothing at cost or less and if the manufacturers of men's clothing during their idle periods make women's coats and dresses at less than cost, each is hurting the legitimate and regular trade of the other. He is solving his own problem but at his neighbor's expense.

Another great difficulty would be removed if it were possible to attack the problem of unemployment in a countrywide movement. Unfortunately this is not practical and the work must be undertaken here and there by the more progressive manufacturers and manufacturing groups. This places these employers at a handicap in competing with the rest of their industry. This is regrettable but unavoidable. Anyone who keeps within the rules of humanity and fair play is at a disadvantage in competition with those who know no law but their own advantage.

We have not yet found the true answer to the problem of seasonal unemployment, but if it can be found the incentive of the Cleveland plan will do it, for after all American ingenuity will solve any problem if the re-

ward be sufficient. So in the Cleveland garment industry, the manufacturers offer their workers a reward for increased production and the workers, in turn, offer their employers a reward for increased employment.

FENCE OR AMBULANCE¹

'Twas a dangerous cliff, as they freely confessed,
Though to walk near its crest was so pleasant;
But over its dangerous edge there had slipped
A duke, and full many a peasant.
So the people said something would have to be done,
But their projects failed all to tally,
Some said, "Put a fence round the edge of the cliff,"
Some, "An ambulance down in the valley."

But the cry for the ambulance carried the day,
And it spread through the neighboring city.
A fence may be useful or not, it is true,
But each heart became brimful of pity
For those who slipped over that dangerous cliff,
And the dwellers in highway and alley
Gave pounds or gave pence, not for a fence,
But an ambulance down in the valley.

"For the cliff is all right if you're careful," they said,
"And if folks ever slip and are dropping,
"It isn't the slipping that hurts them so much
"As the shock down below when they're stopping!"
So day after day as these mishaps occurred,
Quick forth would these rescuers sally
To pick up the victims who fell off the cliff
With the ambulance down in the valley.

Then an old sage remarked: "It's a marvel to me
"That people give far more attention

¹ By George P. Hambrecht, director Wisconsin State Board for Vocational Education.

"To repairing results than to stopping the cause
 "When they'd much better aim at prevention.
 "Let us stop at its source all this mischief," he said,
 "Come, neighbors and friends, let us rally;
 "If the cliff we would fence we might almost dispense
 "With the ambulance down in the valley."

"Oh, he's a fanatic," the others rejoined,
 "Dispense with the ambulance? Never!
 "He'd dispense with all charity too, if he could;
 "No! No! We'll support them forever!
 "Aren't we picking folks up just as fast as they fall?
 "Why should he prevail on us all?
 "Why should people of sense stop to put up a fence
 "While their ambulance works in the valley?"

Better guide well the young than reclaim them when old,
 For the voice of true wisdom is calling;
 "To rescue the fallen is good, but 'tis best
 "To prevent other people from falling;
 "Better close up the source of temptation and crime
 "Than deliver from dungeon or galley;
 "Better put up a fence round the top of the cliff
 "Than an ambulance down in the valley."

REDUCING RAILROAD SHOP UNEMPLOYMENT THRU COOPERATION OF MANAGEMENT AND UNION ¹

The most important recent work of the bureau has been in connection with the experiment in the railroad shops. In that experiment the consulting engineer of the bureau, Mr. Beyer, has been the engineer of the unions concerned. The proposal for the experiment came from the unions. It was pushed by them and in

¹ By George Soule, economist, from *The Work of the Labor Bureau, Inc.* (New York). *Journal of Personnel Research*. July, 1924. p. 84-8.

its actual application they have furnished the technical engineering service—a contribution which I think is a fairly new development in industrial relations.

The basis of the proposal was this: The unions and the employers have been fighting over more or less elementary matters—decent wages, decent hours and decent working conditions. The hostility caused by this is not only a waste in itself but it prevents the consideration of more constructive measures which might greatly benefit both sides. Therefore, said the union, if any enlightened employer would begin by accepting the union as representative of the men, and by accepting union standards, the union would then be in a position to cooperate with the employer in eliminating waste. It could do this with the confidence of its members, if it secured an agreement with the employer that any savings made would be shared with the men.

Cooperation between management and workers for improved service, on the basis of sharing fairly any benefits accruing, seems to be a logical outcome of organized employee relationships. The basis for such cooperation is not a mere euphemistic phrase—it might be made a reality. In spite of the many points of divergent interest, there are other and at least equally important points where the interests of both parties converge. The stabilization of employment is a highly important one. Reduction of unit cost by more efficient methods enlarges the source out of which profits and wages must be paid. Better and more economical service to the public tends to increase the amount of traffic which may be moved at a given rate, and furnishes possibilities of increased profits and wages without efforts to raise rates. In addition there are the intangible values connected with the removal of friction and the satisfaction in doing a good job.

Experiments in cooperation along this line have produced tangible results on at least one railroad—the Balti-

more and Ohio—and are being extended to other large systems. The basis of the experiment was the suggestion arising from the shop craft unions that an agreement be made whereby these unions should be fully recognized as agents of the men in the shops, that they should cooperate with the management in attempting to give better and more economical service, and that any beneficial results should be fairly shared between the parties. This agreement was signed, and it was further agreed to try a concrete experiment in working it out at a single shop point—where operations had been unsatisfactory to management through poor quality and high cost of work, and to the workers through extreme instability of employment, unsatisfactory conditions, etc.

Among the problems which developed in the joint conferences were:

Inadequacy of condition and availability of tools, material-handling facilities, etc. Inadequacy in sanitary, heating, ventilating, lighting, washing, drinking and safety facilities. Lack of coordination of shop operations. Inadequate work control. Considerable and repeated material supply delays. The consulting engineer of the unions was on hand to give advice regarding any such difficulty encountered. Steps were taken to remedy the physical defects brought out, such as building of a new and better located tool room, sorting of tools on hand, discarding of hopelessly defective ones, reconditioning of others and purchase of missing tools, new facilities for storing pipe, building of a runway for transportation of heavy parts between backshop and roundhouse, clearing up facilities for handling blacksmith coal, provision of hot water for washing purposes, centralized grinding of all machine cutting tools to definite standards, etc.

The shop scheduling system was rehabilitated by more regular operation, and displayed on a large centrally located bulletin board in such a way that daily

schedule performance, as judged by delay, could easily be understood by everyone in the shop. Gradually additional data were added to the chart, such as classification of delays by department, output in units of equipment for each day and for the month to date, explanations of the causes of delay.

The general standards of personnel were raised by a more careful employment policy, involving the opening of an employment office, operated by two men from the shops jointly chosen by the conference committees, whose duties were in part to make sure of the qualifications as to skill of applicants and to educate accepted applicants to the cooperative system in the shops. Improved shop practices were devised and installed, such as the elimination of applying steam pipes with wrapped joints, and the application of oil pipes to stokers before they were put in place rather than afterwards. Material shortages were remedied and "robbing" of one locomotive or car to repair another eliminated. Absenteeism and tardiness were discussed and reduced. A bureau was established to follow up and put into effect improvements agreed upon, called the Shop Methods Improvement Bureau. Labor turnover was recorded and steps were taken to reduce it. In order to stabilize work and employment, the general management was induced to allocate to the shops locomotive rebuilding and modernizing to fill in slack periods and round out the force.

As a result of these and other measures, morale was noticeably improved, quality of work was bettered, unit costs reduced, labor turnover minimized, employment largely regularized, delays materially reduced and wage-income, due to more regular employment, increased. So successful was the experiment in the eyes of both sides that it has now been extended to forty-five shop points on the system. This extension was comparatively easy because the unions had familiarized the men with the underlying ideas and the success of the first experiment, and their existence in each shop furnished the necessary

committees ready-made. At the local joint meetings of March 5, 1924, an average of nine subjects were discussed per meeting, the original shop at which the system was installed taking up seventy-eight items. The principal subjects discussed, in the order of their frequency, were:

Condition of hand tools, air motors or jacks; storage of material; conservation of material; handling of material; shortage of tools; shortage of material; condition of machinery; reclamation of material; handling of scrap.

A great variety of other subjects was also taken up. The general management is considering, as a result of requests by the system federation of the shop unions and their national officers, broader subjects such as the creation of an equipment maintenance reserve to stabilize employment. It has already installed a regularized procedure for the more prompt disposal of grievances.

There is a flaw in the scheme so far, in that the money benefits to the management have been greater than those to the men. However, the men seem to like it for some less tangible reason. I am not at all sure that this is a panacea or that it may not have to be abandoned in the long run. The railroads on which it is adopted may not be ready to step out ahead of the others in matters such as wages. But it is a hopeful experiment and, according to the present outlook, it does seem as though it would continue to spread, and would offer such a competitive advantage to those roads which have adopted it that they will be able to pass on substantial benefits to the workers, who help to put it into effect.

SPREADING OUT THE JOB¹

Under this heading may be included a number of measures which different industrial groups have initiated

¹ By John Koren, Zora P. Wilkins, and D. Ferguson for the Federated Engineering Societies Committee on Waste. From *Waste in Industry*. p. 298-300. Reprinted by permission.

as remedies or at least as palliatives for unemployment. Chief among them is the shortening of the workday, which organized labor has always urged very largely on the ground that it will force the employment of a larger number of workers. On this point the records of the American Federation of Labor are explicit.

The annual convention in 1887, in discussing unemployment resulting from the introduction of machinery, went on record as stating:

This evil can be met only by reducing the hours of labor and this answer is suggested to be given to all opponents of the shorter workday: That as long as there is one man who seeks employment and cannot obtain it, the hours are too long.

Ten years later the convention stated that through the reduction of hours:

The evil of long hours of labor on the one hand and a lack of employment on the other may both be remedied at one and the same time. We realize the hardships and poverty of the wage class, but we believe there is no safer or more practical plan to deal with the great question of the unemployed than in such a distribution of labor as shall work to the advantage of those at work and out of work.

At the 1899 convention the American Federation so far emphasized this aspect as to disclaim interest in the efficiency of the eight-hour day, a position which two years later was repudiated. The 1899 dictum was:

We deprecate the assertion sometimes made that workmen will produce as much in 8 hours as in 9, for if this were true the 8-hour day would be shorn of half its beneficial results, and the very purpose for which we strive would be defeated. For one of the first duties of labor organizations is to bring about such a condition as to enable all who wish to work to find remunerative employment.

Again in 1907, the Federation declared:

We regard the reduction of hours of labor as paramount to all other considerations, even to an increase in wages, except in such occupations where the earnings are so meager as to make it difficult to maintain a fair standard of living. But in those trades in which the development of machinery is making such wonderful strides it is absolutely necessary that the hours

of work be shortened in order that the opportunity for employment be shared by all members.

During the war when unemployment ceased to be an issue, more emphasis was placed upon the social value of the shorter workday, but with the present industrial depression trade unionists return to the plea that employment should be spread among a larger number through decreasing the working hours.

This theory of the trade unionists that shorter hours will supply more men with employment has generally been regarded as fallacious by the economists. Unless an equal amount of output is produced by the same men in the reduced working day, production costs will rise proportionally to the additional number of men it is necessary to employ and the increased price of the product will diminish sales.

Finally, another method of spreading out the job is restriction of production. Both organized and unorganized workers try to make the job last, especially in seasons of unemployment. The economic fallacy of the practice is apparent, although workers believe it to be both in their own and their fellow-workers' interests.

BUILDING TRADES IDLENESS CAUSED BY SEASONAL WORK¹

Custom, not climate, is mainly responsible for seasonal idleness in the building industries.

This is the conclusion of a committee on seasonal industries, appointed by Herbert Hoover, Secretary of Commerce, as a result of the President's Conference on Unemployment, which met in Washington, D.C., in September, 1921.

The committee, composed of men representing many phases of the building industries, made a thorough study of the problem of seasonal employment. The Carnegie

¹ From Minnesota Union Advocate. St. Paul. August 28, 1924.

corporation of New York gave the committee a limited appropriation and contributions of funds and services were received from several organizations, including the American Federation of Labor. The committee found that building trades workers in most American cities are employed less than three-quarters of the year. As a result the trades are fully employed for only three to five months. Commenting on these facts, Mr. Hoover says:

The committee states that bad weather is not the principal cause of seasonal idleness. Customs which became fixed when builders had not yet learned how to cope with adverse weather conditions have not been changed to meet improvements in building materials, the development of new equipment, and innovations in management methods. For most types of construction it is now possible to build the year round in *all* parts of the United States.

Organized community efforts by representatives of the construction industries, the professions concerned, and the public are necessary to find the facts as to local handicaps, peaks and depressions in employment, and the kinds of construction needed, and to make the facts public as a basis for a more even demand for construction work and for the elimination of wasteful customs. Cautious planning ahead with reference to seasonal conditions is absolutely necessary to mitigate the extreme ups and downs of construction from season to season and from year to year.

Contrary to popular belief, bad weather is not the principal cause of variations in employment from month to month. The present survey shows that seasonal idleness is not confined to regions where climate is severe. Cities in the South and on the Pacific coast are affected much like those on the Canadian border.

The art of construction has advanced to such a point that the effect of bad weather on building operations has been greatly reduced. The survey shows that there is today much less manual labor on the job than formerly; a greater proportion of the work is done in factories or power machinery, which is less affected by the elements than hand labor. Steel and concrete construction with certain safeguards can go forward at low temperatures. Methods of winter construction developed by leading contractors should now be greatly extended. Winter work is being done in some cases more cheaply than summer work, and in others at an increase in cost which is slight compared with the advantages of holding down the contractor's overhead expense by keeping his organization together, the shorter time that the owner's capital is tied up in the operation, and the earlier date at which occupancy is made possible.

The report explains that bankers may aid in cutting down the wastes in construction costs by applying a wider knowledge, now available, of data regarding characteristic trends in the construction industries.

Forethought in planning ahead and use of seasonal information as to the seasonal trends will reduce interest on investments and will release investment funds for other productive uses. Trustees and others charged with large financial responsibilities have an opportunity and a responsibility for cutting down the present wastes.

Regarding public utility, it is advised that the single leasing date may be attacked as a demoralizing influence on seasonal currents of construction.

Evidence is lacking that public utilities in general authorize the erection of buildings at other times than the usual building season, and they might well set up "extensive reserves" as a practical and profitable means for constructing additions during low seasonal and cyclical periods.

The committee in its report states that out of two hundred engineers in all parts of the country who replied to the committee's questions, "Are public improvements rushed right along in the peaks of the annual building season?" one hundred and ninety-two answered in the affirmative and the comment was frankly added that public works are undertaken without regard to private needs.

The committee is of the opinion that the need for public works is easily foreseen and that public officials responsible be given every aid so that they can let public work contracts when the work can be performed economically and with least interference with private construction.

Of labor in the building industries, the committee says:

The cooperation of labor and management is necessary to increase production and the elimination of waste.

Records of employment, hours, and earnings should be systematically kept by labor as well as management, and made available to the public.

Advertising to apprise the public of dull periods in the building trades can be profitably utilized by labor.

Since the letting of contracts for new work is likely to be interfered with when there is uncertainty caused by pending wage agreements, the committee recommends that such agreements be concluded at least 60 and preferably 90 days or more before the date when they take effect.

The Waste in Industry Report says:

Although somewhat in conflict with recent tendencies toward specialization in construction work, some measures taken to regularize employment in buildings have met with success according to the testimony of a number of contractors. Briefly stated they are:

- (1) To bid for varied types of construction.
- (2) To shave down bids for contracts to carry their organization through dull periods.
- (3) To accept the policy of taking small and perhaps unremunerative contracts so that the working force not engaged in the large undertakings may be utilized.

FLUCTUATIONS OF PRICES AND UNEMPLOYMENT 1920 TO 1923¹

The relationship between unemployment and price fluctuations observed in the foregoing survey for the period 1920 to 1923 may be analysed as follows:

1. A rapid fall in prices has always been accompanied by a marked increase in unemployment.
2. A rise in prices not exceeding certain limits has almost invariably been accompanied by a marked reduction of unemployment.
3. A violent rise in prices such as has taken place in certain countries as the result of catastrophic inflation has ultimately led to a crisis of unemployment.
4. A period of price stabilization following such a rise has been characterized first by an increase in unemployment but soon after by a gradual revival of employment.
5. When the stabilization of prices has followed a

¹ From *Unemployment, Studies and Reports, Series C, No. 8*, International Labour Office, Geneva, Switzerland.

period of falling prices the reduction of unemployment has been slow.

6. When the stabilization of prices has followed a moderate rise, the rapid improvement in the labor market which had accompanied the rise has continued or the high level of activity reached has been maintained.

These relationships are not peculiar to the period under consideration but have previously been recognized as a characteristic feature of the cyclical fluctuations and crises of unemployment experienced before the war.

THE RELATIONSHIP BETWEEN THE UNEMPLOYMENT CRISES OF 1920 TO 1923 AND THE GENERAL TRADE CYCLE

The fact that fluctuations in prices were one of the principal features of economic fluctuations both before and after the war favors the presumption that the post-war crisis was not fundamentally different from pre-war depressions. The unemployment from which most industrial countries suffered between 1920 and 1923 would seem to be chiefly due to one of those general depressions which, alternating for more than a century with periods of intense industrial activity, constitute what might be described as the cyclical pulsation of industry. Often irregular and sometimes violent, these rythmical fluctuations seem to some extent measurable by the general movement of prices. Thus the post-war depression might be considered a natural economic reaction corresponding in severity with the abnormal degree of price inflation and industrial expansion preceding it. It would follow that the great political problems which have oppressed the world for several years, although exceptional in character and duration, can only be regarded as the indirect cause of the severe unemployment from which the world has suffered. In reality this post-war unemployment would thus be a symptom,

accentuated much beyond pre-war limits, of some permanent defect in the economic system. Certain important differences are indeed to be noted between the situation before and after the war. For instance, before the war industrial countries were generally affected by unemployment almost simultaneously and in a fairly uniform manner. This has by no means been the case in the post-war period. It would seem, therefore, as if some previously existing bond of solidarity has slackened since the war.

In this connection, it was to be seen from the review of the situation, country by country, that fluctuations of international trade have very much less bearing on unemployment in most countries than fluctuations in home prices; in other words, that in the present crisis the loss of markets within the frontier has been of much greater importance than fluctuations in foreign demand. Hence the purely commercial link in uniting the economic activity of the several countries in the post-war period.

However this may be, there is another international link which existed before the war and has now disappeared, namely, that arising out of the monetary system which was then common to almost all industrial countries; the gold standard, the effect of which was to internationalize price fluctuations. That standard has since been abandoned, through force of circumstances, in very many countries, and each of them has adopted an independent currency policy. This has doubtless accounted for the lack of uniformity of price fluctuations in the various countries, and corresponding differences in the dates of the crises in these countries (if the fairly general opinion may be accepted that there is a close connection between price fluctuations and industrial activity).

In final analysis, however, this post-war irregularity of movement relates only to differences in price fluctuations as between the several countries, the fluctuation in

each individual country having invariably borne out the relationship previously established between the movement of prices and the movement of industrial activity. This continued correlation thus provides further corroboration for the view that the acute and prolonged unemployment experienced in many countries after the war is in essence part of the more or less regular cyclical fluctuations which have hitherto characterized the present economic system.

THE STABILIZATION OF PRICES

Price fluctuations may certainly not be regarded as the only factor producing involuntary unemployment, and in the present crisis, especially, other factors have been by no means negligible. There would seem no question, however, that if price movements could to some extent be controlled and stabilized, the alternations of feverish activity and depression from which industry has suffered for a century or more would be considerably diminished, and that the risk of unemployment would thereby be much reduced.

In the present report, no pretense is made of definitely pointing the solution to the difficult problem of the manner in which prices can be stabilized. It has nevertheless been thought expedient, with a view to the future more detailed study of these problems, to show briefly that there is an important current of opinion supporting the view that the attainment of a high degree of price stability is both desirable and possible.

The movement for regulating the level of prices can be traced back to some of the earliest economic writings of the nineteenth century. But it was probably not until the year 1911 that definite efforts were made on an international scale to lead to some action by public bodies in this matter. It was in this year that Professor Irving Fisher opened a campaign for the international discussion of the means for stabilizing the cost of living. He

gained the support of many leading economists in Europe as well as in America and Japan. The proposal did not, however, materialize before the outbreak of the war.

The motives of this movement are well expressed in the following extract from a speech by Professor Wesley C. Mitchell delivered at the Richmond meeting of the American Economic Association in 1919:

One cannot conclude a survey of the violent changes in prices during the war and of the grave uncertainties of the near future without reflecting upon the badness of the best existing monetary systems.

The United States has maintained the gold standard without serious limitation and has reorganised its banking system on approved lines. Nevertheless we have had price fluctuations almost as violent as those of the greenback period. These fluctuations have caused unmerited suffering to millions of families and have heaped unearned riches upon thousands. They have caused wasteful struggles, encouraged extravagance among some, and created the class of "new poor." They have promoted speculation and reduced the efficiency of management and labor. We are poorer in goods, more quarrelsome in spirit, less ready to work because of these fluctuations. All this has happened and is irretrievable. But within a few years fresh changes may happen just as evil in their consequences.

This wretched record and this wretched prospect are a grave indictment of our present form of economic organisation. Have we not sufficient constructive imagination and practical sagacity to develop a better monetary system?

The need for checking the violent rise in prices which was taking place in 1920 figured as perhaps the most prominent recommendation of the Brussels Financial Conference. Serious warnings were also thrown out by the same body against the dangers of deflation, once inflation had been restrained. The Genoa Conference goes even further and states: "The essential requisite for the economic reconstruction of Europe is the achievement by every country of stability in the value of its currency."

All these movements for the stabilization of the value of money, *i.e.*, of the level of prices, have one principal object, the maintenance of industry at its maximum

permanent efficiency. In certain minds, however, the stabilization of prices would seem to signify the stagnation or even the compression of trade. The evidence given in the earlier part of this report would seem to show, on the contrary, that even when industry is in the depth of depression, and confidence is very widely shaken, recovery can take place on a stable level of prices. In times of greater activity there is a still more powerful incentive, inherent in industry itself, toward greater and continuous developments, for at all times, and more particularly in periods of prosperity, every unit in the business world, which is directed and propelled by human aspirations, tends to enlarge itself and contribute to the general increase of productivity.

The stabilization of prices is thus felt to constitute no restraint upon healthy expansion. What it does purport to restrain is that proportion of enterprise which can only prosper when rising prices yield an excess of profit, a kind of enterprise which is uneconomic even in the boom and which, by its ultimate collapse, tends to aggravate depression. Again, the stabilization of prices aims at eliminating the piling up of stocks, which not only reduces consumption and stimulates the rise of prices during the boom, but eventually reacts upon the market causing a glut and temporarily seizing of the wheels of industry.

If, then, the stabilization of prices may be interpreted to mean the stable and continuous expansion of industry, it would seem that not only would it yield a higher permanent level of production, but also a higher permanent level of employment; and for this reason the question of securing the greater stability of this price level is especially pertinent to a study of the "measures taken with a view to sustaining economic activity, and thus stabilizing the labor market."

The various measures proposed for achieving price stability have one common feature: they recognize that

the only practicable means for controlling the level of prices is through the monetary factors, but in the present state of industrial organization it is considered to be susceptible to efficient control by this one factor alone, and for that reason, the regulation of money has been singled out in all proposals for reform as the one possible line of development. It is important, therefore, to consider how the promoters of the stabilization movement consider the price level to be affected by the volume of money.

The relation between money and prices might perhaps be most simply illustrated thus: if a rise of prices occurs, more money is required to purchase the same volume of goods; if there is a fall of prices, less money is required to buy the same amount of goods. The price level thus expresses the relationship between money and goods; and the stabilization of prices means, therefore the stabilization of this relation between money and goods. If, then, it were possible to regulate money so that its volume grew identically at the same rate as the volume of goods coming on the market, then the level of prices would tend to remain constant. Stabilizing prices thus becomes essentially the problem of adjusting the volume of money to fluctuations in the other factors, the volume of production available for sale.

By the term "money" used in this sense, is meant every kind of purchasing instrument, be it check, note or coin, and thus the regulation of money includes the regulation of credit in all forms. How then can such regulation be achieved?

As explained in an earlier paragraph of this report, almost every form of purchasing power passes into the community through the intermediary of the banks. New purchasing power is created by the extension of new loans to business men by the banks. The repayment of such loans and their non-renewal constitute the cancellation of purchasing power. Now these loans when is-

sued may take the form of credit accounts against which the borrower may draw by check, or they may consist of notes and coin, according as the borrower may wish. Thus the policy of the banks with regard to the issue of loans determines largely the volume of new money which is issued to the community in the form of credit, notes, and coin. And, moreover, it is the most direct way in which the regulation of any of these forms of purchasing power can be effected. The loan policy of the banking system in general is thus the essential feature in any proposal for monetary control. Carrying this idea one step further, it will be seen that the most direct way to regulate the volume of money in circulation is to bring some influence to bear simultaneously on the loan policies of all the different units of the banking system.

This is possible in countries in which banking is highly centralized. A central bank, by virtue of its holding a proportion of the legal tender reserves of commercial and other banks and having a certain control over the further issue of legal tender notes and coin, can, subject to certain limitations, direct the loan policy of the banking system. It is for the purpose of securing such control that the Genoa Conference urges that central banks should be established in all countries in which they do not as yet exist.

One of the principal ways in which the central bank is able to influence the loan policy of the general system is by varying the rate at which it will lend cash to other banks in discounting their bills. When the latter are thus obliged to pay more for the repletion of their cash reserves, they must of necessity charge more for the money they in turn lend to their customers; in other words, they must raise the market rate of discount. Thus the central bank, by varying the central rate of discount, can exert a powerful influence over the loan policy of the central banking system. This idea finds the fullest

confirmation in the declaration of the Brussels Conference to the effect that:

In normal times the natural and most effective regulator of the volume and distribution of credit is the rate of interest which the central Banks of Issue are compelled, in self-preservation and in duty to the community, to raise when credit is unduly expanding.

The evidence which may be drawn from a survey of the years 1918-23 adds some support to the belief that the bank rate may be used as a means of controlling credit and, through credit, the level of prices. Violent inflation was proceeding in almost all countries in the world during the years 1918-20 and the whole situation threatened to get out of control. In order to check the expansion of credit central banks followed the customary policy of raising the bank rate. In Japan the rise of wholesale prices was checked in March 1920 after the raising of the central rate of discount to 8.03 per cent in November 1919. Prices began to fall in the United States as from May 1920 after the raising of the rediscount rate to 7 per cent in the same month. In Sweden, prices culminated in June 1920, the central rate of discount having been moved to 7 per cent in March 1920. Similarly, the turn in prices followed the raising of the central discount rate in Norway, Denmark, Finland, Belgium, France, and Italy. There was no movement of the central rate during 1920 in either Germany or Austria, in both cases the rate remaining stationary, at 5 per cent.

Although the bank rate may be effective "in normal times" in controlling the volume of credit and the movement of prices, there may arise abnormal circumstances which tend seriously to limit its efficiency. If banks are to be in position to control the issue of loans, they must be able to render borrowing either unprofitable or unwise for their clients. Now the government is a borrower over whom the banks have no control and, in turn,

the government is compelled to borrow either from the banks or the public whenever it cannot meet its expenditures out of taxation. Throughout this train of causation it will be seen that, in order that banks may have satisfactory control over credit, it is essential first that the national budget should be approximately balanced. In this connection the Brussels Conference declares:

The chief cause (of inflation) in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money, or more frequently by obtaining—especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them—credits which must themselves be satisfied in legal tender money. We say, therefore, that:

Governments must limit their expenditure to their revenue. (*We are not considering here the finance of reconstructing devastated areas.*)

Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.

There seems reason to believe, therefore, that whenever banking is centralized and is free from political pressure, the central institution can exercise a considerable influence over the movement of prices through the medium of its credit policy. In further corroboration of this view, it is to be noted that the fall of prices in 1921 and 1922 was only checked in a large number of countries after credit had been eased by the lowering of the bank rate. This was the case in the United States, Great Britain, Sweden, Norway, Denmark, France and Belgium.

Finally, there is the case of the United States in which, intentionally or unintentionally, stability was achieved in 1923 after a rapid recovery of the level of prices in 1922. The process of credit restraint, which was necessary to prevent the period of rising prosperity from developing into an inflationist boom, was effected partly by a slight rise in the rediscount rate and

partly by the sale of securities and other assets by the Federal Reserve Banks, both methods forming part of a general conscious policy of credit control which resulted in the maintenance of a high degree of price stability in the latter half of the year 1923.

Since such eminent success has attended the monetary policy of the United States during the last two years, it might be well to give an account of some of the proposals for future guidance which emanate from the economists of that country. The most complete system for the control of industry through the regulation of credit is probably that worked out by Mr. Carl Snyder, general statistician of the Federal Reserve Bank of New York. The system he has evolved comprises: (1) an objective—the stabilization of prices; (2) the means for securing that objective; (3) satisfactory information and forecasting indices to permit “anticipatory” action to be taken in the application of the proposed measures.

In the first place Mr. Snyder proposes as the objective of monetary policy the stabilization of prices around a definite “normal”; he would aim at preventing prices from rising or falling more than 3 per cent above or below the given normal price level. (*American Economic Review*, June 1923, page 284.)

The principal means he suggests for carrying out this purpose are the same as those which were adopted in 1923 with a view to checking the impending boom: the manipulation of the rediscount rate and the purchase or sale of securities by Federal Reserve Banks. (*Ibid.*)

Finally, in order to control the movement of prices it is necessary not only to have an accurate measure of the movement itself when it actually takes place, but also, if possible, the means of forecasting the probable future trend of prices. Preventive action may then be taken, instead of purely compensatory action after the movement has occurred. For such a purpose Mr. Snyder and his staff have worked out two indices, an index of the

volume of trade and an index showing the rate of turnover of average bank deposits. Both these indices render possible to a certain extent the forecasting of the probable future trend of prices.

This combination of aim, means and information thus produces a system which appears to commend itself on many grounds. In the first place it adopts as its principal objective the stabilization of prices, necessarily the first step for securing the stable expansion of industry. Secondly, it proposes control by measures which have already been put into operation with some degree of success. Thirdly, the promise which it gives of supplying the necessary information for enabling anticipatory action to be taken marks a very definite step in advance and would seem to justify a measure of confidence in the success of the scheme as a whole.

It may be that there are still a number of countries in which a policy of price stabilization would meet with difficulty. There may, for instance, be no means of securing control over the loan policy of banks owing to the lack of centralization in banking or in the regulation of legal tender currency. Moreover, there may not exist a satisfactory system of measuring the movement of the price level itself. Finally, public opinion may be more generally educated to the desirability of securing stability of the exchange rate rather than stability of the level of prices.

For such countries, the stabilization of the exchange rate with a country in which the price level is already stabilized would, however, yield not only exchange stability but also a high degree of price stability.

This might be illustrated from the measures recently adopted in Denmark with a view to regulating the exchange rate with Great Britain. A fund of five million pounds sterling has been established by the former country, consisting partly of bills and other exchange instruments which can be immediately realized on the British

and Danish money markets. By the continuous purchase and sale of sterling bills it will be possible to eliminate temporary fluctuations of the exchange rate of the kroner and to a certain extent diminish long period fluctuations. However, if a rise in Danish prices relative to British were to take place this would set up a permanent tendency for the kroner to depreciate in terms of sterling. The sale of sterling bills from the fund would stem the movement for a time but only at the expense of the gradual exhaustion of the fund. If, therefore, it were found that serious inroads were being made into the fund, the next action on the part of the Danish controlling authorities would be to raise the rate of discount or by other means to restrain the issue of industrial credit internally in order that the Danish price level might be brought back to parity with that of Great Britain and thus remove the tendency for continuous depreciation of the kroner. It will thus be seen that Denmark, by stabilizing its exchange rate with sterling, binds itself to approximately the same price policy; and, in consequence, if Great Britain has been successful in stabilizing its price level about a given normal, the Danish price level will also be restrained in its fluctuations about a corresponding normal.

If, therefore, one central country were able to secure an almost unvarying level of prices internally, and if subsequently other countries were to stabilize their rates of exchange with the central currency, not only would exchange stability be secured, but also price stability over the whole area affected.

This system, universalized, is in fact in all essentials the one proposed by Mr. J. M. Keynes in "A Tract on Monetary Reform." Mr. Keynes recommends that the United States and Great Britain should separately endeavor to secure internal stability of the price level and that other countries might then conveniently use the dollar and the pound sterling as a basis for the stabilization of their exchange rates.

An earlier proposal for securing both price and exchange stability is the system recommended by the Genoa Economic Conference. This would entail the general consumption of the gold standard, or, as an intermediate stage, of the gold exchange standard. The purpose of the recovery of the gold basis, with a monetary unit of unvarying gold content, would be to secure exchange stability on the same footing as existed before the war. Stability of the value of gold, *i.e.*, of gold prices, would be secured through the control of credit, effected by the central banks of the several countries working in conjunction. In order that there should be no shortage of gold which, by limiting monetary reserves, might impede the desired credit policy, the Genoa Conference proposes a system of international regulation of the world's supply of monetary gold.

It is to be seen, therefore, that the application by various methods of an international policy of price stabilization is considered by numerous experts to be immediately practicable. The foregoing survey gives evidence of the capital importance of such a policy from the point of view of unemployment, and it is felt that no effort should be spared to discover the means for overcoming the difficulties which still confront its immediate application.

CONTROLLING THE BUSINESS CYCLE¹

Broadly, the business cycle is a constant recurrence of irregularly separated booms and slumps. The general conclusion of the committee is that as the slumps are in the main due to the wastes, extravagance, speculation, inflation, over-expansion, and inefficiency in production developed during the booms, the strategic point of attack, therefore, is the reduction of these evils, main-

¹ From the report of the Committee on Business Cycles of the President's Conference on Unemployment. p. 4, 14-15.

ly through the provision for such current economic information as will show the signs of danger, and its more general understanding and use by producers, distributors, and banks, inducing more constructive and safer policies. Furthermore, the committee has developed some constructive suggestions as to the deferment of public work and construction work of large public service corporations to periods of depression and unemployment, which, while in the nature of relief from evils already created, would tend both by their subtraction from production at the peak of the boom and addition of production in the valley of depression toward more even progress of business itself.

The report does not suggest panaceas or economic revolution, but seeks to drive home the facts that the enlargement of judgment in individual business men as to the trend of business and consequent widened vision as to approaching dangers will greatly contribute to stability, and that the necessary information upon which such judgments can be based must be systematically recruited and distributed.

The investigation shows that many firms have pursued such policies and have come through the recent period of business disaster with success and stability, and that ignorance of determinable facts accounts for the disasters to many others.

The whole problem belongs to a vast category of issues which we must as a nation confront in the elimination of waste if we are to maintain and increase our high standards of living. No waste is greater than unemployment; no suffering is keener or more fraught with despair than that due to inability, by those who wish to work, to get jobs.

Any consideration of methods to control the business cycle naturally divides itself into two parts—first, methods of preventing excessive expansion, such as occurred in the years 1919 and 1920, and second, methods

of reducing the extent of the decline and of alleviating the distress caused by the depression. To a considerable extent these two are connected and interrelated. Anything which controls expansion tends also to lessen depression. Extreme expansion leads business men to dangerous over-extension, which is followed by collapse, whereas more moderate swings of the cycle stop short of this dangerous condition, with the result that more business men are able to maintain their business in a condition fundamentally sound. In cycles where this is typical the recovery of business is much more rapid.

The problem which the committee has been asked to analyze is the possible prevention of widespread unemployment through the control of extreme fluctuations of the business cycle. The suggested remedies that have been included in the analysis made by the committee relate both to the direct prevention of expansion or inflation and to the prevention of unemployment. In the order of their discussion these proposed remedies are: Control of credit expansion by banks generally. Possible control of inflation by the Federal Reserve system. Control by individual business men of the expansion of their own industries. Control of public and private construction, including construction of public utilities, at or near the peak of the business cycle. Construction of public works in the depression. Unemployment reserve funds. Federal and state employment bureaus.

From the illustrations of business experience which we have reviewed it is evident that knowledge of one's own business should be strengthened by knowledge of the conditions in the industry of which it is a part, and by information about current and future trends in general business conditions. The business man is placed thereby in a strong position to exercise judgment based on facts rather than on guesses, speculations, or approximations.

First, he must have available for his use current

facts about general business conditions throughout the country and knowledge of the probable future trend of general business conditions.

Second, he must have the basic facts about his industry. Because his particular business is influenced by conditions affecting his entire industry, he must be in a position, with others in his industry, to study its peculiar industrial problems.

Third, he must secure enough facts about his own business to give him not merely statistics but a proper basis for judgment as to his general policies.

Fourth, he must inform himself in regard to the general credit situation and especially the attitude of his own bank toward extensions of loans.

DEPRESSIONS CAN BE PREVENTED¹

There is a great deal of misunderstanding about the so-called business "cycle." The word has been caught up for lack of a better description of the alternating periods of over-expansion and depression. It not only is incorrect, but has led many to take a rather fatalistic attitude toward business. They seem to feel that they are bound to the wheel of revolving conditions. The idea that we must have periods of over-expansion and depression every few years is entirely untrue. In this sense there is no such thing as a business "cycle." It is as unreasonable as to say that a man must be well for a given length of time and then sick for a time. What we do know is that if one over-works and abuses his health, then he must undergo a period of sickness or rest to make up for his excesses. This is merely the application of Newton's Law of Action and Reaction. If, however, he has the good sense to work at his normal capacity and avoid excesses he does not have to suffer reactions.

¹ By Roger W. Babson, in Babson's Report, Barometer Letter and Babson-Chart, February 6, 1923. From *Stabilization of Industry*. Woodlock and Goebel. p. 65-7.

The same applies to business. There is no circle of events thru which business absolutely must pass. The trend of business depends upon what people do. When the majority try to get more than they give, over-expansion results, and this in turn demands contraction and readjustment. Moreover, history indicates that in every instance the reaction corresponds to the amount of previous over-expansion. If, however, there had been no over-expansion there would have been no need of readjustment. The way to prevent business depressions is to keep business at its normal rate of prosperity. In other words, prevent the inflation and over-expansion which make depressions necessary.

The "normal" prosperity of any nation depends upon the development of its resources and the efficiency of distribution. As these two factors are increased the people of that country can have more prosperity—that is, they can have more of the comforts they desire. This, however, is the only way in which the real welfare of any people can be improved—by *producing more goods* and distributing them with less waste. Still, when you look back over our business history, you see a continuous series of fluctuations above and below this line of "normal" prosperity. We have had periods of intense activity, high prices, speculations and borrowing, followed by periods of depression, falling prices, and failures. The first we called "boom times"; the latter "hard times." In reality, however, the "boom times" were only an effort to borrow from the future—to have more luxuries than the development of our resources warranted. The "hard times" were the natural reaction, during which we paid up for our excesses.

Instead of concentrating their efforts on producing more goods and improving means of distributing them, people have forever been trying to get more of the goods already produced. This is why we have had such a succession of wasteful booms and depressions, until finally people have come to believe that they cannot be avoided.

Whenever business moves in cycles it is our own fault! The sooner we set about to prevent it the better off we all shall be.

Set your prices as low as possible and aim to make your profit thru greater production. If you have to raise wages, adopt a wage plan which will put a premium on increased output per worker. Avoid credit sales schemes which encourage people to spend money before they get it. Use your influence to defeat every piece of legislation which tends to credit inflation and the use of bank loans for permanent capital. In short, work to raise the base line of business instead of trying to force a period of artificial prosperity above it.

WHAT WILL HASTEN PROSPERITY¹

The present depression in business was not an accident. If you were watching fundamental conditions during area F, you knew full well that a depression area would result. Moreover, you knew approximately the size of the depression area. You could not tell how large the area of over-expansion would be, but when area F was completed you knew how large area G must be. Our forecast of the business reaction was based on this fact. There is nothing mysterious about it.

If some one starts borrowing money at the bank, neither we nor anyone else can tell how much he will borrow. When, however, he has gone to the limit, it is a simple matter of arithmetic to figure how much he will have to pay back. Just so with a country's business. In area F we were borrowing and the size of the area shows approximately how much we borrowed. In area G we are paying back and the size of the area shows that so far we have not quite paid back half the total. The whole

¹ By Roger W. Babson, from Barometer Letter and Babson-Chart, May 23, 1922. Reproduced in *Stabilization of Industry*. Woodlock and Goebel. p. 67-9.

sum must be paid back before we can hope for a period of full prosperity above the X-Y line.

We can, however, reduce the waste of this readjustment period. We can have very much better times than we have now. We can do this if we increase the production of every person. I do not refer to mass production. It would help nothing to double your output by doubling your labor force. This simply runs up expenses, pushes up prices and creates more goods than you can sell. If, however, you can double your own individual output and the output of each of your employees, the readjustment problem for your particular plant will be solved. Get this fact clearly in mind. There is no such thing as a general over-supply of goods. All of the present talk about over-production is fallacy. Both here and abroad there are millions now in the great need of goods. There never will be a general over-supply of goods until everyone has more than he can use profitably.

What we do see is a larger supply of goods than the consumers can buy—first, because the price is too high, second, because the consumer himself has not produced enough to earn the right to buy your goods. The second cause you yourself can do very little to remedy, except as you can influence the people with whom you come in contact. The first cause, however—namely, the price of your goods—you alone can change. If you can produce and sell your product a little cheaper than others are doing, you have no trouble in finding a market. I can point to certain concerns today which are working at capacity to fill orders, while others in the same industry are suffering depression.

What is the reason? These firms have found a way to make and sell their products for a little less than their competitors ask for goods of equal quality. Moreover, I find that in nearly all of these cases, they have gained their advantage thru greater production. Their first step took courage. It meant cutting down their

margin of profit to a minimum. I know of a case where the manufacturer even set his prices at less than his goods then cost him, but by so doing he increased his volume so much that his cost of production fell substantially under the new price he had set. In the above I referred to manufacturers, but the same fact applies to the merchant. The retail stores which are making the most money today are not the ones which are charging the highest prices, but those selling the most goods!

High prices do not make prosperity! It is the amount of service rendered which makes prosperity! If business men will shape their policies in accordance with this fact, they will do the most to improve their own business and also the general business of the country!

An ounce of prevention is worth a pound of cure. The time to prevent poor business is before it strikes! Put the problem frankly up to your entire organization—management included—that dull times are not the times to do less work, but that they can be offset by more work. Clients who are interested in the securities of corporations should keep particularly in mind the willingness of each corporation to meet this situation. The companies in which the people are willing to pitch in and fight instead of simply taking whatever business conditions come along will have little trouble this winter. They will be able to make the necessary reductions in producing costs, and they will have plenty of business!

PLANT INSURANCE AND THE BUSINESS CYCLE¹

The most obvious lesson taught by the material made available by the National Bureau of Economic Research is that there is no one panacea for mitigating the evils

¹From an article by N. I. Stone, labor manager, Hickey-Freeman Company, Rochester, New York. American Labor Legislation Review, June, 1923.

of the business cycle. As a corollary to that is the double-barrelled inference that neither the government nor private enterprise can wash their hands of their respective shares of responsibility for the amelioration or elimination of the suffering caused by unemployment as a result of the fluctuations of the business cycle. Unless it be claimed that recurring unemployment is something about which the nation need not concern itself, it would appear that the government can no longer pass the problem up to private enterprise on the plea that any measures taken by the government in this regard spell paternalism. On the other hand, private enterprise can no longer say it is not its brother's keeper and claim immunity from responsibility for more steady employment than it has been able to furnish to labor in the past on the ground that only the government can cope with the problem which is national in scope.

The use of public works as an absorber of idle labor in times of general unemployment has been so fully discussed and described in previous sessions of this association as to require no further elaboration. But, important and far-reaching as its direct results and indirect effects may be, there is an obvious limit to both of these. Public works provide direct employment, only for skilled and unskilled labor engaged in construction work; next they can cause the employment of additional labor in industries furnishing materials and supplies required in public works. The more indirect effect of creating a demand for labor in other industries catering to the wants of the two preceding categories of labor is more slow to manifest itself and obviously the wider the sphere of influence of the impulse given to industry by the starting up of public works, the less intensive its results; it may be likened to the ripples spreading in ever widening circles about the point at which a stone strikes the water—the wider the circles the less perceptible they become until they totally disappear.

At this point private enterprise must step in to sustain the quickening impulse started by public works. Time was not so long ago when the individual manufacturing concern was thought to be totally helpless in coping with the economic forces causing industrial depressions. But big business in America has blazed a new path for itself, leaving the industrialist of Europe and the economist of both continents to learn their lesson of applied economics by studying its workings. As Professor Mitchell has pointed out today, the lessons taught by progressive private enterprise have been practiced so far by a very limited number of concerns. We may join him in the hope that the profitable nature of these methods of stabilizing production and employment will lead to their rapid spread. And even if the number of concerns strong enough financially and in point of organization is limited, their influence is far reaching.

After having exhausted the expedient of public works and private enterprise, what is to be done with and for the millions of workers still remaining subject to the vicissitudes of the business cycle, to which are to be added other millions employed in mining and transportation? The only remedy which seems available is unemployment insurance. I purposely leave this to the last, for it is obviously the least desirable expedient. Unemployment insurance can only be defended as the alternative to the far greater evil of leaving millions of innocent and helpless people in distress with all the concomitant evils of poverty, disease and degradation.

Indirectly, however, it can be made a much more constructive force for industrial progress. As pointed out by Dr. Wolman, unemployment insurance can be so ordered as to offer an incentive to private enterprise to furnish regular employment. Those who from practical experience know how strongly the force of inertia is entrenched even in large-scale industries; how largely this inertia has been responsible for the failure to adopt

most obviously profitable methods, of efficient management in American industry, are not over sanguine as to the rate of rapidity at which methods of stabilization, like those practiced by the Dennison Company, are likely to be adopted by industry generally.

The memory of the stubbornness with which the adoption of legal requirements of measures of safety for the prevention of accidents in industrial establishments was fought by near-sighted employers and the storm-like rapidity with which the "safety first" movement took hold of our industrial world, when the passage of laws for compensation for industrial accidents made it profitable, cannot but picture by analogy the incentive for the adoption of the Dennison methods for stabilization of employment which a wisely devised measure of unemployment insurance would create by making steady employment yield immediate dividends to those who take the trouble to furnish it to their workers.

Unemployment insurance is not generally considered a constructive measure for the elimination of the cause of unemployment, but a palliative for the alleviation of distress; if wisely planned, however, it may be made to offer the incentive for constructive efforts.

THE FUNCTIONS OF PUBLIC EMPLOYMENT SERVICES AND PUBLIC WORKS¹

1. To organize the labor market on a national basis.
2. To supervise or supplant private employment agencies. Leiserson charges the public employment service with the duty of supervising private agencies and driving out the dishonest agents while Lescohier would abolish private agencies by legislation and give the public service a monopoly.

¹ By Bryce M. Stewart, Ph.D., joint manager Chicago and New York Clothing Market Unemployment Insurance Fund; formerly director, Employment Service of the Dominion of Canada.

3. To cooperate with the schools and colleges in vocational guidance.

4. To be a permanent laboratory for the study of fluctuations in the labor market and to collect and publish statistical and other information, designed to assist in the prevention of unemployment.

5. To assist in the control of immigration. Leiserson would have the public employment service assist the immigration service to direct immigrants into fields in which their labor is required and to prevent them from lowering standards by overcrowding other trades. In 1920 he advocated a permanent commission with powers similar to those of the Interstate Commerce Commission, which should have authority to suspend immigration for a period or to permit entry of persons who agree to work in certain industries or sections of the country.

6. To reserve public works for periods of unemployment. Leiserson gives the Federal labor reserve board the function of mobilizing national, state and local government work to withhold or release as the employment situation may determine.

7. To administer unemployment insurance. Lescohier does not deal with the relation of the employment exchange to unemployment insurance but Leiserson definitely gives the exchange the duty of assisting in its administration.

ORGANIZING HOBOING

Little, if anything can be added to the functions already enumerated but perhaps some comment may be made in view of subsequent experience. The first function—the organization of the labor market on a national basis—demands placement work of the highest order. Every year whole armies of men migrate, as the seasons dictate, between lumbering, farming, railway maintenance, construction and longshore work. This movement is entirely unorganized. The workers follow the will-

o'-the-wisp of rumor or the advice of a private employment agent. They wait weeks in western cities for the harvest to ripen or the lumber camps to open. Apparently, it has not occurred to us that they might be spared much of this loss of time or that the unskilled labor shortage, which is so widely discussed whenever rough labor wages pass the 40-cents-per-hour mark, is in part due to this wastage. A public employment service could educate the workers not to migrate on hearsay but to make their employment contracts under its auspices. No doubt many transactions would be completed outside the service—"on the curb"—but the competition of the official service would force the outside operators to discontinue some, at least, of their malpractices. To organize in this field, to establish a public employment service charged with the duty of dovetailing employments in these occupations and of enlisting the cooperation of the great employing interests to that end would mean effort. It is so much easier to demand another hundred boatloads of immigrants. In America, with our highly seasonalized industries, there must be some "hoboing." A national employment service would make it "organized hoboing."

COMBATTING INTERNATIONAL "LABOR STEALING"

We may now be able to sketch in a little more boldly the relation of a Federal employment exchange to immigration. We are finding that immigration is not merely a question of importing new citizens and deporting those who prove unsatisfactory and that it involves considerations other than additional national quotas. It is a question of supply and demand and distribution. The International Labor Conference at Washington proposed that international migration of workers should be permitted on approval of the employers' and workers' organizations in the countries affected. This recognizes that *immigration is a question of employment*. The employers in the

labor-exporting countries may be as loath to see the workers go as labor in America to grant them admission. We have heard a good deal about "labor stealing" but for the most part it is the merest pilfering in comparison with the international "labor stealing" committed in the name of immigration.

It seems likely that a day is coming when international migration of labor will be largely a matter for arrangement between the employment services of the countries concerned. No government will broadcast a call for immigrants. Employers seeking to secure workers from abroad will be requested to notify their requirements to the nearest employment bureau, which will endeavor to secure the labor locally. If unsuccessful, the bureau will resort to the clearance system of the service in an effort to locate the workers on the registers of some other office and to arrange for their transfer to the point of demand. If the required labor is not secured in this way the requisition will be forwarded by the national headquarters to the employment service of a labor-supplying country, where the record of those registered at the local offices for employment abroad will be consulted. A number of applicants will be interviewed, selection will be made in the presence of a representative of the importing country, and the workers referred to him for direction to the employer. *A beginning of this effort to control the international migration of labor by means of employment exchanges is already in evidence within the British community of nations.*

Lescohier makes no mention of the function of sharing in the administration of a system of unemployment insurance. He merely states that England alone has established unemployment insurance in connection with a national employment exchange system. Since "The Labor Market" was written, however, Italy, Austria, Switzerland, Luxemburg and Poland have followed the English example and in England the scheme has been extended to practically the whole industrial population.

The movement for unemployment insurance in the United States has taken another direction and some gratitude has been expressed that in the matter of unemployment insurance we are not as these Englishmen. Whether we shall follow England or Wisconsin, or both, is not within the scope of this paper but one may express the view that *a public employment service cannot function to the best advantage unless accompanied by a national scheme of unemployment insurance.* Without it employment exchanges cannot get control of the labor supply. An employer enquires if the service could supply him with sufficient labor if he were to undertake another contract and the reply is a conjecture, for all unemployed workers do not come to the office. *Banks use interest to attract idle money and an employment service needs unemployment insurance to induce unemployed workers to register.* The statistics of public employment offices show that the curves of applications for employment and positions offered have the same downward trend in periods of slackness when, of course, vacancies should decline and applications should mount. In the distribution of unemployment relief in the recent depression the Canadian government required that unemployed persons seeking relief should be registered at the local offices of the employment service of Canada and immediately the curves took divergent trends, applications mounting rapidly. *Without unemployment insurance, therefore, an employment exchange cannot tell the numbers of unemployed, where they are located or their occupations; in short, it cannot give the information essential for any effective treatment of the situation.*

As to public works, without unemployment insurance it will be difficult to break governments of the habit of distributing postoffices and armories among the loyal constituencies when revenues are good and of conducting economy campaigns when revenues fall. *If a government had to bear part of the cost of unemployment insurance it would be impelled to reserve some public*

works for periods of depression. If the cost of unemployment insurance were borne by employers and workers, or by employers alone, they would see to it that the government should plan to diminish unemployment by the release of contracts in slack times.

Unemployment insurance would prove a powerful auxiliary in the work of dovetailing employment. The railroads release tens of thousands of track laborers every autumn and the lumber camps recruit large numbers of men of this class at the same season. The officer in charge of a public employment service who in the present state of affairs has the job of persuading the two managements to organize a transfer of the workers will never be unemployed. If, however, unemployment insurance obtained, the employers would meet him more than half way.

Too much emphasis cannot be placed on the need for a comprehensive program against unemployment. America has come to the fore in the last decade in the effort to regularize employment within the plant and it was right that success should come first in that field. But surely we may now give more attention to extra-plant, inter-industrial employment work. There is need for a national employment service to render the various social services indicated but, as England foresaw, an employment exchange can only be partially effective unless accompanied by a national scheme of unemployment insurance. The various lines of effort against unemployment will fail in individual assaults; they will triumph as units in a coordinated attack.

A MANUFACTURER AVERTS UNEMPLOYMENT BY INTELLIGENT PLANNING¹

How the management of a large industry making pipes and fittings has averted unemployment through

¹ From the American Labor Legislation Review. March, 1923. p. 23.

proper planning, was described in an address at a recent meeting of the National Personnel Association.

Howard Coonlay, president of the Walworth Manufacturing Company, New York City, told how his company had worked out a policy of continuous employment despite the seasonal fluctuation in the demand for products. In bringing about coordination, he explained, the company's officers studied future possibilities for at least a year in advance, and formulated a production program to meet the demand expected when the autumn months should arrive, those months marking the peak of demand. He said:

Our difficulty was in finding a method of estimating sales in advance. Upon my original study I was amazed to find that we turned about 23,000 different finished products. By classification we grouped them into thirty-nine classes, and later reduced that grouping to fourteen. We then studied the seasonality of sales, and were surprised to find that fluctuations were very definite, coinciding accurately with the business cycles charted by two services. The first year that we adjusted ourselves to the new departure was in 1922, when we estimated that sales would run 43 per cent above those of 1921. And at the end of the year we found the estimate very accurate, the actual increase having been 44 per cent.

This policy enabled us to meet every requirement and to give men work for the whole year. This meant that we could promise continuous employment, could tell our purchasing agents what and when to buy and our financial department the amount that would be necessary in dollars and when. *Production was more economical, the men were better satisfied and constantly on the job and efficiency all around was improved.* The proper study of sales possibilities and market conditions and the correlation of the production program thereto will bring about the best results in industrial relationships. We know, and those of you who haven't tried it have been losing a big opportunity.

BUSINESS CYCLES AND INDIVIDUAL PLANT MANAGEMENT¹

Modern industry is built on credit and is constantly at work creating a supply in anticipation of future de-

¹ By N. I. Stone, Ph.D., general manager, Hickey-Freeman Company, Rochester, New York, from a paper read before the Taylor Society. Transactions of the Taylor Society. June 7, 1923.

mand; under the precapitalistic industrial systems, the producer always worked for the customer whom he knew personally; supply followed demand, and transactions were based on cash payments or on exchange of goods, but not on credit. The craftsman of old was satisfied with the trade which came to him from his customers, with whom he was in personal contact; when his apprentices grew to be journeyman mechanics they left him one by one to set up in business for themselves; in other words production continued on a small scale and there was no impelling force to drive the producing craftsman to build up a larger and larger business. The advent of the steam engine and mechanically propelled machinery produced a revolution in the industrial order. It made for growth of the industrial unit. It brought about standardization of products, which in turn made possible working ahead of the demand. This brought two forces in its train unknown before; the element of speculation in business and the necessity of doing business on credit.

Freed with the aid of credit from the shackles imposed by the limitations of its own capital resources, forced by competition to seek constantly for new and expanding fields and lured by the law of increasing returns and diminishing costs as production is carried on in increasing scale, modern industry leaped forth in a manner that was not dreamed of before these modern forces had come into play. It was inevitable that under these circumstances productive capacity should soon outstrip the demand and that we should get periodic gluts in industry after industry as they expand in obedience to the newly released economic forces. There is no escape from the operation of economic law for any concern that wants to play the modern industrial game. Engineering efficiency will sharpen the weapon of the individual concern for the competitive struggle and will enable it to survive at the expense of its less efficient

rivals when the next industrial cyclone with its inevitable depression of prices wipes out those whose costs of production make it impossible for them to survive. But if every manufacturing concern were on an equal plane of industrial efficiency, it would not prevent the recurrence of the business cycle so long as there is no central authority to gauge demand and to keep the production of an entire industry down to that demand; so long as each individual concern is free to enlarge its output without regard to the output of the rivals and is under constant pressure to do so under the workings of competition and of the economic law of increasing returns. In fact, if all were equally efficient, it would only serve to hasten the rate of growth at which production (supply) outstrips consumption (demand) under the capitalist order. In the hypothetical case of equally efficient industrial units, victory would be with those best equipped financially to weather the storm.

TECHNICAL MANAGEMENT AND THE CYCLE

With these facts as a background, I shall try to answer the two questions assigned to me for discussion. 1. Would it promote more precise and economical technical management in our plants if cyclic fluctuations could be materially reduced? 2. Are there probable ways in which the managements of enterprises acting either individually or collectively can reduce cyclic fluctuations?

Answering the first question. The recurrence of business cycles is one of the worst, if not the worst, disturbers of managerial plans for the orderly and economic operation of industrial plants. Efficient plant operation above all requires regularity in the repetitive processes of industry. This regularity is widely upset by the intrusion of outside economic forces having nothing to do with internal plant management and over which the plant engineer has no control. Plant organizations, including specialists of high degree, skilled mechanics

trained and disciplined through years of hard work in the special processes developed in the particular plant, plant morale built up through the laborious effort of the employment manager, an *esprit de corps* developed among the staff of executives and foremen, all are swept away almost overnight through the necessity of shutting down the plant dictated by the sudden cessation of orders and the drying up of bank credit.

When plant operations are resumed after the storm is over, most of the work of the plant managers must be done over again with a newly rebuilt organization. Even the work of unskilled labor suffers under the circumstances, for there is hardly any labor, no matter how low the degree of skill, that does not gain in efficiency through acquaintance with and adaptation to the conditions of each plant, and it, therefore, takes time to "tune up" a plant to a performance somewhere near 100 per cent of its capacity.

CAN MANAGEMENT HELP REDUCE CYCLIC FLUCTUATIONS?

Granted that business cycles are caused by general economic causes, it follows that they can be dealt with effectively only through counteracting forces of a similar nature. If the big force in modern business is credit, it is obvious that control of credit with the business cycle in mind is pregnant with great possibilities as long as credit was dispensed by individual banks to individual customers solely from the point of view of day-to-day requirements of those customers on the one hand, and their financial reliability on the other, the credit instrumentality was as much a blind force in the operation of the business cycle as the manufacturing unit itself. But with the creation of the Federal Reserve Board and the pooling of all cash and credit resources into one national pool, the possibilities of a unified control of credit on a national scale from the broad viewpoint of the best na-

tional interests and from the long range view of the business cycle, rather than the short range view of immediate prospects and orders on hand, are well-nigh limitless.

Those who were privileged to hear Professor Friday's address at the New York meeting of this society some two or three years ago, may recall his brilliant scheme for insuring continuity of production through the instrumentality of some such national agency as the Federal Reserve Board. Without entering into consideration of his ambitious and far-reaching scheme, it is obvious that this is the one agency in the country which today is in the possession of more complete information as to the business activities of the country than any other institution. With that information at hand, it is in a position to tell when the industrial activities of the country have reached a point of saturation beyond which farther extension means only competition for existing supplies of material and labor, which can only lead to artificial price inflation with the inevitable collapse in the end. A word of warning from the Federal Reserve Board at this point, coupled with the refusal to discount commercial paper given for financing additional business, can put more powerful brakes upon the over-speeding engine of industry than any other single force. By doing so, the board would arrest the upward flight of the cyclical curve and thereby reduce the extent of the subsequent fall. Conversely, through its knowledge of the extent to which the depletion of stocks on hand has gone on, and from its commanding position of control of the national cash and credit resources, the Federal Reserve Board would be in a position of encouraging the resumption of industrial activities at a much earlier stage than has been possible for individual banks and individual business enterprises in the past, with the limitations upon their knowledge of national conditions and upon their individual resources. In other words, the cycle curve would be more or less flattened out. . . .

Next to the control of credit are the public works operations of the national, state, county and municipal governments.

We are now in a position to answer the second question as to ways in which management of enterprises can reduce cyclic fluctuations. It can do so by seconding the efforts of the government authorities by doing certain work in slack times rather than in busy times as has been practiced until now. To do so requires almost a complete reversal of policy on the part of the higher business executives. What from a short-range point of view seemed the acme of conservatism and sound business policy, becomes shortsighted and suicidal from the long-range view of the business cycle.

An illustration will make this clear. When business falls off or only tends to fall off, the usual advice of the banker or the policy of the conservative chairman of a board of directors is to reduce the overhead. Executives of long experience, even though of minor standing, are unceremoniously dismissed, the selling force is greatly curtailed, the advertising appropriation is cut down and everything in the nature of an overhead expense is cut to the bone. This is pointed to "with pride" in the report to the stockholders as evidence of sound management.

When Mr. Henry S. Dennison saw the signs of the approaching storm of 1920, he began preparations for meeting the coming emergency, not by cutting down the force still further, but by practically doubling it, in order to be in a position to make the increased selling effort which bad times require. Instead of curtailing his advertising appropriation, he spent more money than ever when the depression set in. Instead of "trimming his sails," he put new products on the market when old ones did not sell as well as before. Instead of being liberal with credit in boom times and curtailing it to the limit in hard times, he reversed the process and thereby flattened

the cycle curve of his own business to an extent that seems almost unbelievable.

Not every business can work to stock, but where the product lends itself to such purpose and the financial and credit resources of the company permit of such practice, it is the height of wisdom to make up stock in times of depression when costs of production are at a minimum, and have goods ready for immediate delivery when orders begin to come in. The effect of this is, of course, to flatten the curve of the cycle.

The same is true of the building program of a business. Any company which has been in business for more than ten years can plot its own growth against a curve of general business conditions and guide its own building extension program so as to build additions and add to its equipment not at the crest of the business curve at its highest costs, as is usually done, but rather during slack times at minimum costs in preparation for the next upward swing of business.

This adaptation of the individual business to the swings of the cycle will have a two-fold effect; first, to reduce to a minimum the losses resulting from failure to foresee the course of general business and steering one's own business accordingly; second, the aggregate effect of several concerns doing the same thing would be to tend to flatten out the business curve. How marked the effect of such individual action would be in the aggregate, I can indicate best if you will permit me to quote from a recent article of mine.

When it is remembered that out of a total of 290,105 concerns engaged in manufacturing and mining, 1,019 concerns or 0.4 per cent employing 1,000 or more workers each, give employment to more than 26 per cent of all the wage-earners employed in these industries and that 2 per cent of the plants employ more than 53 per cent of all the workers in these industries, the tremendous aggregate over which this comparatively small number of concerns could exert in modifying the business cycle will become apparent. Apart from the direct purchasing power as users of the products of other industries, coupled with the

purchasing power of their employees as consumers, would have a great steadying influence on the demand for the products of industries and concerns which might not be taking any initiative or making any conscious efforts to adapt themselves to the business cycle. The cumulative power of private initiative can thus be made a powerful factor in seconding governmental efforts to control the business cycle.—*Business Cycles and Unemployment. National Bureau of Economic Research. p. 133.*

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