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A FEDERAL LABOR RESERVE BOARD FOR THE UNEMPLOYED

OUTLINES OF A PLAN FOR ADMINISTERING THE REMEDIES FOR UNEMPLOYMENT

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In dealing with unemployment the point has been reached where we must have administrative machinery to put practical remedies into effect. The theoretical analysis of the problem is complete. The general nature of the facts is well known, the evils are undisputed, the principal remedies have been logically deduced and their soundness has been established. Says Sidney Webb, the London publicist who has given years of study to the subject of unemployment, "*the problem is now soluble, theoretically at once, and practically as soon as we care to have it solved.*"¹

The remedies for unemployment are not new. Napoleon instructed his ministers to prosecute public works to keep labor employed at home. Horace Greeley advocated public employment bureaus in the *New York Tribune* more than sixty years ago. And labor unions have been paying out-of-work benefits for more than a quarter of a century. These same measures—labor exchanges, unemployment insurance and the prosecution of public works in times of depression—are the remedies advanced by all intelligent students of the subject today.

Why then have we made so little progress toward putting these well-known remedies into effect? Why must the unemployed suffer every winter and why are we overwhelmed by the problem every ten or fifteen years? It would seem to be because we have given too little attention to the administrative measures necessary to make the remedies for unemployment practical and effective. Legislators have hesitated to enact laws that contained no machinery to make the remedies work out successfully. Especially was this true after

¹ Preface to a Bibliography on *Unemployment and the Unemployed* prepared by F. Isabel Taylor, London, 1909, p. vii. Mr. Webb together with his wife Beatrice Webb played a most important part in working out the comprehensive system of labor exchanges and unemployment insurance now in operation in Great Britain.

several states had enacted employment office laws which failed to accomplish their purposes.

When the British Royal Commission on the Poor Laws reported in 1909 that "it is now administratively possible . . . to remedy most of the evils of unemployment, to the same extent, at least, as we have in the past century diminished the death rate from fever," it had available plans for labor exchanges and unemployment insurance with the details of their administration well worked out. And it was not long after the commission reported that the plans were adopted by Parliament. In this country we have had many investigations of unemployment but the reports have usually contained recommendations of a most general nature with little attention given to describing the administrative machinery necessary to put remedies into practical effect.

When Congress undertakes to act on this most perplexing problem it will want to know not so much that labor exchanges, insurance, etc., are advocated to relieve distress from unemployment, but rather just how these measures can be practically and successfully administered. In the hope of meeting the need for such information in part at least, we attempt to outline here the structure and organization of a national labor reserve board and to describe the manner in which such a board might apply the principles and administer the remedies which a century of investigation and analysis of unemployment has proved necessary and desirable.

WHY A LABOR RESERVE BOARD?

The first question that might well be asked is, "why should this administrative organization take the form of a labor reserve board? Is the labor market so analogous to the money market? Can the labor supply be contracted, expanded and shifted around in the country to meet varying needs, as money and credits can be?"

The answer is that, while the problems of the labor market are not exactly analogous to the problems of the money market, there is a fundamental similarity. Both are problems of irregularity of employment, the one of capital, the other of labor. The main reason for advocating a labor reserve board is that the Federal Reserve Board already in existence is an administrative machine created for the purpose of dealing with fluctuations, with varying, irregular demands for capital. The problem of unemployment is also a prob-

lem of fluctuations, of irregular demands. Although labor is essentially different from capital, and a labor reserve board may have to do quite different things from the financial reserve board, nevertheless the administrative organization for dealing with irregular and fluctuating demands for labor will have to be similar to the organization that deals with fluctuations for money and credits.

To appreciate the comparison it must be understood that unemployment is not a problem of a superfluous army of workers beyond the country's needs. Every careful student of the subject has pointed out that the unemployed are a necessary labor reserve, *irregularly employed and not permanently unemployed*. The progress of industry, improvements in machinery and methods, seasonal trades and the recurrence of prosperity and depression make this reserve necessary and inevitable. There could be no industry as we know it and no industrial progress without such a reserve, any more than there could be safety from fire if there were no firemen waiting for the call whenever it should come. And if we banished half of our wage-earners today the other half would soon arrange itself in such a way that at any given time some would be working and others would be waiting—unemployed. These reserves, however, are temporarily, not permanently, out of work. At any given time the unemployed are but a sample of the reserves. The unemployed man, as one authority puts it, is an industrial factor, not a parasite upon industry.²

Statistically this irregular employment is represented by the fluctuating line showing percentage of workers unemployed. "Can you see in your mind's eye," asks Mr. Paul Warburg, a member of the Federal Reserve Board, "the curve representing the fluctuations of our past interest rates? You will find it a wild, zigzag line rapidly moving up and down between more than one hundred per cent and one per cent. Teach the country to watch that curve in the future,

² The picture we commonly have in our minds about unemployment is the cartoonist's caricature—a long line of hungry hoboes waiting for meals and lodging—"Our Standing Army." But this does not accurately describe the problem. A truthful illustration is that recently published in a report on the Unemployed in Philadelphia (*Steadying Employment*, by J. H. Willits, Supplement to *The Annals*, May, 1916). This shows a revolving platform with working men being constantly thrown off and jumping on again, and bearing the legend "The Industrial Roulette Wheel—Off Again—On Again—Fired Again."

the straighter the line, the smaller its fluctuations, the greater will be the beneficent effects of our system."³

What is it, then, that the reserve board is doing? It is trying to regularize the employment of capital, to remove fluctuations and to make it more steady. Look at any chart showing the curve of employment and you will find a similar zigzag line fluctuating between more than forty per cent unemployed and a minimum of about three per cent. The recurrence of busy and slack seasons in different industries and the industrial cycle of prosperity and depression which show themselves in the employment curve are paralleled in charts published by the Monetary Commission showing fluctuations in interest rates. And if we look to the conditions which the United States Monetary Commission found in the money market, we may see that the reasons given for the creation of a money reserve board will also hold for a labor reserve board.

THE MONEY MARKET

The Monetary Commission reported as follows:

1. We have no provision for the concentration of the cash reserves of the banks and for their mobilization and use wherever needed in times of trouble. Experience has shown that the scattered cash reserves of our banks are inadequate for purposes of assistance or defense at such times.

2. We lack means to insure such effective coöperation on the part of banks as is necessary to protect their own and the public interests in times of stress or crisis. There is no coöperation of any kind among banks outside the clearing house cities. While clearing house organizations of

THE LABOR MARKET

Could not this be paraphrased to read?

1. We have no provision for the concentration of the labor reserves of the various industries, and for their mobilization and use wherever needed. Experience has shown that the scattered labor reserves maintained by each employer and each industry make for duplication and unnecessarily large reserves.

2. We lack means to insure such effective coöperation of employers and employment agencies to protect the interests of the unemployed as well as of the public. There is no coöperation of any kind among employers or employment agencies except where the former main-

³ The Federal Reserve System.

banks have been able to render valuable services within a limited sphere the lack of means to secure their coöperation or affiliation in broader fields makes it impossible to use these to prevent panics or to avert calamitous disturbances affecting the country at large.

3. We have no power to enforce the adoption of uniform standards with regard to capital, reserves, examinations, and the character and publicity of reports of all banks in different sections of the country.

4. The narrow character of our discount market, results in sending the surplus money of all sections, to New York, where it is usually loaned out on call on stock exchange securities, tending to promote dangerous speculation and inevitably leading to injurious disturbances to reserves.

tain a blacklisting bureau and the latter get large enough fees to divide between several labor agents. While state labor departments have been able to render valuable services within a limited sphere where they have had a central office for several public employment bureaus, the lack of means to secure their coöperation on a national scale and the limited nature of their activities, make it impossible to use these to mitigate the effects of great industrial depressions.

3. We have no power to enforce the adoption of uniform standards with regard to records, methods of management, publicity and reports of all employment agencies public and private in different sections of the country.

4. The narrow character of our market for labor (depending on the connections which the individual worker can himself establish) results in sending the labor reserves of all sections to New York, Chicago and other very large industrial centers, where it is usually possible to pick up an odd job when regular employment fails. This tends to promote parasitic industries based on cheap labor and inevitably leads to under-employment and exploitation of the surplus labor reserves.

5. We have no effective agency covering the entire country which affords necessary facilities for making domestic exchanges between different localities and sections, or which can prevent disastrous disruption of all such exchanges in times of serious trouble.

6. We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world.

7. Our system lacks an agency whose influence can be made effective in securing greater uniformity, steadiness and reasonableness of rates of discount in all parts of the country.

5. We have no effective agency covering the entire country which affords necessary facilities for directing our migratory workers to different localities and sections, or which can mobilize the public work of the country to prevent disastrous industrial crises.

6. We have no instrumentality that can deal effectively with the industrial cycles of prosperity and depression, international in their scope, the markets and labor demands of the United States as one of the great industrial nations of the world.

7. Our system lacks an agency whose influence can be made effective in securing greater uniformity and steadiness of employment, and reasonable rates of pay for labor in all parts of the country.

There is the parallel so far as it can be drawn. Analysis of the labor market shows that labor reserves are made unnecessarily large and unemployment increased by each employer keeping a full reserve for himself. If provision were made for mobilizing the reserves at central labor exchanges the same workers might be used by different employers and the total reserves could be reduced, just as banks connected with the federal reserve system now keep only a fifteen per cent cash reserve instead of twenty-five per cent required before the reserve board was established. Private labor agencies are uncontrolled when they operate across state lines. They scatter the labor reserves and exploit the unemployed, while the operations of public employment agencies are restricted to small areas and their influence limited. Industrial depressions are accentuated by

governments cutting off funds for public work in hard times, when an effective national agency might save from prosperous times part of the public work and mobilize all of it in hard times and use it to create demand for labor and thus offset the industrial depression.

WHAT SHALL THE LABOR RESERVE BOARD DO?

We need no more investigating commissions to tell us that the first step in any program of dealing with unemployment must be to organize a national system of labor exchanges. Just as the first work of the Federal Reserve Board was to unite all the banks of the country into one system, so the first duty of the Labor Reserve Board must be to organize all the employment offices of the country into one system of labor exchanges.

But how to organize that national labor exchange system? What sort of a system shall it be—and how administered?

There has been much loose talk about the federal government establishing employment offices, like post offices, throughout the country, or making the post offices do the work of employment bureaus. No federal labor exchange system can be successful that ignores the existence of the state and municipal employment offices. There are now about one hundred of them in more than half the states, and some of them have reached a high degree of efficiency and influence in their communities.⁴ For the federal government to duplicate their work or to try to compete with them would seem most unwise. And coöperation or dividing the field between local employment offices conducted by the United States government and others conducted by the states is out of the question until all offices have a common understanding of what their work and their methods should be, and are under the direction of one central agency. The Federal Reserve Board did not establish new local banks. It welded the existing banking institutions into one national organization, while yet allowing them much freedom to develop in their own ways. It is just that sort of a labor exchange system that must be constructed out of the existing employment offices.

The recognition of this has led many people to advocate "clearing houses" for employment agencies to be established by the United States government without giving a definite idea of how such clearing

⁴ See *Monthly Review of the United States Bureau of Labor Statistics and Bulletin No. 192*.

houses would operate. There is no doubt that a labor exchange system will need district offices, similar to the twelve federal reserve banks for the banking system. But these cannot be created, cannot have any real work to do until the local offices have been put under national control, their records and business methods standardized, their management made uniform. At the present time they vary so in their organization and methods that neither comparison nor coöperation among them is possible.

To lay the foundations, therefore, and to create the administrative machinery for a labor exchange system, the Federal Labor Reserve Board will establish a central bureau in Washington and build up a force of employes trained in methods of organizing and managing employment offices, in devising and keeping records, in collecting and studying labor market statistics and in supervising the work of local employment bureaus. With this force the federal board can aid states and cities in establishing employment bureaus, help in devising plans of organization for them, assist in installing uniform systems of records and management, and supervise their work to maintain minimum standards of service and efficiency.

As an inducement to state and city employment offices to join the national system, the Labor Reserve Board might give each local bureau a number as a branch of a United States labor exchange, and offer to each bureau which affiliated as a branch and adopted the minimum standards the franking privilege, for its postage, a privilege which is now enjoyed only by the federal offices. Plans are now afoot for grants in aid of vocational education, road building and other matters of national concern. A Labor Reserve Board might recommend federal aid to the states to bring their employment bureaus up to a national standard of efficiency and to induce them to deal with unemployment in conformity with a national plan.

Instead of establishing clearing houses with uncertain duties, the Federal Labor Reserve Board, if it is careful, will create district offices in different parts of the country for the purpose of licensing and regulating private labor agencies doing an interstate business. The purpose of this regulation should be to drive the dishonest agents out of business and to bring the rest under the control of the national labor exchange system until such time as the people decide to keep private individuals out of the employment business entirely. This regulation is an immediate need. There are probably close to 5,000

private labor agencies in the country. In the work of regulation the government officials would get the knowledge and experience necessary to conduct large-scale public labor exchanges, and when both the public and the private offices have been standardized and brought under national control, it would then be plain whether the District Offices could function as clearing houses and just how they should do it.

The essential duty of a system of labor exchanges is, of course, to distribute reliable information regarding labor supply and demand, and to connect the two as quickly as possible. As a means of accomplishing this a *Labor Market Bulletin* of some kind is necessary. Such a bulletin must be designed to overcome the evils that now result from indiscriminate publicity given by newspapers. It is obvious that the genuineness of demands for labor must first be established, but even though the statements of demand are absolutely true, it is none the less mischievous to distribute them indiscriminately through the press or post office. Forty thousand men may really be needed in Kansas, but over 100,000 may respond to the call, unless the traveling in answer to the call is controlled by local employment offices. This has actually happened, and it is for this reason that the American Association of Public Employment Offices has gone on record against the widespread distribution of labor market bulletins.

Instead of such a scheme of widespread distribution, the Federal Labor Reserve Board will therefore issue a bulletin intended primarily for employment bureau officials, just as the *Federal Reserve Board Bulletin* is intended primarily for bankers. From this abstracts will be made for newspapers, but never in such a way as to lead workers to travel to a distant place for work without making certain of an opening there by applying to the local branch of the labor exchange.

OTHER WORK OF THE LABOR RESERVE BOARD

There are other important administrative questions which need consideration.

First among them is the policy of using public work to regularize the labor market. Here again the financial reserve board can offer an example to a labor reserve board.

The aim of the federal reserve system, to quote Mr. Warburg again, must be to keep this gigantic structure of loans and investments both from over-contracting, and, as well, from over-expanding, so that, as the natural and inevitable result, it may not be forced to contract. . . . Effectively to deal with the fluctuations of so gigantic a total is a vast undertaking. If the task is to be accomplished successfully, it cannot be by operations which are continuous and of equal force at all times, but only by carrying out a very definite policy which will not only employ funds with vigor at certain times, but, with equal determination, will refuse to employ funds at others. . . . To bring about stability of interest rates, judicious withholding, and in turn judicious employment by the Federal Reserve Banks, of their lending power are necessary.⁵

By such a policy of withholding and offering the Federal Reserve Board, with a lending power of only \$600,000,000, is able to steady and stabilize the operations of banks and trust companies with loans and investments amounting to \$13,000,000,000.

How much our governments might do to keep the labor market from over-contracting and over-expanding by withholding public work in time of active labor demand and prosecuting such work vigorously in times of depression, we can only guess at until we have a Federal Labor Reserve Board to devise the plan of mobilizing the work of national, state and local governments and of judiciously withholding the prosecution of such work. In England it has been estimated that if 3 or 4 per cent of the public work were saved in prosperous years, to be used in years of depression, enough would be accumulated to make up the reduction in pay roll caused by the depression. How the government may "employ funds with vigor at certain times," and "with determination refuse to employ funds at others" is a policy which can be successfully determined only by a permanent Labor Reserve Board.

Second, the collection of information regarding the opportunities for self-employment in the United States, particularly on the land. The Labor Reserve Board must study and devise methods and machinery for helping workers to acquire land on easy payments, and for securing small homesteads in suburban districts for city workers. When the factory slows down let the wage-earner have a garden to work. It can be made to supplement his income considerably and may be one of the most effective remedies for unemployment, as Rowntree's study in Belgium has shown. Mr.

⁵ *Federal Reserve Bulletin*, March, 1916, p. 103.

Crosser's bill (H. R. 11329) is a step in the right direction when it provides for unifying and harmonizing the duties and powers relating to distribution of labor and land settlement with a view to recommendations for further legislation. But this as well as the work of the National Colonization Board which the bill proposes to create would be much better accomplished by a Federal Labor Reserve Board that administers the fundamental machinery of the labor market, the labor exchanges.

Third, the board must work to prevent trades and industries from becoming overcrowded, oversupplied with laborers. The industries and localities which are growing and in need of labor will be made known and warnings issued against the trades and places which are oversupplied with labor and where unemployment is most prevalent. This service will be connected with the schools to enable them to guide juvenile workers into promising employments; and the immigration service also will be assisted in directing new workers into fields where their labor is needed and in preventing them from lowering standards by overcrowding trades.

Finally the duty of the Labor Reserve Board must be to devise a method of administering unemployment insurance in this country, and to conduct such a system in connection with the public labor exchanges. Until this can be accomplished it will encourage and assist workers to insure themselves against unemployment, help trade unions to establish and extend out-of-work benefits and show public authorities how unemployment insurance can be practically conducted to relieve distress among the workers and encourage policies of prevention of unemployment among employers.

It will be noted that aside from the conduct of employment bureaus the functions of the Labor Reserve Board are stated in the most general terms. The practical details of shifting public work, colonizing unsettled land, helping workers acquire homesteads and guiding young people and immigrants into desirable vocations require further investigation before Congress can legislate. The law can create the labor-exchange machinery at once. For the rest the Labor Reserve Board will conduct a permanent laboratory and be the responsible authority for studying unemployment, devising remedies and making recommendations to Congress, just as the Reserve Board handles new problems in the money market.

HOW THE LABOR RESERVE BOARD WILL BE ORGANIZED

We can hardly hope that our government will do as it did with the money question, hire a board of five highly trained men and pay them each \$12,000 a year to work out the problems of the labor market. At least, not till labor is much more powerful in the councils of the nation than it is at present.

A good beginning, however, can be made by making the Secretary of Labor and the Commissioner of Labor Statistics ex-officio members of the Federal Labor Reserve Board, just as the Secretary of the Treasury and the Comptroller of the Currency are members of the financial reserve board. In addition the Secretary of Commerce, as representing the other side of the labor bargain, should be appointed and also the Secretary of Agriculture. To these can be added a Commissioner of Employment appointed by the President. The five men will then constitute the Federal Labor Reserve Board of which the Commissioner of Employment will be chairman. The relation of the board to the Department of Labor should be the same as that of the Federal Reserve Board to the Treasury Department, independent and free to experiment and strike out along new lines, but always in close connection with the department that handles all labor problems.

As a beginning toward building up the expert force a Director of Labor Exchanges should be appointed which later might be followed by a Director of Public Works, Director of Unemployment Insurance, etc. When the organization is fully developed these officials might themselves be the Labor Reserve Board, but for a beginning the other form of organization would be sufficient.

The Director of Labor Exchanges should be Secretary and chief responsible officer of the board. He should also act as Secretary of the Advisory Council, which must be an important part of any labor reserve system, the organization and functions of which we must now consider.

ADVISORY COUNCIL

No plan of dealing with unemployment can expect to succeed which does not recognize the conflict of interests between labor and capital. The neglect of this in the organization of our state employment bureaus has been largely responsible for their ineffectiveness. If we do not recognize the struggle frankly and bring it out into the

open under public scrutiny, it will go on in the dark behind our backs, each side seeking to gain control of the labor reserve machinery to promote its own purposes.

In the organization of the financial reserve board there were three interests to be considered. There were first the business men and the bankers; and the authorities representing the public constituted the third interest. The Federal Reserve Act met the problem of these conflicting interests by creating an Advisory Council composed of one member selected by the Director of each Federal Reserve Bank. These directors in turn were divided into three classes, one-third of them representing the banks in the reserve district, another third representing the business men, and the other third appointed by the Federal Reserve Board to represent the public.

Similarly the Labor Reserve Board must have a federal Advisory Council to represent conflicting interests. The organized employers and the organized workers of the country should each be called upon to nominate representatives, and the states and cities which conduct public employment bureaus might be given the same privilege. Three or five members from each of these interests appointed by the President would constitute the Advisory Council to meet in Washington four times a year or oftener with the Labor Reserve Board just as the Advisory Council of the financial reserve system meets with its board.

The council will advise and assist in all matters dealt with by the Labor Reserve Board. Questions of policy, proposed investigations and all rules and regulations for the administration of the labor reserve system would be submitted to this council. No rule or policy will be adopted until it has first been considered by the council. The board need not necessarily be bound by the action of the council, but the votes and the opinions of the interests represented should be recorded and made public, so that policies which may become political questions can be kept in the open, decided by the people and by Congress, and not left to the manipulation of one side or the other.

An additional, most important function of the council would be to aid in the selection of the staff that is employed by the board. The staff, of course, will be in the classified civil service, but a prime qualification of the officials must be impartiality as between labor

and capital. Only such candidates should be placed on the eligible lists as have the confidence of the representatives of labor and capital on the Advisory Council. The ratings that these representatives give must be made a part of the examination, which necessarily will consist largely of oral interviews.

This form of civil service is to be applied not only to subordinate employes, but to all officials of the labor reserve system including the Director of Labor Exchanges. These officers have no political policies to decide and should have a secure tenure of office so that they can make a career of the service and acquire the knowledge necessary to handle the complicated problems with which they will have to deal. In recent years the classified service has been extended with remarkable success to include very high grade positions, and the experience of states like Wisconsin and New York where the directors of the labor exchanges are in the classified service argues for the adoption of a similar plan in a federal employment system.

CONCLUSION

All these questions of administrative detail are important, because, as we noted at the beginning, we have reached the point in dealing with unemployment where the theoretical questions have been solved and the principles of practical administration must now be emphasized. This most important work has been flagrantly neglected by economists and social workers alike. We shall be years in getting anything like an adequate plan of dealing with unemployment unless we begin at once to study the detailed problems of administration and to train men who will be able effectively to administer the remedies.

Back in 1892 and 1893 we had mass meetings of the unemployed, work-shops, soup houses, committees of all kinds and hunger parades. Interest in unemployment was aroused in every city of the land. But what was left of it when the depression passed away? How much of the result could be used in the hard times of 1913 and 1914? Nothing permanent was created. And when the last crisis came along we had the same parades, the same committees, work-shops and soup houses. Oh yes! And we added the "Hotels de Gink"!

And what have we as a result of all this last agitation? Only some improved and efficient public employment bureaus, in New

York, Ohio and Illinois. But the reason we have even these meager results is because some employment officials had seen how little they knew about running their bureaus and had organized a national association which worked out details for proper and successful administration of the bureaus. The agitation when harnessed to their practical plans brought some real results. But what else of permanent accomplishment for the future can we point to? Most of the steam went off in the air—lost—because we had nothing definite which we could make drive.

Let us create the machinery of a Federal Labor Reserve System now, and when the next wave of unemployment comes it may drive this machinery toward a solution of the problem.