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By RICHARD A. LESTER

This report develops a practical program for meeting the problem of transition unemployment, answering the question: What should be done about the unemployment that occurs during the changeover from war to peace production?

The author defines the transition as covering the period required for demobilization of the armed forces to postwar "normal" size and for industrial reconversion in all its phases, and deals clearly with the character and volume of unemployment that will arise before the reabsorption of servicemen and women and the relocating of large numbers of war workers can be effected.

Among the factors examined are the adequacy of unemployment compensation to sustain purchasing power so that transition unemployment will not of itself initiate long-term unemploment, the extent to which public works can be utilized for unemployment of the character that will dominate the transition, the advantages or disadvantages of Federal public works programs as against local undertakings, and the value of a transition-period program of education and training for unemployed workers.

The author analyzes present arrangements and appraises proposed programs along with his own recommendations for handling the problems. Full attention is given the objectives that should be paramount in assisting unemployed workers. The urgency of proper timing and coordination of different portions of the program is also made clear.

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RESEARCH STUDY

# PROVIDING FOR UNEMPLOYED WORKERS IN THE TRANSITION

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COMMITTEE FOR ECONOMIC DEVELOPMENT
RESEARCH STUDY

# Providing for Unemployed Workers in the Transition

BY

RICHARD A. LESTER
*Associate Professor of Economics*
*Duke University*

FIRST EDITION
SECOND IMPRESSION

McGRAW-HILL BOOK COMPANY, INC.
NEW YORK AND LONDON
1945

PROVIDING FOR UNEMPLOYED WORKERS IN THE TRANSITION



PRINTED IN THE UNITED STATES OF AMERICA



THE MAPLE PRESS COMPANY, YORK, PA.

# PREFACE

A SERIOUS problem of transition unemployment will accompany the conversion from war to peace activities. This report is concerned with measures to cope with such unemployment as occurs in this changeover period. It does not attempt to deal with the prevention of unemployment, which is the subject of other C.E.D. studies.

The purpose of the report is to develop a practical program. The program recommended rests upon an economic analysis of the issues, applies the lessons of the past to the transition, and utilizes existing administrative machinery and resources.

The original draft of this report was completed and circulated eight months ago. Although the major recommendations remain unchanged, its organization and expression have been greatly improved by the many suggestions and criticisms from economists, industrialists, administrators, and experts, offered singly and in group meetings. The report has also benefited considerably by the helpful assistance that I have had from the staff of the C.E.D., especially from Sylvia Stone and Howard B. Myers.

RICHARD A. LESTER.

DUKE UNIVERSITY,
*October*, 1944.

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# FOREWORD

This is one of three studies by the C.E.D. research staff of problems arising out of the shift of employment necessitated by the return to peace. The other two studies are "Manpower Demobilization and Reemployment," by Robert R. Nathan (in preparation) and "Personnel Problems in the Postwar Transition Period," by Charles A. Myers (recently published by C.E.D.). A full list of C.E.D. research projects will be found on page 139.

Like all our research studies, this report was prepared under the By-laws which insure freedom of expression for the author. These provisions of the By-Laws appear on page 143.

Shortly after the release of this staff report the Research Committee will issue a Policy Statement containing their recommendations for action in regard to manpower demobilization, unemployment and reemployment. This may be obtained from the national or local C.E.D. offices.

THEODORE O. YNTEMA,
*Research Director.*

# I. INTRODUCTION

WITH the demobilization of industry and the armed forces we shall again face the problem of unemployment. Indeed, the threat of large-scale joblessness hangs like a dark cloud over all postwar planning.

The volume of prospective unemployment cannot be forecast with any assurance of accuracy. Economists' estimates of the number of jobless after the war differ greatly, inasmuch as they are made on differing assumptions concerning the future.

More significant than the predictions of experts are the expectations of the general public, upon whom American industry must depend for postwar markets. The American people generally anticipate and fear the return of widespread unemployment when the war ends. Half of the "guesses" in a Gallup poll in July, 1944, placed the number of unemployed at 6,500,000 or higher two years after the end of the war. More than 1 out of every 5 expected unemployment at that time to equal or exceed a total of 11 million persons. Over a third were "not at all certain" they would have a job after the war.

Despite the forecasts of the experts and the fears of the layman, provision for the job "casualties" of the war remains inadequate and incomplete. Uncertainty as to when the war will end and how large the volume of unemployment will be has served to excuse needless delay in planning for a crucial problem—needless, because it is not necessary to know the precise volume or duration of the unemployment during the early postwar years in order to develop a program to meet it.

Legislative action making more adequate provision for reconversion unemployment should be delayed no longer.

The war is approaching a climax; its end—at least in Europe—is not far distant. Industrial reconversion is beginning, and the unemployment figures will soon mount. The regular sessions of 44 state legislatures occur early in 1945. That is the time for appropriate action by the states. Before the states can act intelligently on some of these matters, however, Congress must determine federal policies with respect to transition unemployment and enact the necessary enabling legislation.

### SCOPE OF THIS REPORT

The purpose of this report is to develop a practical program for meeting the problem of transition unemployment. It attempts to answer the question: What should be done about the unemployment that occurs during the changeover from war to peace production?

The various government reports recently published on social security for the postwar era—the Beveridge report and the Government paper on social insurance for Great Britain, the Marsh report for Canada, and the report of the National Resources Planning Board for this country—present long-range and comprehensive programs. They cover not only unemployment but many other hazards, such as illness, old age, and disability, that threaten the individual as he proceeds from the cradle to the grave. Those programs are not specifically designed for, nor directed at, the problem of short-term unemployment which will be caused by military demobilization and industrial reconversion, and which will occur after a war period characterized by "overemployment" and excess purchasing power.

This report, in contrast, deals only with the specific problem of "interim" unemployment during the period of transition from a war to a peace economy. The transition as here defined covers the period required for demobilization of the armed forces to postwar "normal" size and for industrial reconversion in all its phases, including redesigning products, retooling plants, reassembling materials and labor, reorganizing and retraining work forces, rescheduling production, and rebuilding sales and service forces and working inventories. The transition, therefore, includes both the period of preliminary demobilization between the end of the German and of the Japanese war and the period of final demobilization, which may extend for one and a half or two years after victory over Japan.

Other reports of the Committee for Economic Development will be concerned with measures to stimulate private employment during the transition and in the long run after the war. One report will discuss the problems of military and industrial demobilization and the factors involved in the transfer of workers from war production and war service to peacetime pursuits.[1] Here we are primarily concerned with provisions for dismissed workers and discharged servicemen before they are absorbed by private industry.

In concentrating attention upon unemployment during the transition, this report may be criticized for being too restricted in scope. Instead of recommending comprehensive and fundamental reforms in methods of dealing with unemployment, the report offers proposals which have some likelihood of being adopted now, and which could be put into operation at once to meet the special problems of the changeover period. The recommendations proposed here are also practical in that they follow well-worn paths, utilize existing administrative machinery, and apply the lessons of recent experience.

Any sound program for the transition, of course, has long-run implications. Should such a program operate satisfactorily during industrial reconversion, parts of it would undoubtedly be extended into the post-transition period. Unemployment will not disappear when the transition ends. Some persons thrown out of work during the transition will be jobless long after the changeover from war to peace production

[1] Robert R. Nathan, *Manpower Demobilization and Reemployment,* Committee for Economic Development (in preparation).

has been completed. It is unrealistic, therefore, to assume that by a certain date all measures adopted to meet transition unemployment will be scrapped. To devise a program on any such basis would be foolish improvisation.

## ORGANIZATION OF THE REPORT

How best to provide for unemployment during the change-over period is a subject upon which experts disagree. Such disagreement arises mainly from (1) divergent views on the conditions likely to prevail during that period, and (2) conflicting opinions as to the best methods for achieving certain objectives.

This report first examines the probable character and extent of the unemployment problem during the transition period and the adequacy and availability of existing unemployment reserves. Against that background, present arrangements and proposed programs for meeting unemployment during that period are analyzed, and recommendations are presented. The recommendations, each discussed under the appropriate chapter heading, are summarized in the final chapter, following a consideration (Chap. IX) of the timing of their introduction and of the necessary shifts in emphasis to meet changing conditions.

Throughout the report, stress is laid on objectives and basic economic aspects of the problem rather than on mechanics and details of administration. As conditions in the early postwar years promise to be dynamic and rather unpredictable, the need for advance preparation to meet various contingencies is emphasized.

Where the recommendations involve additional public expenditure, rough estimates are offered of the relative magnitude of money costs that the recommendations might entail. These estimates rest on certain assumptions regarding the volume and duration of unemployment during the transition period—assumptions which may not prove correct.

Money costs are, however, only part of the picture. Both in war and peace, the people are the nation's most important asset. The citizens, whether as servicemen, producers, buyers, voters, or administrators, determine the military, political, economic, social, and cultural fate of the country. From our experience in the 1930's we know well the evil effects of enforced idleness and substandard living upon morale, upon self-respect, upon family and social relationships. No less important are their unfavorable effects upon the political and industrial climate within the country and upon international economic relationships.

Penny-wise policies with respect to transition unemployment could prove costly to the nation if they caused workers to be overcautious in their spending. Curtailed buying by consumers spells reduced national income and reduced employment. In considering measures for the transition unemployed, one should bear in mind that psychological attitudes affecting consumer expenditures are particularly important in our kind of economy.

Furthermore, the difference between current money costs and long-run real costs to the nation should not be overlooked. Inadequate provision for the unemployed would tend to bring about such undesirable results as restrictions on output to escape unemployment, beggar-my-neighbor actions in international economic relations to shift unemployment abroad, an accumulating burden of ill health and social evils, labor unrest, and the threat of ill-advised legislation to meet the unemployment problem. Such costs of inadequate provision for unemployment are no less real and important because they are somewhat concealed and difficult to state in dollar figures.

## II. NATURE OF THE PROBLEM

PROGRAMS and policies should be related to realities. The first step in developing a program to provide for the unemployed during the changeover period is to consider the conditions likely to prevail at that time.

Many factors will affect both the volume and duration of unemployment in the transition. So uncertain are some of the important elements in the picture that precise prediction would be hazardous, if not foolhardy. Nevertheless, examination of each important factor separately should provide a basis for judging its probable magnitude during the period of demobilization and return to peacetime production. This method is followed in the present chapter.

In popular discussion, the importance of the unemployment caused purely by the reconversion of industrial plants has been greatly exaggerated. Although of considerable significance in a few industries, such as the automotive industry, "reconversion" unemployment will probably total less than half a million man-years, that is, less than half the unemployment for 1943.

More important will be the unemployment caused by frictional delays in transferring labor and expanding facilities to meet peacetime demands for goods and services. Millions of workers will have to look for jobs with another employer and in another locality. Many will experience a period of "frictional" unemployment before finding work.

Of the special transition factors the most unpredictable and the most important is general market demand. Will increased spending, especially for postponed purchases, be sufficient to counteract the huge drop in federal war purchases? If not, we may anticipate considerable unemployment stemming from reduced demand for goods and services.

The evils of joblessness are aggravated by its concentration on certain individuals or groups. Prolonged or "hard-core" unemployment will, however, become a very serious problem during the transition only if we experience a sizable volume of unemployment caused by a general reduction in spending.

## VOLUME OF UNEMPLOYMENT

Certain labor-supply and labor-demand factors will largely determine the volume of unemployment at any particular time during the transition. The rate of change or timing of those factors will be especially important.

### *Labor Force*

The total number of hours of civilian labor available for gainful employment will probably not change much during the transition. At the end of the transition period, the supply of civilian work-hours will probably approximate the volume at the peak of war production in 1944.

Factors tending to enlarge the civilian labor force will be (1) a net reduction of perhaps 9 million[1] in the armed services, of whom a million may return to school, and (2) a two-year increase of nearly one million new entrants into the labor market. Together these factors would involve a net increase of about 9 million persons available for civilian employment.

That 9 million increase is likely to be more than offset, however, by withdrawals from the labor market and by a reduction of the work week to prewar levels. The war has caused an abnormal increase in the labor force estimated at about 7 million. Four to five million of these "extra" wartime employees (youths, women, submarginal and older workers) are expected to withdraw from the labor market during the transition. The reduction of working hours to

[1] A reduction from 11.5 to 2.5 million. Many federal workers will have to shift to new jobs, but they will continue to remain in the civilian labor force.

prewar levels will operate to provide additional jobs. It has been estimated that the overtime now being worked in this country is the equivalent of about 5 million jobs at the prewar work week.[1] In other words, return to the prewar work week will permit the employment of 5 million more workers with the same total hours of work in American industry. Therefore the hours of work that now[2] afford employment to 52 million persons would provide 57 million jobs[3] at prewar weekly hours. From these figures it is evident that increases in unemployment during the transition will come largely from changes in the demand for labor and not as a result of an increased labor supply.

It should be noted that no allowance has been made in these figures for reductions in the labor supply due to war casualties, postwar conscription policy, or a spreading of work by curtailing weekly hours below prewar levels. But neither has account been taken of the tendency of unemployment compensation and the shorter work week to keep people in the labor market.[4]

Factors of expansion and contraction are interrelated. Reduction in the war program not only will release servicemen to the labor market but will also reduce total overtime in industry and will hasten the exit of "extra" wartime workers. The rate of change in factors of increase and decrease may,

[1] See A. D. H. Kaplan, *The Liquidation of War Production*, Committee for Economic Development, 1944, p. 17.

It is reasonable to assume a return to prewar weekly hours since the trend in hours per week over the last half century has been downward. The first general increase in that whole period occurred during this war.

A reduction of weekly hours from 48 to 40 means that about one-fifth more employees would be required for a given amount of work.

[2] August, 1944.

[3] Total employment of this magnitude would probably continue wartime labor shortages since there would presumably be insufficient allowance for normal "frictional" unemployment.

[4] Persons drawing unemployment compensation must continue to seek employment. Shorter weekly hours may make it easier for women to continue in paid employment.

however, be so uncoordinated as to cause a temporary net expansion or contraction of the available labor supply by as many as 2 million workers. For example, releases from the armed forces may at first be insufficient to offset reductions in weekly hours and withdrawals of abnormal wartime supply.[1] The contrary is also possible. The very existence of unemployment will tend to forestall some withdrawals from the labor market. If husbands are out of jobs, wives (and perhaps teen-age youths) are likely to continue in employment. Extra wartime workers may also continue temporarily in the labor market in order to exhaust their benefit rights under unemployment compensation.

### *Demand Factors*

The chief causes of transition unemployment will be on the demand side. If there is widespread and continuing unemployment during the changeover period, it will be because of a decline in the total hours of employment offered in American industry.

Unemployment during the transition will be caused by (1) a decline in the demand for labor due to the physical reconversion of industrial plants, (2) the frictional delays involved in transferring labor and expanding facilities to meet shifts in demand from war to peacetime products, and (3) a possible drop in the level of spending for all goods and services. The first and second categories include physical limitations and frictional delays. The resulting unemployment is, for the most part, temporary or short-term. Long-term unemployment,[2] if widespread, arises primarily from the third category,

[1] The Undersecretaries of War and Navy have given a Senate Committee estimates of maximum monthly demobilization of the services. The figures are 200,000 to 250,000 a month for the Army prior to the defeat of Japan (assuming shipping is available), and as much as 600,000 a month after the defeat of Japan when the Navy also begins to demobilize. See *Hearings before the Special Committee on Post-war Economic Policy and Planning Pursuant to S. Res.* 102, Part 3, 78th Congress, 2d Session, Washington, 1944, p. 795.

[2] Over six months in duration.

which covers hesitancy to spend for investment or consumption on the part of individuals, businesses, or government units.

*Reconversion Unemployment.* Our experience with "conversion" unemployment in 1942 gives some indication of the probable magnitude of "reconversion" unemployment. Available data indicate that reconversion of industrial plants alone might cause a reduction in employment equivalent to a total of 4 to 5 million man-months on a prewar work week.[1] These figures allow only for purely physical limitations on employment of persons during the changeover of industrial plants and equipment. They assume that reconversion will proceed without any avoidable delay. Reconversion unemployment will be larger than this if private plants are not cleared promptly of government property after war contracts are terminated, or if there is undue delay in determining the peacetime use of government-owned plants.

By definition, reconversion unemployment is temporary or short-period unemployment that disappears when plant reconversion is completed. The shorter the time interval in which the changeover of industrial plants occurs, the more concentrated reconversion unemployment will be. Termination of the war in stages, permitting a gradual changeover of industry, would spread reconversion unemployment over a long period of time; spread thin, it will not be very serious.

[1] One method of estimating "reconversion" unemployment is to apply an adjusted index of "conversion" employment to the calculated total of 3 or 4 million workers who will be employed at the end of the transition in plants that will actually have been reconverted. Such an adjusted index can be derived as follows: An index of "conversion" employment, based on the employment experience in automobile, refrigerator, washing machine, radio, and metal-door industries following WPB orders to stop normal civilian production, is reduced by 30 per cent to allow for the fact that those industries were partly in war production at the time the stop-order took effect, and thereafter continued to produce spare parts. The resulting index is 80 per cent of post-transition normal during the first month after war production is halted, 70 per cent the second month, 75 per cent the third month, 80 per cent the fourth month, 85 per cent the fifth month, 90 per cent the sixth month, 95 per cent the seventh month, and 100 per cent the eighth month. The percentage below 100 per cent represents "reconversion" unemployment.

*Frictional Unemployment.* The lack of perfect mobility on the part of labor and industry causes "frictional" unemployment. Many laid-off workers fail to make immediately the geographic or occupational adjustments required to get a new job; in expanding businesses, bottlenecks develop which restrict temporarily the increase in job opportunities. Frictional unemployment, therefore, increases with the magnitude of industrial and occupational shifts occurring during a month or a year.

During 1943 and the first half of 1944, unemployment averaged about a million persons, despite the fact that this was a period of general labor shortage. Most of the unemployment occurring at this time was short-period, arising from the transfer of workers between jobs or from temporary layoffs due to seasonal variation, shortages, or other frictional factors.

The adjustment of industry to peacetime demands will involve an abnormally large volume of frictional unemployment. By the end of the transition, employment of firms in certain lines will have experienced a total net reduction of at least 8 million below wartime peaks. This contraction will occur even if there is no reduction in the total hours of work in American industry. The activities included in this total are aircraft production, shipbuilding, machinery and machine-tool production, ammunition and explosives manufacture, marine transportation, and the work of federal war agencies. This figure of 8 million net reduction is calculated on a plant basis; it makes no allowance for a possible spread of the decline from those lines back to suppliers and other dependent activities.

Other industries will experience a large net expansion in employment during the transition. They are construction, wholesale and retail trade, service industries, domestic service, the professions, and self-employment. Even if the net expansion of employment in these lines were to balance the net contraction in munitions production, a minimum of 8 million workers would have to transfer to new industries or, at least, to new employers.

The transfer of that number of workers between occupations, firms, and localities will undoubtedly result in many million man-months of unemployment. Persons who lose their jobs in aircraft, shipbuilding, ammunition plants, and so forth will not generally transfer to new jobs without loss of employment. Layoffs and hires will not be evenly matched for each locality and for each skill. Some wartime in-migrants will be reluctant to leave high-wage war industries or to migrate from war-boom areas.[1]

Frictional unemployment will also arise from temporary shortages in facilities or materials, which delay expansion of business and employment to meet developing consumer and business demands. Time is required to enlarge and adapt facilities to shifts in demand.

*Curtailed-spending Unemployment.* Probably the most important factors in transition unemployment will be those affecting the level of spending for all goods and services. Will enough money be spent for consumption and investment to prevent a decline in the total hours of civilian employment during the transition? Will private and nonfederal public expenditures expand fast enough to maintain employment when federal expenditures contract?

These questions cannot be answered categorically. The principal items that will affect total spending during the transition can, however, be indicated.

A drop of 60 to 65 billion dollars in federal disbursements, most of which will occur during the transition, will be the

[1] Between April, 1940, and May, 1944, some 188 war-boom areas experienced a total expansion of 8 million persons in both manufacturing and over-all employment. (See *Hearings before the Special Committee on Post-war Economic Policy and Planning*, Part 3, p. 679, Table 5.) Of that 8 million, perhaps 6 migrated into those areas. Half of the in-migrants, or 3 million, will probably have to seek work in another locality, with the contraction in munitions production during the transition. Loss of working time for persons having to migrate to another labor-market area is likely to average at least a month.

most significant factor tending to depress total employment. During 1944 federal expenditures reached a rate of 90 billions a year. Within two years after the war ends they are likely to fall to a rate of 25 to 30 billion dollars a year. These totals include payments to ex-servicemen and federal social-security payments.

The drop in federal spending will undoubtedly be accompanied by some decrease in the money income of workers. During the transition, average weekly earnings will decline by 15 to 20 per cent even though basic wage rates remain unchanged. Substantial elimination of overtime hours and premium pay, along with the shift to lower-paying peacetime work, will account for a large part of that reduction. Whether the general level of wage rates will rise or fall during the transition cannot be foretold at this time. Nevertheless, it is likely that the transition will see some shift of income distribution to the relative advantage of nonlabor groups that generally have a low propensity to consume.[1]

Other transition changes may also have a depressing effect on spending and employment. The banks, in purchasing federal securities, increased the money supply by almost 20 billion dollars a year in 1942 and 1943 and by about 5 billion dollars in the first half of 1944. Injections of purchasing power on such a scale are not likely to occur during the transition. Instead of monetary expansion to pay soldiers who produce nothing for sale, there will be sales of war surpluses that, for the most part, will have been produced prior to the transition. Surplus war supplies represent substitutes for new production. During the transition they will constitute a supply with no corresponding employment and income payments to the factors of production.[2]

[1] Reductions in corporate income taxes would, for example, tend to have that effect.

[2] Surplus war stocks for disposal in commercial channels have been estimated at 16 billion dollars (original cost), which does not include aircraft, ships, or ordnance matériel. More than half of the total will be abroad. Sales abroad

Expansion in private and nonfederal public expenditures during the transition will be influenced by a variety of factors. Taxpayers, savers, and banks have been providing the funds for federal expenditures. A drop of 60 billion in federal spending might free federal taxpayers and security purchasers of a money drain of 50 billion dollars.[1] Whether private purchases would expand by the full 50 billion would, of course, depend upon available supplies of goods and services, the size of money incomes, prospects for the future, and so forth.

During the war unprecedented reserves of purchasing power and large backlogs of deferred demand have been built up. The Securities and Exchange Commission estimates that individuals accumulated liquid savings[2] amounting to 100 billion dollars from 1940 to the middle of 1944. In addition, business corporations and states and municipalities have amassed sizable holdings of bank deposits and federal securities. The backlog of postponed purchases for homes, automobiles, electrical and mechanical appliances, travel, highways and other public works, capital equipment for industry, and normal working inventories of producers and distributors is tremendous. Spending of wartime savings for such purposes will likewise be influenced by psychological attitudes and the products available. Uncertainty as to the future and possible reductions in money income may cause some temporary hesitancy to spend past savings for current consumption or for capital goods.

The transition should witness a reduction in current savings, with a larger percentage of personal income devoted to consumption. Annual savings of individuals rose from 7 billion dollars in 1940 to 33 billion in 1943. A shift from savings to

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would affect foreign purchases of our current production. See A. D. H. Kaplan, *op. cit.*, p. 67.

[1] Banks account for the difference of 10 billion dollars. Federal debt-repayment policies will affect these figures.

[2] "Liquid savings" include such items as government securities, currency, bank deposits, liquidation of debt, etc.

consumption during the transition will tend to offset the decline in government expenditures, since wartime savings have largely gone into federal securities to provide funds for war purchases. Withdrawal of wartime restrictions on spending will also tend to increase total purchases of goods and services through reduced hoarding of current incomes.

Additional expansionist factors include foreign purchases and nonfederal payments under unemployment-compensation and relief programs. Foreign countries will buy more from us than we buy from them during the transition. State and local disbursements for unemployment will expand.

Contraction in federal expenditures will not need to be offset, dollar for dollar, in order to maintain civilian employment during the transition. Provided prices remain unchanged, the volume of expenditures necessary to employ 57 million workers at a prewar work week will undoubtedly be below the present total.[1] With a drop of 60 to 65 billions in federal spending, the expansion in private and nonfederal public expenditures necessary to maintain the existing total hours of civilian employment might be in the neighborhood of 40 to 50 billion dollars. The expansion in private and nonfederal expenditures would not need to be so great if an allowance were made for a decline in employment to permit an increase in frictional unemployment to a normal peacetime level of 2 or 2½ million.

Total public and private expenditures for finished products, final services, and gross capital formation in this country have never increased by more than 33 billion dollars a year.[2] The

[1] This would be due largely to the decline in value of product caused by shifts from high-priced war matériel to lower-priced civilian goods and services (offset at least in part by increases in productivity), and to reductions in payments to the armed services as the size of the armed forces is reduced.

Should 4 to 5 million of the extra wartime workers withdraw from the labor market as anticipated, the employment of 57 million workers would probably mean the continuation of wartime labor shortages since there would presumably be insufficient allowance for normal "frictional" unemployment.

[2] This occurred in 1942. The increase was only 22 billion after adjustment for price-level changes.

best that we could do during the war period, with rising prices and all-out federal purchases, was an all-time record increase of 65 billion dollars for the two years, 1942 and 1943. Half of that increase represented public and private capital formation. In terms of a constant price level, the total increase was 46 instead of 65 billion dollars.[1]

Widely differing conclusions can be drawn from the data which have been presented. The money volume of future spending is a highly speculative matter. The net result is especially difficult to predict in this case because the magnitudes involved are so large and the conditions will be abnormal. Psychological attitudes and rates of change in factors of contraction and expansion will significantly affect the net result. Changes in the price level may be especially important. Price declines would reduce the volume of money spending required to maintain the same total hours of employment. However, declining prices also tend to reduce money incomes and to cause a general hesitancy to spend until the decline has ceased.

It does seem unlikely that private and nonfederal public spending will, throughout the transition, expand the total hours of employment enough to offset the employment-reducing effects of a drop of 60 to 65 billion dollars in federal spending. With skillful handling of the changeover, the volume of curtailed-spending unemployment at any one time during the transition might be held to a very small figure.[2] Total unemployment stemming from curtailed spending will be large if workers and employers lack confidence in the future prospects for jobs and markets. The present lack of such confidence is indicated in the recent Gallup poll of anticipated unemployment, discussed in Chap. I. Should a vicious circle develop of some joblessness breeding more joblessness through

[1] See Milton Gilbert and George Jaszi, "National Income and National Product in 1943," *Survey of Current Business*, Vol. 24, April, 1944, pp. 6 and 7.

[2] Price inflation could occur despite some curtailed-spending unemployment. It might arise from temporary shortages in certain products.

curtailed spending, the resulting unemployment might approach, or even exceed, the prewar figure of 8 or 10 million persons.

The combined total of unemployment arising from both demand and supply factors and including "reconversion," "frictional," and "curtailed-spending" unemployment, will probably reach a peak of at least 4 or 5 million workers during the transition. Under adverse circumstances the total might approach 10 or even 15 million.[1]

## DURATION OF UNEMPLOYMENT

The length of time that persons are out of work is influenced not only by the character and volume of unemployment but also by individual variations among workers. When jobs are scarce, the period of joblessness of many unemployed workers becomes prolonged.

Unemployment becomes extended because it is concentrated on certain individuals. The workers most subject to joblessness are those whose employability is relatively low for such reasons as age, sex, racial discrimination, physical disabilities, psychological handicaps, or low mobility. Employers will wish to retain the better workers and will tend to release first their less desirable employees (so-called "marginal workers"), who generally were also the last to be absorbed into employment during the war. Seniority rules will help to bring about that result.

Individuals differ in their ability to transfer with occupational, industrial, and geographic shifts in the demand for labor. The workers who migrated into centers of war produc-

[1] The Committee on Post-war Economic Policy and Planning of the House of Representatives concludes that in the transition " . . . the number of temporarily unemployed may reach a peak of as many as 5,000,000 workers, even if industry is expanding rapidly and providing large numbers of new civilian jobs. If industry does not reconvert rapidly and expand its operations aggressively, the number of unemployed will, of course, rise above 5,000,000." *Fourth Report* pursuant to H. Res. 408, "Economic Problems of the Transition Period," September 8, 1944.

tion were, of course, fairly mobile. However, they will not necessarily be the ones who are unemployed in the deflated war-boom areas after hostilities cease. Many workers, because of personal preferences and wage differentials, will attempt to continue in their wartime type of work or their wartime place of residence, even though that reduces considerably their chance of reemployment at a steady job. Deflated war-boom communities may thus be plagued by pools of unemployed workers.

The general demand for goods and services greatly influences the average length of time that disemployed persons remain out of work. If, during the transition, we should experience cumulative contraction in spending for a period of half a year or more, the problem of chronic or "hard-core" unemployment would again become serious. In such circumstances, many high-grade workers would join the ranks of the unemployed, to suffer the debilitating effects of prolonged joblessness.

Any estimate of the duration of unemployment during the transition must rest on a number of assumptions. And assumptions based on past duration data may be subject to considerable error in view of certain unusual characteristics of the changeover period.

Nevertheless it is likely that one-fifth of those out of work in the middle of the first postwar year will have been unemployed for more than six months. And, of the jobless at the end of the second postwar year, probably at least 50 per cent will have been out of a regular job for half a year or more. The average duration for those who continue to be unemployed rises as employment picks up, because the first to be laid off tend to be the last to be reemployed.

## PROVISION FOR UNEMPLOYED WORKERS

Present provisions for dealing with unemployment are, in many respects, inadequate to meet the problems of transition joblessness. The shortcomings and appropriate remedial measures are discussed in detail in succeeding chapters. In brief, our unemployment-compensation laws are inadequate in coverage and in benefit payments, especially the duration of such payments. Proper use of present reserves would permit the needed improvements without increasing present unemployment-compensation taxes. Wartime programs of education and training need to be adapted to meet the needs of the transition unemployed, for which the regular public-school programs are too inflexible. In many states, unemployment relief is either unavailable or totally inadequate. Settlement requirements exclude millions of migrant war workers from eligibility for relief. Federal participation in unemployment relief will be necessary to remedy these defects during the transition. Some provision is needed for limited separation pay where sudden termination of contracts prevents adequate advance notice of dismissal. Finally, there is a general lack of detailed plans for the public works that will need to be undertaken during the transition. Absence of such advance planning will prevent the prosecution of a flexible and coordinated program of public work with proper timing at all levels of government.

Uncertainty as to the volume and character of transition unemployment means that adequate preparations should be made to meet a peak of from 4 to 15 million unemployed. The combined program proposed in this report is drawn in terms of first, second, and third lines of defense, resort to the second and third categories depending upon the volume of curtailed-spending unemployment.

Should unemployment be confined to 4 or 5 million and to a relatively short period, most workers laid off during the transition will be jobless for only a few months. In such circumstances main reliance ought to be placed upon unemployment compensation, which is designed primarily for short-period joblessness. Such compensation would need to be supplemented by adequate provisions for educational training and occupational guidance, and for unemployment relief to meet needs not covered by compensation.

The first line of protection should also include advance planning of public and private projects to be undertaken during the transition. Such planning is essential to ensure proper timing and maximum effectiveness of public works in limiting the volume and duration of curtailed-spending unemployment. Furthermore, it is part of the groundwork for the special programs of public employment which constitute the measures at the second and third levels of action.

In succeeding chapters, proposed improvements in unemployment compensation, unemployment relief, education and training, and public-work programs are discussed in the order named. This same sequence is recommended for the introduction of the measures during the transition. The chapter arrangement thus brings out the suggested stages of action, depending upon the volume of curtailed-spending unemployment. The second and third levels of defense are discussed in Chap. VIII, after the programs primarily designed for short-term unemployment have been considered in earlier chapters.

Marginal workers and depressed areas will present special problems, problems that will be difficult to solve without a high level of employment throughout the economy. In the midst of widespread and continuing unemployment, programs for retraining and rehabilitating marginal or handicapped workers are subject to serious limitation. Given satisfactory employment levels or the prospect of considerable expansion in employment, the attack on such problems should be mainly in terms of assisted transfer, occupational guidance, and training.

Adequate job opportunities are the only satisfactory solution for unemployment. Employment opportunities largely depend upon the demand for the products of labor. During the transition, psychological factors will greatly influence the rate at which wartime savings and reserves are used to satisfy pent-up demands. Confidence will be promoted by the adoption of measures that assure adequate protection to the unemployed through advance preparations for various contingencies. An economic climate favorable to private spending and investment is important if employment is to expand in areas of industry where no industrial conversion is required and if the necessary conversion is to proceed without hesitation.

## III. RESERVES FOR UNEMPLOYMENT

Any program for transition unemployment should take account of the reserves, both private and public, which are being accumulated to meet it. Such reserves represent an attempt to make advance provision for the financial burdens of postwar unemployment. Insofar as workers, firms, municipalities, and states build up reserves from which to provide for postwar unemployment, there may be less need for federal appropriations for the same purpose.

Large reserves are, however, of little value if they fail to provide protection to unemployed workers. Distribution and limitations on use are as important as size. With complete segregation of reserves by state, locality, or firm, maldistribution may render them largely ineffective. Meager benefit provisions may also rob large reserves of much of their effectiveness.

It is necessary, therefore, to consider not only the total size of unemployment reserves but also their distribution and their availability for meeting unemployment in the transition period.

Various forms of saving can be considered to be "unemployment reserves." As here used, the term includes the wartime savings of workers, all public and private funds specifically earmarked for unemployed workers, public reserves to provide postwar employment, and reductions in public debt that are equivalent to the accumulation of reserves. The reasons for including these items and for excluding others are given below.

### WARTIME SAVINGS OF WORKERS

Savings by wage earners during the war have not been as large as one might suppose before examining the available statistical data. By July, 1944, total government bond purchases under payroll deduction plans had amounted to about 7 billion dollars. The volume of government security purchases by workers outside payroll deduction plans is unknown. Allowing for redemptions, it is estimated that the net holdings of government bonds by employees earning under $10,000 a year amounted to no more than 10 billion dollars on July 1, 1944.[1]

The aggregate increase in workers' holdings of cash, checking accounts, and savings accounts has exceeded their holdings of government bonds. It is estimated that workers' savings in these forms increased by about 18 billion dollars between June, 1939, and March, 1944. Of this increase perhaps 8 billion represented increased currency holdings and the other 10 billion was about equally divided between checking and saving accounts.[2]

If these estimates are correct, liquid savings by workers earning under $10,000 a year amounted to approximately 30 billion dollars during the five-year period ending in the middle of 1944.[3] That would be an average

[1] Author's estimate. It includes, of course, the families of such employees. Net holdings of government bonds in denominations of $25 to $100 (Series E, F, and G) plus savings stamps apparently amounted to 14 or 15 billion dollars on July 1, 1944.

[2] During that period, the increase in savings accounts was 7 billion dollars; the increase in currency in circulation was 13.5 billion dollars; and the increase in adjusted demand deposits was 32 billion dollars, of which 8 billion dollars is estimated to have been in personal checking accounts and the rest in business deposits.

For data on the distribution of increases in checking accounts among various economic groups, see Irwin Friend, "Individuals' Demand Deposits, June 1942–43," *Survey of Current Business*, Vol. 24, June, 1944, pp. 14–22, and *Federal Reserve Bulletin*, Vol. 29, October, 1943, p. 917 and Vol. 30, May, 1944, p. 432.

[3] Unfortunately the author is unable to break this estimate down by income categories, say for workers receiving under $4,000 or $5,000 a year. The Special House Committee on Post-war Economic Policy and Planning estimates that persons with incomes under $5,000 accounted for "over half" of the $57,000,000,000 of liquid savings, accumulated by individuals during the 3-year period ending June 30, 1944. See the Committee's *Fourth Report*, dated Sep-

of about $750 per family if spread evenly among workers' families.[1]

Available evidence indicates that workers' wartime savings are not evenly distributed but are rather concentrated. Only about half of the 55 million employees and servicemen receiving pay envelopes have been participating in payroll deduction plans for the purchase of war bonds. A survey for the U. S. Chamber of Commerce, based on interviews with a cross-section sample of urban and rural families in the summer of 1943, reveals that: (a) 50 per cent of the families in the survey's lowest income category (yearly incomes under $1,500) and 20 per cent of those in its second income category ($1,500 to $2,500) were not buying war bonds and stamps; (b) 90 and 74 per cent respectively of the families in those two income groups were not depositing money in savings accounts; and (c) by the end of 1943, only one out of every four families with incomes under $1,500 expected to have accumulated savings equal to at least 10 per cent of the family's annual income.[2]

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tember 8, 1944, House Report No. 1855, p. 44.

Pointing out that little is known of liquid savings by income classes, the *Federal Reserve Bulletin* for October, 1944 (p. 958), states that persons reporting annual incomes in excess of $5,000 each could hardly account for more than 20 billion of the 65 billion-dollar increase in liquid savings in recent years, and that most of the remaining 45 billion was presumably held by persons with incomes between $2,000 and $5,000. The Federal Reserve Board's information as to the growth in bank deposits and currency indicates that persons in small towns and rural communities, including farmers, have had substantial percentage increases in their monetary holdings.

[1] Based on some 55 million workers and 1.4 workers per family. During that same period, the cost of living rose by 25 to 30 per cent.

Workers' savings during the war have also taken the form of payments on life insurance, mortgages, installment credit, and other indebtedness. Such payments are not included here because they generally do not represent an increase in the liquid assets of workers that could be used as a "reserve" to meet a period of postwar joblessness.

Payment of certain indebtedness, such as back rent and doctor and grocer bills, might be of some assistance in providing credit for periods of postwar unemployment, but the total of such items would not be very significant.

[2] See *Third Progress Report of a Consumer Survey to Measure Post War Buying Intent for the Period Immediately Following War's End* (mimeographed), Chamber of

On the other hand, 7 out of 10 families in the income group $2,500 to $4,000 were then putting at least 10 per cent of their yearly income into government bonds, and the same proportion expected their savings to total 10 per cent or more of their annual income by the end of 1943.

On the basis of such data it seems safe to conclude that at least a quarter, and probably a third, of the wage earners' families in this country had, by 1944, accumulated little, if any, savings in spendable form.[1] Such families were, for the most part, in the lower-income levels. Generally speaking, the families with little or no wartime savings are the ones most likely to experience severe unemployment in the postwar period.[2]

The bulk of the wartime savings by workers has occurred in families with an income above $3,000 a year. Workers with such earnings are less likely to experience an extended period of unemployment than are workers with lower earnings. Most of these families in the higher-earnings brackets will presumably be in a better position to finance a period of unemployment than at any previous time during this century.

The importance of personal savings as a means of providing for a period of unemployment can easily be exaggerated. Wartime savings of 10 per cent of an annual income of $2,500 is only $250.[3] Such a "reserve" of family savings would disappear rapidly if the breadwinner became totally unemployed.

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Commerce of the United States, Washington, September, 1943. Apparently debt repayments, except payments on mortgages and life insurance, were not included in the savings data compiled in the survey.

[1] Note that "savings" as here used does not include payments on installment credit and other indebtedness.

[2] Families with the lowest incomes in general have the least savings. The breadwinners of such families are, for the most part, unskilled and semiskilled workers, often the less efficient workmen. Such factors explain their high susceptibility to unemployment and their handicaps in obtaining reemployment.

[3] This is the average total amount that up to mid-1944 had been deducted per participant under payroll deduction plans for the purchase of war bonds.

Study of the size and distribution of workers' wartime savings indicates, therefore, that they cannot be relied upon to furnish most of the means for meeting transition unemployment. Less than half of the families experiencing total unemployment in the transition are likely to have savings sufficient to tide them over three or four months.

## BUSINESS RESERVES FOR POSTWAR UNEMPLOYMENT

Many corporations have set aside large reserves for war and postwar contingencies. A sample study of 250 large corporations by the Securities and Exchange Commission shows that, by the end of 1942, about half had set aside a total of about 500 million dollars (equal to 13.6 per cent of the 1942 adjusted net income of all 250) in war and postwar reserves.[1] The titles used in designating those reserves, however, did not indicate that any of them were specifically earmarked for payments to disemployed workers.

Aside from pension or retirement programs, the most widespread company program for disemployed or laid-off employees has been dismissal compensation. It is estimated that by 1940 over 500 concerns, employing more than 2.5 million workers, had at one time or another paid dismissal compensation to some of their former employees.[2] However, few companies have established reserves for dismissal compensation. Most plans have operated on a "pay-as-you-dismiss" basis. That was true, for example, of four-fifths of the 160 concerns (with about 1.4 million employees) whose dismissal compensation plans were recorded and included in the 1943 survey of the National Industrial Conference Board.[3] Only 10 of

[1] See *Report on Corporate War and Post-war Reserves*, 1939–1942, Securities and Exchange Commission, Philadelphia, October 21,1943.

[2] Everett D. Hawkins, *Dismissal Compensation, Voluntary and Compulsory Plans Used in the United States and Abroad*, Princeton, 1940, p. 19.

[3] *Dismissal Compensation*, Conference Board Reports, Studies in Personnel Policy No. 50, New York, 1943, p. 21.

these 160 firms had accumulated funds to make future payments for dismissal compensation or extended layoffs.

From such data one can safely conclude that, taking industry as a whole, company "unemployment reserves" for the postwar period are not very significant. It is entirely possible, of course, that some portion of corporate postwar reserves, excess-profits tax credits, or even current income will be used for the payment of dismissal compensation, standby pay, vacations with pay, or a guaranteed annual wage, during the transition period. A few companies have already promised to make such payments to their unemployed workers during industrial reconversion. Most companies, however, seem to be relying on public reserves to perform the function of providing aid to the unemployed.

### PUBLIC RESERVES FOR POSTWAR UNEMPLOYMENT

Since 1935, and especially during the war, various unemployment reserves have been built up by the states and the Federal Government. In addition to state and municipal reserves for postwar public works, there are 52 unemployment-compensation funds. A small fraction of the reserve funds under Federal Old-Age and Survivors Insurance and under the Railroad Retirement Act, which together amounted to 6 billion dollars in the middle of 1944, might also be considered as a reserve for postwar unemployment. At the beginning of 1944, approximately a million older workers would have been eligible for benefits from those funds had they not continued in employment. Before the end of the transition period, many of them will retire, which may relieve unemployment-compensation funds of various claims.[1]

[1] Over two-thirds of the state unemployment-compensation laws provide that a person cannot receive both full unemployment-compensation and old-age benefits for the same week. Most of these state laws provide that a person's weekly unemployment-compensation benefit shall be reduced by the weekly amount of old-age benefits he receives. Depending on the state of the labor market, retired workers might be considered unavailable for work and, therefore, ineligible for unemployment compensation. Some workers will try to

### *Unemployment-compensation Reserves*

In mid-1944 there were about 6 billion dollars in the 52 unemployment-compensation funds (48 states, D. C., Hawaii, Alaska, and the Railroad Unemployment Insurance Account). During the war these reserves have been increasing at a rate of 1 to 1½ billion dollars a year.

These huge sums have accumulated despite a loss to unemployment-compensation reserves of over 1 billion dollars between 1937 and 1944 due to (1) reductions in contribution rates under experience rating in certain states,[1] and (2) use of part of the Federal Unemployment Tax for other purposes.

Through experience rating, the average collection rate on taxable payrolls under the Social Security Act has gradually been reduced from the primary or standard tax rate of 2.7 per cent in 1939 to 2.3 per cent in 1942 and around 2.2 per cent in 1943.[2] The result has been a loss to unemployment-compensation funds of about 300 million dollars of tax income each year that we have been in the war.[3] Most of that loss has either found its way into the general fund of the U. S. Treasury in the form of increased corporation-tax receipts, especially under the excess-profits tax, or resulted in savings to the Federal Treasury through relatively lower costs for war purchases.[4]

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exhaust their rights to larger unemployment-compensation benefits before applying for their old-age benefits.

[1] Of the 52 unemployment-compensation systems, experience rating reduced contributions in 34 during 1942 and in 40 during 1943.

[2] In one state the average tax rate was only 0.9 per cent in 1942 and in 1943.

[3] This is not a net loss, for experience-rating provisions have, rightly or wrongly, served to reduce benefit payments. It is doubtful, however, whether, during the war period, experience rating has curtailed benefit payments more than a minor fraction of the reduction in contributions. Recently the contribution loss from experience rating has equaled or exceeded total benefit payments.

[4] For a good discussion of the incidence of Social Security payroll taxes, applying to prewar conditions, see Seymour E. Harris, *Economics of Social Security*, McGraw-Hill Book Company, Inc., New York, 1941, Part 3.

### *Reserves for Unemployment*

Income from the residual federal unemployment tax of 0.3 per cent under the Social Security Act has far exceeded the costs of administering unemployment compensation. During the war from 100 to 150 million dollars a year of tax receipts, intended for unemployment purposes, have found their way into the Treasury's general fund to be used for other purposes.

### *Reserves for Postwar Employment*

A combination of increasing revenues and wartime restrictions on expenditures has resulted in states and municipalities piling up surpluses, which have been used to pay off indebtedness and to accumulate reserves for postwar projects.

By 1944, the states had set aside 1.5 billion dollars of revenues in federal bonds and had reduced their net tax-supported debt by about 30 per cent (almost a billion dollars). Furthermore, interest rates on both state and local debts have been considerably reduced.

Municipal debt has also been cut to a figure approaching the 1929 or 1930 levels. Between 1935 and 1944, the total net tax-supported debt of all municipalities is estimated to have declined by more than 20 per cent (or close to 3 billion dollars).[1] A number of war-boom cities have reduced their over-all net tax-supported debt by 50 per cent or more.[2]

The municipalities have also been accumulating reserves for public works and deferred maintenance. By 1944 a total of 21 states with more than half of the nation's population had provided their municipalities with authority to establish reserve funds for public works and other projects after the war. Cities in some of the other states were obtaining such authority by charter amendment. A survey in January, 1944, by the

[1] Estimate based on data supplied the author by Mr. F. LeRoy Spangler. The net debt of state and local governments on June 30, 1943, has been estimated at 14.8 billion dollars, compared with 16.8 for June, 1933, and 14.7 for June, 1930. See Alvin Slater, "Wartime Debt Changes in the United States," *Survey of Current Business*, Vol. 24, July, 1944, p. 16, Table 1.

[2] Three Michigan automobile cities reduced their net over-all debt by 67 to 86 per cent.

International City Managers' Association revealed that, of the 377 cities of over 25,000 inhabitants reporting, almost a third had established postwar reserve funds, totaling about 90 million dollars.[1]

From the above data, the postwar reserves of the states and municipalities may be roughly estimated at 1.7 billion dollars, and the reduction in net tax-supported state and local debt at approximately 4 billion dollars, as of January, 1944. Until the end of the war, the financial condition of the states and the municipalities will continue to improve.[2]

This improvement is in marked contrast to federal fiscal conditions and is largely a direct result of the war. It is highly appropriate, therefore, that the reserves and improved borrowing power[3] of states and municipalities be used to meet postwar needs.

## ECONOMIC ASPECTS OF POSTWAR RESERVES

### *Reserves vs. Borrowing*

Popularly, the financing of postwar programs from accumulated reserves is considered to be in marked contrast to financing such programs by means of borrowing. Actually, the two methods may not differ greatly in practice, where the reserves are in the form of government bonds. In both cases cash to pay for the programs must be raised by bond sales—sales of bonds from reserves or sales of newly issued bonds.

As far as economic effects are concerned, it will make little difference whether governmental units use surplus funds to

[1] The data from the questionnaires are summarized in *The Municipal Year Book*, 1944, p. 324.

[2] In the middle of 1944 the states were reported to have reserves of 3 billion dollars, or double the figure for January 1, 1944.

[3] Note that reduction in government indebtedness is here considered a spendable asset whereas most of the reduction in personal debt is not. The chief reason for this difference in treatment is that the income of individuals may cease for a number of reasons, rendering them unable to borrow even though they may have paid off past debts. In contrast, governments have the power to raise revenue through taxation and can increase taxes to meet revenue needs.

accumulate reserves of securities or to pay off their existing indebtedness. Consequently, the wartime reduction in state and local debt can be considered on par with accumulated reserves. Indeed, debt reduction may have certain postwar advantages over accumulated reserves of federal securities. Federal securities exist in such large volume and are so important an element in bank assets that sizable sales at any one time might have a marked effect upon our banking system as well as upon Treasury operations.

### *Reserves and Postwar Markets*

As significant elements in wartime savings, public and private reserves against unemployment have important economic implications, especially for postwar markets for the products of industry. To the extent that unemployment-compensation reserves remain unused during the transition, they will be valueless as a stimulus and support to industry. Without fairly adequate benefits, unemployed workers will be forced to use up personal savings for current consumption needs rather than for new homes, new automobiles, and other durable goods after they become reemployed. War savings in considerable part represent postponement of the purchase of durable goods, and renewed employment in the durable-goods industries will be affected by the rate at which deferred purchases are made. If unemployment protection is notably inadequate, the employed as well as the unemployed may spend their funds more cautiously, and industries vital to high-level employment may lack markets sufficient to utilize their capacity. Unemployment may thus increase partly because large unemployment funds remain idle.

### *Adequacy*

Will the various "unemployment reserves" which have been discussed be sufficient to meet transition unemployment? Certainly in the aggregate they will be large enough. But they are inappropriately distributed, and there are serious restrictions on their use.

Both public and private "unemployment reserves" are at present divided into watertight compartments, by family and by firm, by municipality and by state. The availability of these piecemeal reserves differs markedly from the probable distribution of transition unemployment. It is as though fire companies were poorly distributed in terms of fire hazards and each one were confined within narrow territorial limits. In such circumstances, the total fire-fighting apparatus could be adequate for the whole job; yet, with part of it remaining idle because there were no fires in its particular area, many other areas would suffer from inadequate fire protection. So it is with our unemployment reserves.

Legal restrictions further limit the use that can be made of "unemployment reserves" even for persons eligible to draw on them. Where such restrictions are too severe, part of the reserve is ineffective. As a consequence, the reserves actually available for meeting transition unemployment may be rendered inadequate for the job.

One way to improve the adequacy of our unemployment reserves during the transition is to increase their availability by modifying the restrictions on their use. As indicated in the next chapter, such action is needed in order that our unemployment-compensation reserves may provide more adequate protection in the early postwar years.

# IV. IMPROVEMENTS IN UNEMPLOYMENT COMPENSATION

UNEMPLOYMENT compensation should be the chief means of providing for unemployed workers during the transition. It is well suited to the type of short-term unemployment that will occur during the changeover from war to peacetime production.

Certain improvements are, however, necessary if unemployment compensation is to perform its proper role in the postwar transition. Because present federal-state arrangements for unemployment compensation were designed to avoid constitutional difficulties, they are complicated and relatively ineffective. The unemployment-compensation provisions of the Social Security Act are essentially a device to force states to adopt unemployment-compensation laws that comply with certain specific federal requirements. That the results of such forced action are somewhat unsatisfactory is not surprising.

The defects and weaknesses in the present system would in all probability have been widely recognized before now had unemployment compensation been faced with the test of a severe slump in business. Our unemployment-compensation laws were enacted near the bottom of the great depression, and the trend of employment has been upward since the commencement of benefit payments. The first real test of present arrangements for unemployment compensation will come, therefore, after the war.

For the transition period, the need is to increase the effectiveness of the present federal-state program. The greatest defect in present laws is the inadequate protection afforded war workers: some categories of war workers are not covered by unemployment compensation; the weekly benefits provided for covered workers in most states are unsatisfactory; and the duration of benefit payments before exhaustion of benefit rights is particularly inadequate.

The initial benefit provisions suggested for state laws by the federal authorities in 1935 and 1936 were frankly recognized as inadequate. In the midst of a severe depression, without good unemployment statistics for actuarial calculations, and with separate state systems under a cumbersome administrative setup, the Committee for Economic Security and the Social Security Board were extremely cautious and conservative with regard to proposed benefits.[1]

Adjustments in the benefit provisions during the eight years after 1936 have lagged far behind increases in annual earnings or in levels of living. Indeed, as explained in the section on benefits, state scales have not even kept pace with increases in prices and the cost of living so that, generally speaking, their purchasing power at present is below that of the initial benefit scales in 1936.

Improvements in benefit provisions are necessary if, during the transition period, our huge unemployment-compensation reserves are to be effectively used and unemployment benefits are to meet more than one-tenth to one-seventh of the wage losses that covered workers will sustain as a result of unemployment. Under existing provisions, totally unemployed workers with the same base of previous earnings are entitled to little more than half as much in benefits in some states as they would receive in neighboring states. In general, the states possessing the most ample reserves have the lowest benefit scales, the shortest duration of benefits, and the highest proportion of beneficiaries exhausting their benefit rights. Many states have already accumulated reserves which are

[1] Not only were benefit payments delayed until after two years of contributions had been collected, but a safety "loading" of 30 per cent was included, which served to make the proposed benefits almost 25 per cent under the statistically calculated benefit scale.

excessive in view of their inadequate benefit porvisions. Part of their reserves have become, in essence, public savings accounts which will afford no protection to unemployed workers unless the state's benefit provisions are changed.

With proper distribution and use, unemployment-compensation reserves (including incoming tax contributions) would be sufficient to permit the needed improvements in benefits on a long-term basis. Unfortunately, however, we are faced with 52 separate unemployment-compensation systems with 52 unconnected reserve funds. Each fund has its own source of income and its own liabilities, and there is no provision for mutual or outside support. In the postwar period, one or more state funds may become exhausted while over half of our present unemployment-compensation reserves remain unused and ineffective.

If covered workers are to be assured the protection of improved benefit provisions during the postwar transition, some arrangement for mutual assistance or supplementary federal aid is needed. A number of proposals have been offered for meeting this need. They include supplementary federal benefits, a federal subsidy for improved state benefits, a central reserve fund to support exhausted state funds, and a federal loan fund.

A survey of the areas where present legislation would prove inadequate in the postwar period should logically precede an analysis of proposals for improving the structure of unemployment compensation. Therefore, the more detailed discussion that follows is divided into two sections. The first section deals with the main shortcomings of present unemployment-compensation laws, indicating where, in terms of the postwar transition, the weaknesses are and how specific defects can be remedied. The second section examines general proposals for improving the structure of unemployment compensation so that it will come closer to meeting the needs of the transition period.

## MAIN SHORTCOMINGS FOR THE TRANSITION

Insufficient coverage, inadequate benefits, and ineffective use of reserves are the chief weaknesses of existing unemployment-compensation laws for meeting short-term unemployment during the transition. These deficiencies can be remedied without fundamental changes in the present federal-state setup.

### *Coverage*

The number of persons covered by unemployment compensation has greatly expanded during the war. As of June, 1944, there were perhaps 39 million persons with sufficient wage credits to qualify for some benefits. Of that number, some 5 millions are servicemen whose benefit status was frozen at the time they entered the armed forces. The Servicemen's Readjustment Act of 1944 provides benefits for unemployed ex-servicemen with 90 days of active service. Perhaps as many as 11 million persons will be covered under this Act by the time the war ends. Allowing for duplication, it seems safe to estimate that approximately 45 million persons would be eligible for some unemployment benefits should they become unemployed during the transition period.

Certain important groups of war workers, however, are not covered. They include 200,000 merchant seamen, about 2 million civilian employees of federal war agencies (mostly in arsenals, depots, and navy yards), and about 3 million workers in small concerns now excluded from coverage under size-of-firm provisions in state laws.[1]

Federal employees could readily be included under the coverage of the law of the state where they are employed. This could be accomplished simply by having the Federal Government reimburse the state for benefits drawn by its former employees on the basis of their previous federal earn-

[1] Employers of less than eight workers are exempt from the federal tax, but smaller firms are included in the coverage of over half the state laws.

ings and the benefit formula of the state. Inasmuch as demobilization of federal employees will presumably be completed during the transition period, the arrangement could terminate after two or three years.[1] The cost of such a program to the Federal Government is difficult to estimate. It might reach 200 million dollars.[2]

The problem of the merchant seamen is of different character. Their employment is interstate and international in nature and is distinguished by many employment practices peculiar to the industry. The situation can best be handled by federal legislation establishing a separate system of unemployment compensation for seamen along the lines of the various bills on which hearings have been held during the past four years. In view of the instability of employment in shipping and an expected contraction of at least 50 per cent in employment after the war, some federal contribution would be required to provide "reasonable" benefits[3] to merchant seamen during the transition and thereafter. Since the Federal Government has held title to the bulk of our ships during the war and a large share of the merchant seamen have been employed directly by the government, such a federal contribution seems justified. Assuming combined employer-employee contributions of 4 per cent of payrolls commencing in 1944, the necessary federal contribution might amount to 30 million dollars during the transition and 10 to 20 million dollars more during the succeeding decade, with a possibility that thereafter the system might be self-sustaining.[4]

[1] Regular as well as "emergency" federal employees are included in this proposal. The added cost of their inclusion would be small and it would avoid the insuperable difficulty of distinguishing between "war" and "nonwar" federal workers.

[2] Assuming one million of the 3.5 million federal employees draw an average of $200 each in benefits. This cost occurs in the transition because the Federal Government has not been making contributions to unemployment funds as private industry has.

[3] The equivalent of one-twentieth of high-quarter earnings in the base period, with a maximum of $20 a week and flat duration of 26 weeks.

[4] See *Unemployment Insurance for Merchant Seamen*, Hearings on Committee

Employees of excluded small firms are likely to experience less severe unemployment during the transition than merchant seamen and federal war workers and therefore will have less need of unemployment-compensation protection. Nevertheless, it would be desirable to include in unemployment-compensation coverage the small concerns already covered by Old-Age and Survivors Insurance. Present tax rates for unemployment compensation, if applied to small firms, should yield more than enough over a period of years to finance "reasonable" benefit payments to employees laid off by those concerns. Extension of coverage to such firms should therefore require no special tax or subsidy.[1]

### *Benefits*

After a special study, including a field survey in 11 states, a group of experts reported in 1943 to the New York Joint Legislative Committee on Industrial and Labor Conditions that "the benefit provisions of the state laws cannot be said to be adequate to meet fully the needs that will arise if unemployment succeeds the cessation of hostilities."[2]

As already indicated, initial benefit scales were frankly recognized as inadequate; subsequent improvements have, generally speaking, failed to correct the early inadequacies. Despite a doubling of weekly earnings and an increase of 25 to 30 per cent in living costs since 1936, half of the states still limit weekly benefits to the 1936 ceiling or a maximum of 15 or 16 dollars.[3] In the past seven or eight years, average benefit

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Prints Nos. 1 and 3 before the House Committee on the Merchant Marine and Fisheries, 78th Congress, 1st Session, June, 1943, especially pp. 13, 182, 208–209, and 389.

[1] The unemployment-compensation system should eventually be extended also to cover agricultural workers and domestic servants. Such extension is not recommended for the transition period because of the very great administrative difficulties involved.

[2] *Report of the New York Joint Legislative Committee on Industrial and Labor Conditions*, Legislative Document (1943), No. 39, p. 101.

[3] See Appendix.

scales have not even been adjusted upward sufficiently to allow for the increase in the cost of living, so that their real value has actually been declining.[1]

Among states, benefit scales and benefit payments vary widely and irrationally. Unemployed workers with exactly the same wage credits and in exactly the same circumstances would receive a weekly benefit of $6 in Maine and $13 in Massachusetts or Rhode Island, $7 in South Dakota and $12.50 in Wyoming, $7 in Kentucky and $12.50 in Illinois, $7 in North Carolina and $13 in Louisiana.[2] Similar wide differentials apply in the higher wage brackets. An unemployed worker eligible for a benefit of $12 a week in North Carolina, Kentucky, and South Dakota would, for the same wage credits, receive $18 or $20 in Louisiana, Illinois, Wyoming, or Utah.[3] Low benefit scales explain why in 1943, when weekly benefit payments for the country as a whole averaged $13.84, the average was $7.10 for North Carolina, $9.09 for Maine, $9.31 for Kentucky, $9.54 for South Dakota, and $9.57 for Delaware. Those were the only five states with average benefit payments below $10 a week.

The maximum sums which unemployed workers may draw in benefits vary between neighboring states even more than do the weekly amounts. For example, the same worker who

[1] A comparison of the benefit provisions contained in the 51 state laws under the jurisdiction of the Social Security Board on August 31, 1937, and January 1, 1944, gives the following results: The maximum weekly benefit increased from an average of $15.08 to an average of $16.98, or an increase of less than 13 per cent; while the maximum duration of benefits increased from an average of 16.4 weeks to 17.4 weeks, or 6 per cent. A number of states reduced the waiting period, but that did not increase the total dollar amount an eligible worker could draw in benefits.

[2] Based on high-quarter wages of $250 and base-period wages of $500. All calculations in these paragraphs are based on benefit provisions in effect on August 15, 1943.

[3] Based on high-quarter wages of $400 and base-period wages of $1,000. With high-quarter wages of $500 and base-period wages of $1,500, the differentials are relatively smaller but there are still such marked variations as $15 in South Dakota and $20 in Wyoming, $14.50 in Maine and $18 in Massachusetts, $15 in Virginia and $20 in D. C. and Maryland.

could draw total benefits of $220 in New York would be eligible for only $100 in benefits in New Jersey.[1] He could draw a total of only $83 or $84 in Iowa, Arizona, or Oregon, compared with $208 in California or $260 in Utah. The relative differences are about as great for workers with much larger previous earnings. The unemployed person who could draw total benefits of only $240 in Washington and Oregon could receive $414 in California.[2] He could receive only $210 in Mississippi and Arizona, compared with $360 in Louisiana and $400 in Utah.

Brief duration of benefits is the most serious inadequacy in many state laws. Workers still unemployed upon exhausting their benefit rights averaged only 13 weeks of benefits in 1942 (for Oregon the average was only 6½ weeks).[3] During prosperous years like 1941 and 1942 and with a waiting period of one or more weeks of unemployment before compensation commences, two-fifths to one-half of all beneficiaries exhausted their benefit rights while still unemployed.[4] Such high exhaustion ratios in years of expanding employment seem to indicate that most of our unemployment-compensation laws have not been geared to the pattern of unemployment actually experienced by American workers. The duration of benefits has been especially short, and the exhaustion ratio particularly high, in states limiting total benefit payments to one-fifth or one-sixth of wages earned in the base year. In general, the longest duration and the lowest exhaustion rates have occurred in states providing a uniform duration of 20 weeks for all beneficiaries and in states limiting total benefits to one-half or one-third of base-year earnings.

States with the most ample or excessive reserves for unemployment compensation tend to provide the least adequate

[1] Based on high-quarter wages of $400 and base-period wages of $1,000.

[2] High-quarter wages of $500 and base-period wages of $1,500. These are maxima, so that higher earnings make no difference.

[3] Based on a simple state average. See Appendix for statistics of individual states.

[4] Even in 1943 about a third of all claimants exhausted their benefit rights.

benefits.[1] This is true of North Carolina, Kentucky, Iowa, and South Dakota, and to a lesser extent it is also true of Delaware, New Jersey, Arizona, and Oregon. On the other hand, states whose reserves are among the least ample tend to offer the largest weekly and total benefits.[2] Such unjustified differences among states should be reduced before the nation is faced with the problem of postwar unemployment.

In order to provide more adequate protection for unemployed workers during the transition, benefit scales[3] in the low-benefit states should be raised to approximate those offered by the top five or six states. This would mean a benefit ceiling of at least $20 a week and a maximum duration of benefits of 20 to 26 weeks.[4] A flat duration of benefits for a full 26 weeks is recommended. Such an improvement in duration would, the author estimates, reduce by at least 50 per cent the number of workers exhausting their benefit rights in the first postwar year.[5] In other words, about 80 per cent of that year's unemployed would have found jobs before their protection through unemployment compensation was withdrawn.

This recommended scale of benefits for state laws is low relative to the unemployment allowances granted ex-servicemen in the Servicemen's Readjustment Act of 1944. Instead of a ceiling of $20, all unemployed veterans will receive a weekly benefit of $20 regardless of their previous earnings. The maximum duration of benefits is 52 weeks, actual duration being calculated as follows: 24 weeks of benefits for the

[1] In weekly amount, in duration, or both.

[2] New York, Maryland, Michigan, Louisiana, and Utah, for example.

[3] "Scales," not actual payments which depend on amounts earned in the base period.

[4] The Utah, Maryland, Michigan, California, and Hawaii laws provide a weekly benefit equal to $\frac{1}{20}$ of high-quarter earnings and a maximum of $20 a week. Utah and Hawaii have a flat duration of 20 weeks, while Maryland and California have a possible maximum duration of 23 and 24 weeks.

[5] That estimate is based on the assumption that, with no change in benefit provisions, the average postwar duration before exhaustion of benefit rights will not exceed by more than two or three weeks the prewar average of twelve or thirteen weeks.

first three months of active service and four weeks of benefits for each additional month of service.

It has been claimed that states will enact more severe restrictions on eligibility if they improve their benefit scales and provide uniform duration of benefits for, say, 26 weeks. The answer to that contention is twofold. Firstly, the wage credits required to qualify for benefits are probably too low in most states, so that some very casual or intermittent workers may improperly be included under unemployment compensation. The wage-credit requirement for the lowest benefit class ranges from annual earnings of $60 a year in covered employment in one state to $300 a year in another state. It is certainly questionable whether unemployment compensation should attempt to cover workers who earn less than, say, $150 a year or 30 times their weekly benefit rate.

In the second place, unemployment compensation is *social* insurance. It can, therefore, deal in aggregates without requiring a close balance between previous contributions and benefits for each individual or even for each class of individuals.[1] Consequently, although some states have stiffened their eligibility requirements when they have adopted uniform duration of benefits, others have not. On July 1, 1941, Utah raised weekly benefits about 20 per cent, increased the duration of benefits from a possible maximum of 16 weeks to a uniform maximum of 20 weeks, and at the same time reduced the wage-credit requirements for eligibility by considerable amounts.[2]

In opposition to improvements in weekly benefits it is argued that raising benefit levels now might mean weekly benefits amounting to as much as 80 per cent of weekly earnings during the transition and that such benefits would tend to make some workers reluctant to take jobs at the reduced weekly earnings "necessary" after the war. This situation will not be affected

[1] Experience rating in unemployment compensation does tend to retard or hinder improvement of benefits along such lines.

[2] Utah does not have experience rating.

one way or the other by the two benefit recommendations made here, namely, an increase in the duration of benefits and a ceiling on weekly benefits of at least \$20.[1] Raising the ceiling does not change the fractional ratio of weekly benefits to previous earnings.

The ratio of weekly benefits to previous weekly earnings declines sharply as the worker's earnings rise above double the state's maximum weekly benefit. With state weekly-benefit ceilings averaging \$17, benefit payments to workers in high-earnings brackets only amount to a small fraction of weekly earnings in the base year. It is estimated that, for the country as a whole, weekly benefits have been averaging about one-third of weekly earnings.

Unemployment compensation will actually meet only a small fraction of the wage losses that covered workers will sustain as a result of unemployment during the transition. Such factors as benefit ceilings, "waiting periods" before the benefit payments begin, brief duration of benefits, and insufficient wage credits to qualify have meant that in past years unemployment compensation has averaged little more than \$1 in benefits for every \$10 of buying power that covered workers have lost as a result of unemployment.[2] The percentage of wage loss met by unemployment compensation probably will be somewhat higher in the transition, since most unemployment during that period will probably be of rela-

[1] Ten states already have that ceiling; Connecticut has a ceiling of \$22 a week.

[2] A recent study attempts to measure the effectiveness of unemployment benefits in terms of wage loss from unemployment. Applying the 1941 Ohio unemployment-compensation law to a representative sample of Ohio firms, it was found that, had the law been in effect during the five-year period from 1928 through 1932, benefit payments would have replaced only 10.4 per cent of the wages lost through unemployment by persons capable of working and separated from the payroll for a reason that would qualify them for benefits. Under the 1938 New York and Wisconsin laws, benefit payments to those unemployed Ohio workers would have compensated for only 8.9 and 5.3 per cent respectively of their wage loss from unemployment resulting from a qualifying cause. See Sam Arnold, *Effectiveness of Unemployment Benefits in Maintaining Purchasing Power*, Bureau of Business Research, Ohio State University, 1943, pp. 20–35.

tively short duration and most of the workers unemployed in the first postwar year should have fairly high base-period earnings.

Failure to increase benefit ceilings or duration of payments in line with increased earnings has been an important factor in the low percentage of total wage loss compensated for by unemployment benefits. Assuming no change in present benefit provisions and a decline of no more than 10 per cent in average weekly earnings from 1943 levels, it seems likely that unemployment-compensation payments (exclusive of federal benefits for ex-servicemen) would average about 15 per cent of the wages that workers now in covered employment will lose as a result of unemployment during the transition period.[1] The percentage would vary among states, depending on the adequacy of state benefit provisions. If benefit ceilings were raised and duration of benefits were extended as here recommended, unemployment compensation would probably meet about 25 per cent of the total wage loss to covered workers during the transition.[2]

### *Reserves*

As indicated in an earlier chapter, aggregate unemployment-compensation reserves have accumulated to a figure far

[1] The above estimate is based on the assumption that about 50 per cent of all the unemployment experienced by covered workers during the transition would be uncompensated unemployment (either during waiting periods or after exhaustion of benefit rights) and that weekly benefits would average about one-third of current weekly earnings.

A critic has suggested that a more proper basis for such an estimate would be the first 26 weeks that each person is unemployed. Perhaps 65 per cent of the unemployment for such a calculated period would be compensated, so that the ratio of compensation to wage loss would be somewhat above 20 per cent. See *Hearings before the Special Committee on Post-war Economic Policy and Planning Pursuant to S. Res.* 102, Part 3, Unemployment Compensation, Washington, 1944, pp. 864–865.

[2] This estimate is based on the assumption that about 70 per cent of all the unemployment experienced by covered workers during the transition would be subject to compensation and that weekly benefits would average between 35 and 40 per cent of current weekly earnings.

beyond the expectations at the time the Social Security Act was passed. By the middle of 1944 such reserves amounted to about 6 billion dollars. A total of one billion dollars had been accumulated as reserves before benefit payments began,[1] and since then three dollars have been collected for every dollar paid out in benefits. Two dollars out of every three have gone into reserves. Recently, reserves have been increasing by 1½ billion dollars per annum, three times the largest sum paid out in benefits in any year.[2] By the end of 1945, total unemployment reserves will probably amount to 7 or 8 billion dollars. This sum is sufficient to pay every worker in covered employment the average 1943 benefits for the maximum number of weeks allowed under existing laws for a single spell of unemployment in any benefit year.

While total unemployment-compensation reserves are accumulating to such huge figures, they are at the same time being relieved of a significant part of their liabilities. As already mentioned, unemployed ex-servicemen can obtain federal benefits up to a maximum of 52 weeks during the two years following their discharge. Not only does the federal act thereby relieve the state funds of compensation liabilities to ex-soldiers, half of whom were estimated to have had sufficient wage credits to qualify for benefits under state laws during the transition, but the wages of ex-servicemen who enter covered employment will be taxed by the states even though there is little possibility that any of these men will draw on state funds until their rights under the federal act expire.

The reserve funds of many states are already grossly excessive in view of their present benefit provisions. These funds are from 5 to 50 times the largest total of benefits paid from them in any one year. Reserves in more than a dozen states[3]

[1] In all states except two they began in 1938 or in January, 1939.

[2] The year of largest benefit payments was 1940, when total benefit payments were about half a billion dollars.

[3] Mostly nonindustrial states.

exceed 10 times the amount necessary to pay their 1943 average benefits for the maximum duration of payments to all who the U. S. Bureau of Labor Statistics has estimated will be jobless during the temporary contraction in manufacturing in the transition period.

Reserves in a number of states now far exceed all possible claims on the fund under existing state laws. In several states,[1] every worker in covered employment could be paid weekly benefits at the early 1944 average rate for the maximum duration stipulated in the state law. There would still be funds left over. Five states[2] have reserves almost sufficient to make such complete payment to all workers in covered employment. At the other extreme are Michigan and Massachusetts whose funds would provide average 1944 benefits for maximum duration to about two-fifths of covered workers in those states.

Present benefit provisions probably sterilize one-third to one-half of the funds. That portion of our 52 reserve funds[3] would presumably not be used even if unemployment went as high as 12 million during the first postwar years and eligible unemployed persons drew all the benefits to which they are entitled under existing laws.

Social insurance should not be operated on the full-reserve principle. Taxes insure a continued income flow to state funds, so that a fund could become insolvent only if benefit payments during a period exceeded the combined total of reserves at the beginning of the period plus all tax contributions during that period.

For states to improve their benefit provisions as here recommended could hardly be considered improvident, especially if a guaranty fund is established as recommended in the next

[1] Maine, North Carolina, and Kentucky.

[2] New Jersey, Pennsylvania, Iowa, South Dakota, and Montana.

[3] Actually there are about 50,000 reserves, as seven states have individual employer reserve accounts, with only a minor fraction of contributions flowing into a supplementary pooled fund, designed to meet the benefit claims of former employees of those employers whose individual reserves become exhausted.

section. The present 3 per cent payroll tax is sufficient to finance such increased benefits on a continuing basis if the number of persons drawing benefits year in and year out averages around 8 per cent of covered employment.[1]

## STRUCTURAL IMPROVEMENTS

Three types of proposals have been offered for improving the structure or general organization of unemployment compensation to render it more effective in the reconversion period. They are (1) replacement of the present state-federal arrangements by a unified national system, (2) supplemental benefits financed by the Federal Government or a federal subsidy for improved state benefits, and (3) federal aid or loan arrangements to support state funds so that more adequate protection can be granted under the existing state-federal system. These proposals will be examined from the point of view of their effectiveness for the transition.

### *A Unified National System*

President Roosevelt, the Social Security Board, and a number of social-security experts have recommended that the present state-federal program be replaced by a single national system of unemployment compensation. A unified national system, in place of 52 separate laws and administrations, would strengthen unemployment compensation financially, allowing more adequate protection to the nation's workers through the pooling of all contributions in a single reserve. It would also permit more economical administration.

Federalization of unemployment compensation is, however, not a practical proposal for the transition period. Neither Congressional sentiment nor general public opinion appears to favor such a change. It does not seem likely, therefore, that a national system will be established unless or until present

[1] This would, of course, mean a considerably higher rate of unemployment since the percentage does not include unemployed workers during the waiting period or after they have exhausted their benefit rights.

state-federal arrangements prove seriously inadequate and ineffective in the postwar period.

Furthermore, any attempt to make a fundamental change in the structure of unemployment compensation confronts the possibility that the large state reserves would not be fully available for benefit payments during the transition. The state reserves are "deposited" in the U. S. Treasury and are subject to state laws, including state constitutions. Should the structure of unemployment compensation be so changed that states would no longer seek federal approval of their laws, a number of nice legal and constitutional issues might arise,[1] along with the possibility of the use of state funds for purposes other than unemployment compensation. Many state laws provide that the accumulated reserves shall be returned to contributors whenever the offset provisions of the federal act no longer apply and the state systems cease to operate.[2]

### *Supplemental Federal Benefits*

On April 7, 1944, Justice James F. Byrnes, Director of War Mobilization, suggested a system of federal benefits "to supplement existing state unemployment benefits to the extent necessary to give workers, during the transition from war to peace, suitable unemployment benefits to be prescribed in a federal demobilization law."[3] In the same month the agriculture, business, and labor committees on national policy of the National Planning Association recommended a scheme of federal supplementary benefits as a temporary measure for the reconversion period or until such time as a comprehensive

[1] If the Federal Government should attempt to impound the funds, they might be immobilized during lengthy litigation.

[2] Perhaps federal taxes could be levied in such a way as to force states either to transfer their reserves to the Federal Government or to use them up in paying benefits under the federal system. Such federal legislation might, however, be of questionable constitutionality.

[3] "Preparations for Peace on the Home Front," *Proceedings of the Academy of Political Science*, Vol. 21, May, 1944, p. 126.

federal program covering unemployment compensation is adopted.[1]

A similar proposal was put forth by the Administration early in 1942 for workers displaced in that year as a result of wartime priorities and industrial conversion. Federal funds were to provide 20 per cent increase in the weekly benefit payments made by the states, with the ceiling fixed at $24 a week. Federal appropriations were also to be used to pay benefits to workers for weeks of unemployment not qualifying for state benefits because the state's waiting period exceeded one week, or because of exhaustion of state benefit rights before the receipt of 26 weeks of benefits, or because of size-of-firm exclusions from coverage. Payment of the federal monies was to be made through the state administrations.[2]

Such programs for federal supplementary benefits are subject to serious objection. As already pointed out, the huge unemployment reserves will be more than ample in most states to finance reasonable benefits for all unemployed workers eligible for unemployment compensation in the early postwar years. The Servicemen's Readjustment Act of 1944 has relieved state funds of an important part of their liabilities by providing federal benefits for ex-servicemen. Additional federal funds for unemployment compensation to war workers would tend to make the state reserves as a whole that much more excessive. State funds were established under the Social Security Act for the purpose of meeting future unemployment. The accumulated reserves will be more than sufficient to do so. It is only common sense to use them.

Some have argued that because the costs of demobilization are attributable to the war the Federal Government should

[1] *Joint Statement on Social Security by the Agriculture, Business and Labor Committees on National Policy,* National Planning Association, Planning Pamphlets No. 33, April, 1944, pp. 16–17.

[2] Hearings were held on the bill, but it did not reach the floor of Congress. See *War Displacement Benefits,* Hearings on H. R. 6559 before the Committee on Ways and Means, House of Representatives, 77th Congress, 2d Session, Revised, Washington, 1942.

meet the financial burden of transition unemployment. The argument is not very convincing. The war has been, and will be, in large measure responsible for the accumulation of big state reserves. Consequently, there will be every reason for using them to pay all the benefits drawn by unemployed war workers during the transition.

If the federal supplemental benefits simply increased state benefits by a certain percentage, they would serve to multiply the wide and unjustified variations in present benefit scales among states. If they were designed to fill the gap between existing state benefits and some federal standard, states with the lowest benefit scale would receive the largest federal supplements. The federal program would thereby put a premium on meager state benefits. It would also reward the nonuse of state reserves, for the states with the most ample or excessive reserves generally offer the least adequate benefits.

Needlessly costly to the Federal Government and favoring states that have been most backward in improving benefits, the proposal for a federal supplement to state benefits also raises a number of practical problems. Some of those problems were indicated at the 1942 House hearings on the bill for supplemental war displacement benefits from federal funds. For example, it was stated that provisions of the laws of 40 states, patterned after the Social Security Board's model bill, do not permit any supplementation of state benefits, inasmuch as the state benefits would have to be reduced by the amount of the federal supplement during any week.[1] Apparently the laws of those states would have to be amended before state benefits could be increased by federal supplements. Furthermore, with the states paying out federal money unmatched by state funds, there would be need for rather close federal supervision and control of unemployment-benefit payments.

[1] See *Hearings before the Special Committee on Post-war Economic Policy and Planning*, Part 3, Unemployment Compensation, Washington, 1944, pp. 143–144.

### *A Federal Subsidy for Improved State Benefits*

The use of the grants-in-aid method has also been proposed as a means of improving state benefits.[1] It has been suggested that the Federal Government could offer to pay two-thirds or three-fourths of the cost of all state benefits above a certain minimum benefit scale. The offer could be confined to the transition period.

This proposal is open to most of the objections raised against supplemental benefits financed by the Federal Government. Such a general subsidy would not be necessary during the transition in view of the aggregate volume of state reserves. Uniform application of such a subsidy would make no special allowance for the uneven postwar burden of unemployment among states. The states would have to revise their laws rather extensively to fit into such a federal scheme. The proposal does, however, avoid any federal reward for state backwardness in improving benefit scales.

### *A Federal Loan Fund*

A revolving federal loan fund, available to states when state reserves are exhausted, has also been suggested as a device for encouraging the states to improve their unemployment compensation acts.[2] In October, 1944, the Social Security Act was amended to provide for federal loans to endangered state funds.[3]

Under this amendment, whenever a state's fund at the end of any calendar quarter falls below total contributions collected by the state during the higher of the two preceding

[1] See, for example, *ibid.*, pp. 764–765.

[2] See *Changes in the Unemployment Compensation System*, Report of the Special Committee on Post-war Economic Policy and Planning, Senate Report No. 539, Part 5, 78th Congress, 2d Session, Washington, 1944, p. 6. Also *Hearings before the Special Committee on Post-war Economic Policy and Planning*, Part 3, pp. 870, 907–908, 959.

[3] By the War Mobilization and Reconversion Act; Public 458, 78th Congress, 2d Session.

calendar years, the state may apply for an interest-free advance from the Federal Government. This advance may equal the sum by which total benefits paid by the state during the calendar quarter exceed 2.7 per cent of total wages subject to the state unemployment-compensation tax. The advances are to be repaid to the extent that the state fund at the end of any calendar quarter exceeds total contributions collected by the state during the higher of the two preceding calendar years. Thus, federal loans to an endangered state reserve fund are limited to the amount that benefit payments exceed total contributions calculated at the standard rate of 2.7 per cent, and repayment is automatic when the state reserve begins to exceed a certain ratio.

A "Federal unemployment account" is established, to which appropriations are authorized equal to the total of the excess of the Federal Unemployment Tax collections over administrative expenses since passage of the Social Security Act, plus any such excess in the future and any further appropriations that may be necessary. Advances from this account can be made during the period from June 30, 1945, to one year after the termination of hostilities in the present war as proclaimed by the President. Indeed, the Act states that Congress may, by joint resolution, discontinue its provisions earlier. Upon discontinuance of the Act, any balance in the Federal unemployment account and all sums subsequently paid into it are to be turned over to the general fund of the Treasury to be used for other purposes.

As a device for meeting the needs of the transition the loan fund appears inadequate. It will not supply a sufficient stimulus to the states to improve their benefit provisions. They can effectively argue that the existence of a new federal loan fund is hardly a sound basis on which to make major improvements in state benefits. Repayable loans will not provide sufficient assistance to states suffering from extremely severe unemployment. A federal loan fund, therefore, fails to provide an effective remedy for the major defects in present reserve arrangements.[1] In addition, many states have procedural and constitutional restrictions on state borrowing which may prevent them from resorting to such loans when their unemployment compensation reserves are threatened with depletion. Moreover, the period during which such loans can be extended under the 1944 amendment is so short and uncertain as largely to nullify whatever stimulus the offer of loans might otherwise have. State reserves will be affected by transition unemployment for several years after the war ends.

Congress should amend the Act along lines indicated in the following section, making the federal unemployment account a guaranty fund from which grants instead of loans can be made. The account should be permanently established; it should not terminate at the very time that state funds may most need outside assistance.

### *A Guaranty Fund*[2]

The establishment of a central guaranty fund or reserve is probably the most practical and effective way to bring about the improvements in unemployment compensation needed for the transition. Such a guaranty fund could be used to support any state fund that becomes depleted by unusually severe and prolonged benefit drains. With that support to fall back

[1] These defects are the existence of 52 unconnected reserve funds with no provision for mutual or supplementary support, the general lack of relationship between the size of state reserves and the probable postwar drain on such reserves, and the existence of large excess or sterile reserves.

[2] Similar proposals have been made under such headings as "reinsurance" and "equalization fund." For a recent discussion of the proposals see, *Hearings before the Special Committee on Post-war Economic Policy and Planning*, Part 3, Unemployment Compensation, Washington, 1944, pp. 778, 733–735, 817–822.

In some respects the guaranty-fund proposal resembles the McCormack Downey bill, sponsored by the A.F. of L. and introduced in Congress in January, 1940, and the Murray bill, sponsored by the CIO and introduced in February, 1940. However, both of those bills contained minimum benefit provisions and a number of other restrictions on state laws not included in the guaranty-fund proposal as here set forth.

on, the states presumably would be less reluctant to improve their benefit provisions and to utilize their reserves more effectively.

Under the guaranty-fund proposal, federal monies would be granted to help pay reasonable benefits in a state whose fund became exhausted.[1] The Federal Government would continue to meet any excess of benefits over contributions as long as the state's reserve remained depleted. The state fund would be under no obligation to repay the federal grants.

To safeguard the federal reserve from undue state generosity in benefits or in tax reductions, a simple minimum rate of contribution and a simple maximum benefit standard could be set. A state could be required to comply with those two standards while drawing on the federal reserve and subsequently until the state's reserve had again risen to a stipulated fraction of benefit payments in a previous period. During such time the state could be required to collect total contributions averaging at least the standard rate of 2.7 per cent of covered payrolls in the state.[2] This provision would permit a state to continue experience rating while drawing from the federal reserve. During the same period, the state's benefit scale might be restricted to not more than the scale now offered by the five or six top states and here recommended for all states, namely, a ceiling of $20 a week and a flat duration of 26 weeks.[3]

There would be no need to fear that such a guaranty fund would be used as a means of nationalizing unemployment

[1] The federal funds might be made available before the state reserve became completely exhausted. For example, they might be supplied when a state's reserve fell below, say, one quarter of total benefit payments during the previous 12 months.

[2] Some state laws already contain a provision that restores contribution rates to the standard of 2.7 per cent whenever the state fund declines to a certain figure.

[3] The ceiling ought to be adjusted from time to time in line with standards adopted by the states.

A weekly benefit rate of one-twentieth of high-quarter earnings has been suggested as desirable but even more essential after than during the transition.

compensation, or of imposing national uniformity of benefit scales upon the states. By avoiding bankruptcy of state funds and by encouraging the adoption of more adequate benefits, the guaranty fund would help to eliminate the existing defects most likely to lead to nationalization of unemployment compensation. It should also be emphasized that under the guaranty fund most states would not be subject to any new restrictions. Only states whose funds became insolvent would be temporarily confined within the maximum benefit scale and the minimum average contribution rate, neither of which involves national uniformity. Such states would be freed from even these two broad limitations as soon as their funds had regained sufficient financial strength.

Various methods of financing the guaranty fund have been suggested. Most of these methods have already been written into the unemployment-compensation laws of the seven states having individual employer reserve accounts and supplementary pooled funds. One possible source of revenue is the excess of the Federal Unemployment Tax not needed for administrative expenses. This excess is now running about 150 million dollars a year, and since 1935 the unexpended administrative balances have amounted to a total of about 500 million dollars. Another possible source would be the interest paid on the 52 separate reserves, which now exceeds 100 million dollars a year. Use of interest accumulations has the advantage of being related to the amount of excess reserves that states have accumulated. This practice is already embodied in a number of state unemployment-compensation laws, namely, the allocation of all interest earnings to a supplementary pooled fund, with which to meet the benefit liabilities of reserves that become exhausted.

Should these two sources of revenue prove insufficient, additional income for the guaranty fund could be obtained by a small reduction in the 2.7 per cent available to the states as an offset to the federal tax. The average state rate has, as already mentioned, been reduced to 2.3 and 2.2 per cent of covered payrolls through experience rating. There are still other ways of supplying the guaranty fund with additional income, such as appropriations from general revenue, or borrowing from the Treasury as the British Unemployment Insurance Fund did in the 1920's.[1]

With state reserves so ample, it is estimated that a federal guaranty fund of 600 or 700 million dollars would not be used up during the first year after the war and perhaps not even in the second postwar year. If the guaranty fund reached that size by the end of the war and thereafter had an annual income of 200 to 300 million dollars in the postwar period, it should suffice for all postwar demands upon it.

The guaranty fund has many advantages over other proposals for improving the unemployment-compensation structure during the transition period. Under it, federal funds are made available for benefits only after the reserve fund in any state has been fully utilized. The federal monies would be used only where needed, especially to meet excessive burdens of unemployment falling on particular states during the transition. States are given an incentive to improve their benefits, for only states with fairly good benefit provisions are likely to receive much federal financial aid. The states are, however, left free to develop their own laws, without federal imposition of uniform benefits, uniform contributions, or uniform eligibility requirements. The guaranty-fund arrangement would involve less federal supervision and fewer administrative problems than either federal supplementary benefits or a federal subsidy for benefits in each state.

Would a federal guaranty fund induce the states to improve their benefit provisions in the 1945 legislative sessions? Certainly it would provide a strong incentive to do so and would eliminate an effective argument against better benefits. The state systems have been subjected to severe criticism for their inadequacies, and a federal unemployment-compensation system has won many adherents. The threat of federaliza-

[1] The loans were subsequently repaid.

tion, combined with a popular demand for improved benefits, is putting considerable pressure on the states. That pressure will mount with the threat of increased unemployment, widespread exhaustion of benefit rights, and rising relief costs. Heretofore it has been possible to insist that benefits must be sufficiently restricted to assure the independent solvency of the state fund under all future contingencies. The guaranty fund removes this argument. If federal grants were available for benefits in a state whose fund became depleted, there would be little excuse for maintaining unduly low benefits.

With a federal guaranty fund, there seems little reason to doubt that most states would improve their benefit provisions along the lines here suggested during the state legislative sessions early in 1945.

## CONCLUSIONS

The previous discussion leads to the following conclusions:

1. Unemployment compensation can and should serve as the central means for meeting transition unemployment.

2. Unemployment compensation can provide effective protection to unemployed workers only if coverage is extended, benefit provisions are improved, and more effective use is made of reserves.

3. Coverage should be extended to all federal employees, to merchant seamen, and to employees of small firms in industries now subject to the Federal Unemployment Tax.

4. State laws should be amended to provide a benefit ceiling of at least $20 a week and a flat duration of 26 weeks of benefits in states not already granting the equivalent of those benefit standards.

5. Without such improvements in benefits, a large portion of our unemployment-compensation reserves will be ineffective during the transition, providing no protection to unemployed workers.

6. A federal guaranty fund, offering grants to exhausted state funds, is the best device for stimulating the states to

provide better benefits and more effective use of reserves during the transition.

7. The Congress should establish such a fund as soon as possible in order to encourage the state legislatures meeting early in 1945 to improve their unemployment-compensation laws along the lines here recommended.

## V. ISSUES IN UNEMPLOYMENT RELIEF

If there are inadequacies in unemployment-compensation benefits and coverage, they will be reflected in increased need for unemployment relief during the transition. Unlike unemployment compensation, public relief is based on a "means test" and is granted according to the actual physical requirements of the recipient and his family.

Even with the more adequate unemployment benefits and coverage recommended in the preceding chapter, the transition will be characterized by increased need for relief. Where the wage earner is employed, some relief may be necessary to supplement earnings which have become insufficient to support the family because of reduced hours, part-time employment, and lower pay. In a small percentage of cases, even improved unemployment compensation may have to be supplemented by relief if the essential needs of families are to be met.

More important in swelling relief requirements will be those unemployed workers who are not covered by unemployment compensation or who exhaust their benefit rights. As many as 15 to 20 per cent of all beneficiaries are likely to continue to be unemployed after exhausting their benefit rights, even though most transition unemployment is of relatively short duration and benefits are granted for a uniform duration of 26 weeks.

Relief needs increase with the concentration of unemployment upon certain individuals and in certain localities and with the immobility of the unemployed, both geographically and occupationally. During the transition the threat of prolonged unemployment, and therefore high relief needs, will be especially great in war-boom communities which will have become depressed areas with the return of peace. The threat of chronic unemployment will also arise in the case of workers of marginal ability, usually the first to be laid off and the last to be reabsorbed by industry. The war boom has given many of these marginal workers their first long stretch of employment since the early 1930's.

Along with the uneven distribution of unemployment, the unequal distribution of wartime savings will be a factor affecting relief needs during the transition. As has already been indicated, at least a quarter, and probably a third, of wage-earners' families had accumulated practically no savings in spendable form prior to 1944. Most of those families could not stand a long period of uncompensated unemployment without resort to relief.

Unemployment relief during the transition period, however, is not likely to approach the volume of the 1930's. During the prewar decade unemployment averaged about 9 million, reaching peaks of 15 million in the first half of 1933 and 11 million in the first half of 1938. The peaks in relief followed one or two years later. The estimated number of households receiving funds under the various relief programs reached 7 million early in 1935 and again early in 1939.[1] Relief costs tended to rise throughout the decade as more and more of the unemployed were forced to apply for such assistance.[2] From a billion dollars in 1933, total relief expenditures rose above 3 billion dollars in 1936, 1938, and 1939.[3] In 1942 and 1943, however, total relief payments had dropped

[1] Representing between 20 and 25 million persons. Only half of the CWA figures are included as relief in the figures here given. The source of the relief data used in this paragraph is *Social Security Bulletin*, Vol. 4, February, 1941, pp. 66–70, Tables 8 and 9.

[2] The ratio of unemployed workers on relief to total unemployment rose from one-third in 1933 to two-thirds or three-fourths of total unemployment in 1936, 1937, 1938, and 1939.

[3] Includes federal, state, and local payments to relief recipients under the various work-relief programs, general relief, and the special types of public assistance (old-age, dependent children, and the blind).

to 1.5 and 0.9 billion dollars respectively, of which general relief amounted to about 110 million dollars in 1943.[1]

In the unlikely circumstance that transition unemployment should reach the 1938 peak of 11 million, the need for unemployment relief would still be smaller than in 1938. In contrast to the 1930's, the duration of unemployment for most workers laid off during the transition will probably be relatively short. At least four-fifths of all employees dismissed during the early postwar years will presumably be covered by unemployment compensation, while in the prewar period unemployment-compensation beneficiaries never amounted to 10 per cent of total unemployment. Furthermore, the families of many workers unemployed in the transition will have unprecedented wartime savings with which to forestall the need to apply for relief. Finally, many families suffering unemployment will contain ex-servicemen. Legislation has already been passed making them eligible for mustering-out pay and various loans and allowances, and there is a distinct possibility of subsequent legislation providing for some "adjusted compensation" for ex-servicemen, especially if unemployment becomes a serious postwar problem.

Relief is the residual program. Relief expenditures during the transition will, therefore, depend upon the expansion in public works employment as well as upon private savings and unemployment-compensation benefits. Given the improvements in unemployment compensation proposed in the preceding chapter and the program of public work set forth in Chap. VIII, the nation's peak unemployment-relief case load would probably not exceed 1½ or 2 million during the first two postwar years. This estimate is based on the assumption that the number of long-period unemployed[2] will not average more than 3 or 4 million during those years. This assump-

[1] Few of the 300,000 cases receiving general relief in the latter part of 1943 could be considered as "unemployment relief" cases. Most of them were on relief because the family lacked an able-bodied worker.

[2] Out of a job for a period of more than six months.

tion is reasonable provided the changeover to peace production is accomplished with a fair degree of skill so that people generally do not hesitate to spend their savings.

## RELIEF RESTRICTIONS AND INADEQUACIES

During the 1930's the availability and adequacy of relief varied widely from time to time and from place to place, partly as the result of changing policies on the part of the Federal Government. From 2 per cent in 1932, the federal share of total home and work relief costs jumped to almost 80 per cent in 1934 and 1935. Toward the end of 1935 the Federal Government withdrew from direct or home relief. At the same time, under the Social Security Act, it began the practice of matching state and local expenditures for special types of public assistance (old-age assistance, aid to dependent children, and aid to the blind) within specified limits and under approved state programs. In 1942 the Federal Government also withdrew completely from work relief, leaving the full burden of general relief (whether work or direct relief) to be borne by the state and local governments. The percentage of total public relief payments financed from federal funds dropped to about 60 per cent in 1938 and 1939 and to 45 per cent in 1943.

In the several years before the war there was widespread deterioration in the standards for general relief.[1] That deterioration was to be expected with federal funds confined to the special types of public assistance and with the localities bearing more than half the cost of general relief. Federal aid for relief under the Federal Emergency Relief Administration (May, 1933, to December, 1935) had raised standards of home relief, had made relief more nearly uniform throughout the country, and had largely eliminated restrictions on eligibility because of citizenship, residence, or legal settlement. After the Federal Government "quit the business" of home relief in

[1] General relief is the residual category that includes some work relief but is chiefly home relief in cash or in kind.

1935, the states and localities felt constrained to conserve their funds. Restrictions on eligibility tended to return to their former stringency, standards in many areas declined, and wide differences in adequacy and availability of relief developed. General relief to the families of unemployed persons then came to depend largely upon where they resided and how long they had lived there.

### *Restrictions on Eligibility*

Millions of families will be legally ineligible for relief in the transition period because they will have lost their settlement or residence rights by migrating to or from centers of war production. Settlement or residence requirements for relief vary widely from state to state, ranging from six months to five years in the state and/or in the locality (county, township, or municipality). In most New England states, settlement is on a locality basis and can only be acquired following three to five years of residence in the particular locality granting the relief. More than a dozen states outside New England also require from three to five years of residence in the locality or within the state. In many states, residence must be "continuous" or "immediately preceding" the application for relief and can be automatically lost by moving away with the "intention" of not returning, or by absence from the locality for a year.

Severe legal residence requirements tend to restrict inter-locality and interstate mobility by discouraging persons from seeking better economic opportunity elsewhere. Unemployed workers enterprising enough to attempt to find work in another locality or state may be penalized for their initiative through loss of all relief rights before they meet the residence requirements in the new locality or state. During the transition, relief governed by settlement laws will attach many thousands of workers to localities where employment opportunities are very poor.

In about two-thirds of the states, applicants are legally ineligible for relief if certain specified relatives are deemed able to support them. Even if those relatives refuse to assume any responsibility, the applicants may be denied relief.

In addition to legal limitations, there are administrative restrictions and standards of eligibility which are the result of local attitudes and the availability of funds for relief. In many states, especially in the Southeast and the Southwest, the practice of denying relief to "employables" or to households containing a member deemed to be "employable" was widespread even before the war.

### *Variations between States and Localities*

The extreme diversity in relief standards throughout the country is indicated by a study of local relief made by the Committee on Long-Range Work and Relief Policies of the National Resources Planning Board.[1] It deals with the situation in the 1930's and particularly in 1940. During that year, 400 million dollars were paid for general relief to an estimated monthly average of 1.4 million relief cases. The relief was administered by 36 state agencies and about 10,000 local governmental units.[2]

In the winter months of 1939–1940, relief needs in many areas were not being met. Over 100 counties in 10 northern and southern states failed to provide for any general relief, either because of the absence of administrative machinery or for lack of funds.[3] Within the single state of Mississippi, for example, half of the counties reported no relief granted in December, 1939. Elsewhere in the state, average relief grants ranged from under $1.50 per case in some counties to over

[1] *Security, Work and Relief Policies*, National Resources Planning Board, Washington, 1942.

[2] *Ibid.*, p. 90 and Appendix 22.

[3] *Ibid.*, p. 142, and *War Displacement Benefits*, Hearings on H.R. 6559 before the House Committee on Ways and Means, 77th Congress, 2d Session, Revised, 1942, p. 314.

$20 per case in others.[1] Relief seemed particularly inadequate in the southeastern and southwestern regions, where an estimated half million needy cases were receiving no public aid other than surplus commodities under the direct-distribution and food-stamp programs of the Surplus Marketing Administration.[2]

Among states there has been a wide difference in relief payments. Average monthly relief grants in October, 1940, varied from $3.08 per case in Mississippi and $5.73 in Arkansas to $36.05 in New York, with an average of about $25 per case for the 39 states reporting sufficient data to make calculations.[3] Five years earlier, under the FERA (and at a lower price level), the average monthly payment for all 48 states was slightly higher in dollar terms, and the lowest average was $8.24 for South Carolina.[4] In October, 1943, average general relief grants for the whole country were at about their 1935 and 1940 levels. Mississippi had the lowest average with $6.50, and New York the highest with $41.00.[5] For the country as a whole, the average monthly grant per person has been considerably smaller under general relief than under the special types of public assistance (old-age, dependent children, and the blind).

## FEDERAL AID FOR GENERAL RELIEF

Since 1942, full responsibility for home and work relief for able unemployed workers has rested on the states and localities. Thirty-six states have assumed some financial responsibility for general relief; the other 12 states have left the complete burden to the localities. When the localities carry

[1] *Trends in Public Assistance*, 1933–1939, Bureau of Research and Statistics, Social Security Board, Washington, 1940, pp. 75–76.

[2] *Security, Work, and Relief Policies*, p. 152.

[3] *Social Security Bulletin*, Vol. 3, December, 1940, p. 50, Table 4. Statistics for October are fairly characteristic of the average for the year.

[4] *Final Statistical Report of the Federal Emergency Relief Administration*, Washington, 1942, p. 17.

[5] *Social Security Bulletin*, Vol. 6, December, 1943, p. 49.

the relief burden, it falls on real estate, since fully 90 per cent of local revenues are derived from the general property tax.

The difficulty with placing most of the burden for unemployment relief upon the localities is that a vicious circle tends to develop. A large volume of unemployment in a locality means high relief costs and higher taxes on local real estate. Such higher taxes, however, tend to cause more unemployment in the locality by discouraging local construction and provoking industry to move from the locality. This vicious circle is especially likely to develop in deflated war-boom communities after the war if relief costs are largely a local responsibility. It can be prevented only by having larger governmental units assist municipalities with heavy relief loads, thus spreading the relief tax burden over a wide geographical area.

Federal aid has been proposed as the most feasible way to handle the financial issues in relief during the transition. Such aid would lessen the load on real estate, would reduce any tendency for relief costs to influence the location and migration of industry, would stimulate better local relief standards, and could be made the vehicle for eliminating severe restrictions on relief eligibility, especially settlement or residence requirements. A special program for transients will not work satisfactorily as was demonstrated by the experience of 1934–1935 under the FERA. If special federal relief for transients were granted either on a uniform basis or in conformity with local standards, it would encourage people to become transients in order to obtain larger federal relief grants wherever they were being paid.

General relief standards have suffered recently while federal aid has been available only for special types of relief (old-age, dependent children, and blind). States have tended to restrict and neglect general relief while liberalizing their programs for the special types of public assistance, for which matched federal grants have been available. The tendency for federal financial policies to create a double relief standard and to warp the distribution of funds among various relief programs appears to have been especially prevalent in the low-income states in the Southeast and Southwest.[1]

Unemployment during the transition will follow liquidation of the war program and will be considerably affected by federal policies. Since the factors involved are national, not local, a part of the financial responsibility for relief in the transition should presumably be met by the Federal Government. The power to remedy long-period unemployment will also lie largely outside the particular locality. The movement of workers from depressed areas and munitions industries should be assisted by means of a national program, which would provide basic information needed to give the proper direction to the movement, the necessary vocational guidance and training, and perhaps some assistance in financing desirable migration. Federal participation in financing unemployment relief would help to stimulate remedial action.

The conditions detailed here have led many welfare agencies and experts to endorse federal grants-in-aid. In 1941 and 1942, for example, such federal aid was recommended by the Council of State Governments, the Social Security Board, the Tolan Committee on Defense Migration in the House of Representatives, the American Public Welfare Association, and many state welfare officials.[2]

Federal aid for unemployment relief during the transition is recommended for the following reasons: (1) With transition unemployment resulting largely from national causes, unemployment relief should be partly financed by the Federal Government. (2) Federal aid is essential if large numbers of needy persons are not to be denied relief through arbitrary restrictions, especially existing settlement laws. (3) Without federal financial aid the adequacy (even availability) of relief will vary widely among localities within a state and among states. (4) Federal participation in unemployment relief is

[1] See *Security, Work, and Relief Policies*, pp. 307–308.

[2] *War Displacement Benefits*, pp. 312–322.

necessary in meeting the problems of long-period unemployment in depressed war-boom areas, especially to avoid local relief policies and practices that discourage proper labor mobility. (5) Federal aid is needed to give proper direction to the relief program, parts of which might otherwise conflict with over-all national policies and programs.[1]

This recommendation for federal aid applies to "general relief." It is extremely difficult and also unnecessary to draw sharp distinctions between genuine unemployment relief and other forms of general relief.

Matched rather than variable grants are proposed for general relief during the transition. A straight dollar-for-dollar matching of state and local expenditures up to a maximum monthly figure per case is a pattern already well established. It could, therefore, be quickly and easily introduced. During the transition, the states and localities generally should be in a good financial position to match federal grants. Practical elimination of settlement restrictions should be made a condition for federal approval of state programs under the matching arrangements.

If time were not such an important factor and a satisfactory formula could be developed, variable grants would be preferable. Most students of the problem favor a scheme of variable grants which would allow for state differences in financial ability and in relief burdens. The difficulty is to devise a simple and satisfactory formula which measures both the relative relief needs of states and localities and their ability to meet relief costs.[2] If during the transition the problem of relief should become much more serious than is here assumed, or if the federal aid program were continued after

[1] For example, local work-relief practices might run counter to national wage, public-works, or employment policies.

[2] The problem was not solved by the FERA during its one and a half years of experience with variable relief grants to the states, nor apparently has an "ideal" formula been discovered by any of the 18 states that have been making variable or equalization grants to their subdivisions for general relief.

the transition, a program of variable federal grants applied uniformly to all kinds of public relief might well be introduced.

The relief granted under the federal-aid program would presumably be home relief, since work relief would involve a larger direct cost and would raise a number of difficult problems for a federal-aid program, some of which are indicated in the next section.

Assuming, for reasons already stated, that the relief case load does not exceed an average of 1½ or 2 million during the first two postwar years, the cost to the Federal Government of a grants-in-aid program for general relief (as here recommended) would probably be in the neighborhood of 250 million dollars for the first postwar year and might reach 350 million for the second.[1] The latter figure is somewhat less than the amount that the Federal Government spent in 1942 and in 1943 for grants under the programs for the special types of public assistance. Matched federal grants for general relief would help to keep down state and local costs; they would not represent a net addition to the real burden of relief. On the contrary, that burden, if currently unmet, would grow through ill health and social maladjustment until ultimately the nation would pay dearly for the neglect.

## APPROPRIATENESS OF A LARGE WORK RELIEF PROGRAM

The essence of work relief is employment according to the relief needs of workers and their families. Therein lie its advantages and its evils. It is not characterized by a particular type of work projects, by the level of wages paid to relief workers, or by the methods of operation, although the choice of projects and operating techniques, if not rates of pay, is influenced by the requirements of a work-relief program.

[1] Those who think in terms of the relief experience of this country and England in the 1930's may find these estimates low. However, one should bear in mind the differences between the 1930's and the postwar transition that were mentioned in the first section of this chapter.

During the late 1930's, the dollar volume of work relief far exceeded the amounts spent for direct relief. It was argued that relief in the form of wages for work was the preferable way to grant relief to needy unemployed workers, and public-opinion polls indicated the popularity of that view.

The case for work relief has rested mainly on two propositions: (1) that it is beneficial to the individual, preserving workers' skills and work habits and improving their morale, self-respect, and family relationships; and (2) that it is more economical, because the community gets work services from the relief recipient in return for its relief expenditures. Opponents of large work-relief programs have pointed out that (1) work relief is either competitive with normal work, in which case it tends to displace regular public and private employment, or it is extraordinary work of such little value that it would not normally be done; (2) in many instances, inefficiency on work-relief projects has been so great that it would have been more economical to have distributed the relief wages as direct relief and to have constructed the projects, as needed, by regular commercial methods; and (3) by its very nature, work relief tends to establish low standards of work, poor work habits, and a class of chronic relief workers.

The literature on both sides of this issue is extensive.[1] Because there were all kinds of work relief in the 1930's, particular instances can readily be cited to support arguments pro and con. An especially objectionable form of work relief has been local work-for-relief, which tends to degenerate into a sort of work test to prove "worthiness" to receive relief.

[1] The most thorough and complete study of the issue is summarized in Governor's Commission on Unemployment Relief, *Work Relief in the State of New York: A Review of its Characteristics, Functioning, and Value*, Albany, 1936. See also Elizabeth W. Gilboy, *Applicants for Work Relief*, 1940, Chapter 12; *Security, Work and Relief Policies*, especially pp. 243–255 and 463–469; and Richard A. Lester, "Emergency Employment in Theory and Practice," *Journal of Political Economy*, Vol. 43, August, 1934, pp. 466–491, and "Is Work Relief Economical?" *Social Service Review*, Vol. 10, June, 1936, pp. 264–276.

Such local programs were in operation in various areas in half of the states during the winter of 1939–1940, but were subject to little or no state supervision.[1]

Fortunately it is not necessary to arrive at an absolute and unconditional answer to the issue of work versus direct relief. There are other alternatives, and the conditions likely to exist during most of the transition period will be peculiarly inappropriate for a large work-relief program.

The transition will follow a period of "overemployment" and labor shortage, so that we shall not at the outset of the transition period be faced with a problem of prolonged unemployment. There will be little immediate need for work relief in order to preserve work skills and work habits.

Most dislocated workers will suffer short-term unemployment, for which work relief is especially ill adapted. A high percentage of the unemployed will not qualify for relief because they will be drawing unemployment benefits and will have accumulated savings. Many of those who qualify may not remain long on relief, if adequate markets for American industry exist during the transition. Rapid changes in clientele would make it difficult to plan and execute appropriate work projects.

A large work program, offering relief employment at or near prevailing commercial rates of pay, might hold unemployed workers in declining occupations and in areas where employment opportunities are poor, thus retarding mobility and the reabsorption of workers into industry. This objection is further discussed in connection with public works in Chap. VIII.

One of the evils of employment on the basis of need under work relief is a tendency to develop a permanent class of relief workers. For various reasons, including the absence of normal disciplines and incentives, such as advancement, work

[1] See *Security, Work, and Relief Policies*, p. 56. It will be recalled that one of the arguments for federal aid for general relief was to provide supervision, direction, and limits to local work-relief programs.

standards on relief projects were generally low in the 1930's, and employers became reluctant to hire workers from work-relief employment.

Certainly past experience clearly indicates that a large work-relief program would have adverse effects upon local expenditures for public works in the immediate postwar years. It would tend to displace normal state and local public works and to delay expenditures on planned public works in the hope that they might be performed at less local expense (with a federal or state subsidy) as work relief. Moreover, repetition of the depression spectacle of large numbers of relief workers engaged in "made work" on public property would undoubtedly have unfortunate psychological effects.

It is recommended that the problem of idleness and morale of unemployed workers be met through programs of regular public work and of adult education and training, discussed in succeeding chapters, and that the necessary residual relief program be one of direct relief on a federal grant-in-aid basis. Special employment programs may, however, be necessary for the retraining and rehabilitation of handicapped workers who have sustained physical or psychological injuries. Such therapeutic activities should be kept wholly separate from normal public work in order to avoid displacement and undermining of regular public activities by employment on the basis of need.

The programs recommended here for the transition period (expanded unemployment compensation, expanded public work, a program of education and training, and federal aid for general relief) might prove inadequate to meet the problem of unemployment during the second postwar year. That could well be the case if prolonged unemployment should develop on so large a scale during the transition that the above mentioned programs (aside from general relief) failed to meet a large part of the unemployment problem. In that event, we could expect millions of unemployed workers to have exhausted their eligibility for unemployment compensation without obtaining employment on public work.

The need for some program of work relief would then begin to appear as one of the measures of last resort—a cheap means of providing the needy unemployed with work, rationed and tainted by a means test.[1] Experience with work relief during the 1930's seems to indicate clearly that any large work-relief program should be a federal program, with most projects sponsored by the states and local agencies, rather than a federal-aid program administered by the states and localities. Any such program should gradually expand with the need, after a fairly modest start, and should be coordinated with existing programs for direct relief, unemployment compensation, public work, and other national employment activities.

The introduction of a national work-relief program should not, however, commence until the public-work program is well under way—perhaps after the first postwar year—and until it appears that such a program will be needed. Otherwise, a federal work-relief program would tend to delay, interfere with, and displace the proposed program of public work.

Presumably much of the project planning for such a work-relief program will have already been carried out under the program of public work (including nonconstruction projects) recommended in Chap. VIII.

[1] The Committee on Long-range Work and Relief Policies of the National Resources Planning Board came "to the conclusion that the public provision of work for those for whom private industry cannot provide jobs should concentrate upon the unemployed whose employment status has been interrupted for a relatively long period or whose prospects of reemployment in private industry are obviously remote because of prevailing economic conditions." *Security, Work, and Relief Policies*, p. 508; also p. 512. Apparently the Committee favored "a program of adequate dimensions" so that on such "project employment" the various devices for rationing employment, especially the means test, might be largely, if not completely, eliminated.

# VI. ACTION BY PRIVATE INDUSTRY

REAL jobs are the only effective solution to the problem of unemployment. The ability of business to provide jobs depends, however, on present and prospective markets for goods and services. Abundant job opportunities grow out of ample spending for consumption and investment. Business is also restricted in what it can do about unemployment by the fact that it operates for profit and not for charity. Company welfare activities must, in general, pay for themselves, contributing to lowered costs or larger sales for the firm.

Systematic provision for persons involuntarily unemployed must be largely a government function. In recognition of this fact, the Federal Government and the states have established unemployment compensation and other programs. The funds for unemployment benefits, however, are supplied almost entirely from taxes levied on employers. As indicated in Chap. IV, these funds, on the whole, are ample to provide fairly adequate unemployment benefits, even for the large numbers who may be unemployed during the transition. Industry, therefore, rightly looks to government to assume most of the responsibility for meeting the needs of unemployed workers during the transition period.

Business management can, however, help directly to relieve and reduce changeover unemployment. It can concentrate maintenance, repair, alteration, and development work in the peak period of reconversion and readjustment. This action would be of great importance in sustaining employment and demand. Business firms can also favorably affect the general readiness to spend during the transition by such means as hiring workers in advance for employment after plant reconversion.

## MEASURES FOR WORKERS' MAINTENANCE

### *Dismissal Compensation*

The practice of granting dismissal compensation or severance pay has been spreading. Such compensation is granted for permanent dismissal from the company through no fault of the worker. It may be provided for under collective agreements, legislation, or a company plan. Dismissal compensation under company plans is usually related to employees' average earnings and length of service with the firm. The plans have been used principally for salaried workers, employed by the firm for a long period and usually, at the time of dismissal, well along in years. Under these private plans payments to individuals have averaged around $400 to $500. The small number of employees involved in each firm is indicated by the fact that for half of the companies paying dismissal compensation in 1941 the payments amounted to less than one-tenth of one per cent of total payrolls.[1]

As indicated in Chap. III, only negligible amounts have been set aside as reserves specifically earmarked for the payment of dismissal compensation in the postwar period. Consequently, if a broad program of dismissal compensation were to be applied in the transition period, it would have to be financed largely from accumulated or current profits or public funds.

It has been proposed that war workers laid off during the transition period be granted dismissal compensation amounting to, say, four weeks' pay, under collective bargaining agreements or simply as part of the procedure in terminating war contracts. In either case the Federal Government presumably would stand most of the cost. Although there is some difference of opinion, special legislation probably would be necessary before separation payments could be paid where

[1] See *Dismissal Compensation*, Conference Board Reports, Studies in Personnel Policy No. 50, 1943, pp. 25–26.

such payments have not heretofore been common practice by the contracting firms or industry.

Those supporting a program of severance pay for dismissed war workers claim that termination pay to workers is as logical a cost of liquidating the war as is the cost of terminating contracts and of restoring buildings and other facilities used by the Army and Navy to their former condition.

Dismissal compensation is also proposed as a means of improving labor mobility. It would provide munitions workers with funds for financing the return to their former places of residence or the search for work in areas of increasing employment opportunities. It is argued that benefits under unemployment compensation will be inadequate to cover ordinary living expenses, not to mention moving expenses.

Those who oppose a broad program of dismissal compensation for war workers insist that it is not an appropriate device for transition unemployment. It lacks the normal safeguards of unemployment compensation, such as the requirement of willingness to accept suitable work and the limitation of payment to the period of unemployment. With fairly adequate unemployment-compensation benefits, dismissal compensation is not needed, except perhaps in cases where the dismissed workers ought to leave the area and seek work elsewhere. If unemployment benefits are inadequate, the emphasis should be placed on improving such benefits and not on dismissal compensation.

Opponents also argue that dismissal compensation is not the best way to provide funds for labor migration to new jobs. Since such compensation would presumably be granted in a lump sum rather than in installments,[1] much of the money might be used up before migration. The movement of workers financed by severance pay would tend to be uninformed, uneconomic, and wasteful. Federal monies could be used

[1] In most states, workers are disqualified for unemployment compensation during weeks in which they receive dismissal compensation or their unemployment compensation is reduced accordingly.

more advantageously to pay for directed transfer to new jobs under the guidance of the U. S. Employment Service. In addition it is pointed out that workers in new war plants have had little reason to expect permanent employment and have had an opportunity to accumulate sizable savings. Those working in government-owned, government-operated plants have built up annual leave and considerable sums under the payroll deductions for retirement of federal employees. Such sums are returned to workers who do not remain on the federal payroll for five years.[1]

It is here recommended that dismissal compensation payments be confined to (1) wage payments to compensate for partial or complete failure to give two weeks' advance notice of dismissal;[2] (2) return travel expenses for workers whose travel to the war plant was financed by the employer; and (3) dismissed workers who are covered by previous dismissal-compensation plans or by plans agreed upon through collective bargaining. Compensation for insufficient advance notice is primarily intended for cases where the government terminates contracts without adequate forewarning.

Payments in lieu of advance notice and to provide actual expenses for return travel could be worked out in the negotiations connected with the termination of contracts. It would be difficult by that method, however, to cover more than the workers employed by prime contractors on contract work. Beyond that there would be no stopping point because of the difficulties involved in defining "subcontractors," "employees on subcontracts," or "war workers."

The argument for confining the proposed termination payments to workers employed on contract work for prime con-

[1] Unfortunately, repayment of these retirement deductions is now running delinquent about a year. Steps should be taken to get the records current so that refunds can be made promptly after federal workers are dismissed.

[2] This is exclusive of any payment for accrued vacation time. This part of the proposal does not contemplate such dismissal pay where advance notice of at least two weeks is given. A number of state laws require some advance notice of dismissal or layoff.

tractors is not purely administrative. The likelihood of large and continued contraction of employment after the war is greatest in plants producing finished munitions items like aircraft, ships, and weapons of war. It is in such plants that arrangements for dismissal compensation are most likely to be needed to retain workers on the job until contracts are completed and to provide them with funds for return transportation. The need for termination pay is, generally speaking, less great in plants of subcontractors producing raw materials or parts. The same is true of government-owned and government-operated plants. Employees in such plants have had an opportunity, as federal employees, to accumulate up to 90 days of leave. After dismissal they will receive regular pay until their accumulated leave expires.

The added cost to the Federal Government which would be involved in the payment of dismissal compensation recommended under (1) and (2) above is difficult to estimate. It depends in part on the necessity for sudden contract terminations, which, under some circumstances, may save the Federal Government considerable sums even after payment of dismissal compensation. The total amount of federal funds for such dismissal-compensation payments to dismissed workers under prime contracts might be in the neighborhood of 65 million dollars.[1] Inasmuch as payments to workers covered under plans previously agreed upon are part of a normal pattern, they should be considered, like levies for workmen's compensation and social-security taxes, a part of the regular wage cost of production.

[1] This estimate has been derived as follows: The two weeks' payroll of prime contractors on contract business is estimated at 300 million dollars. With the war ending in stages and the transfer of some employees to other work following termination of war contracts, possible compensation for partial or complete failure to give two weeks' advance notice is estimated at no more than 50 million dollars (one-sixth of the total payroll). Perhaps a quarter of a million dismissed workers might take advantage of their eligibility for return transportation at an average cost of, say, $60 per person, or a total cost of 15 million dollars.

### *Action by Private Industry*

In preference to more generous provisions for dismissal compensation, it is recommended that the Federal Government provide financial assistance to workers for traveling expenses to jobs and for employees' tools in those cases where such aid is needed and the transfer is approved by the U. S. Employment Service. This financial assistance could be in the form of interest-free loans from a revolving fund with provision for repayment in installments or by a certain date.[1]

#### *Other Measures*

Additional measures which private firms might adopt during the transition to provide part of the maintenance of their idle employees include vacations with pay, stand-by pay, payments to workers while they are training for new work with the company, and a guaranteed annual wage. Some concerns already plan to utilize one or more of these measures during the transition. Most employees will have a week or two of accumulated vacation if their layoffs occur early in the calendar year.

The cost of supporting unemployed workers for more than a few weeks by such methods would normally be too great for most firms. Postwar tax refunds and the "carry-back" and "carry-over" provisions for the federal excess-profits tax law would enable some industrial firms to do more along these lines than they could do under ordinary circumstances.

## ACCUMULATED AND ANTICIPATED NONPRODUCTION WORK

More desirable than supplying partial maintenance to idle employees would be arrangements to employ them at other kinds of work which ultimately must be done, such as maintenance, repairs, minor alterations, and development work on new methods, new products, new mining areas, etc.[2] With sufficient effort and foresight, a great deal could be accom-

[1] Assistance for the transfer of workers is discussed in Robert Nathan's study, *Manpower Demobilization and Reemployment*, which is in process of preparation.

[2] Subject, of course, to provisions of existing labor agreements.

plished along these lines not only by industrial firms that must reconvert but in the vast areas of industry where no reconversion problem will exist.

With proper planning and determination, business could employ as many as a half million to a million additional workers on these nonoperating or nonproduction activities before the end of the first postwar year.[1] That might mean a total on-site employment double the 1944 industrial and commercial employment on such activities.[2] Expenditures on maintenance, repairs, alterations and development work are to a considerable degree flexible in timing. Moreover, business has accumulated a considerable work-pile of such needs during the war. Some development work and improvements in existing structures can also be anticipated without difficulty. Consequently, it should be possible for business to concentrate a great deal of nonproduction work (exclusive of reconversion of plants)[3] in the first postwar year.

## SPREADING WORK

A reduction in the work week is frequently proposed as a way of meeting the problem of unemployment. Actually, of course, such a policy merely spreads unemployment and tends to conceal the ailment instead of curing it. Work-sharing places upon employed workers most of the burden of maintaining the unemployed.

In 1931–1932 the Federal Government encouraged work spreading as a national policy. A similar program to reduce hours below prewar levels merely for the purpose of spreading employment in the transition should be avoided. That, in the opinion of the author, is not the way to provide for transition unemployment. By prolonging the attachment of work-

[1] This is a statement of the most that could reasonably be expected and not an estimate of the volume that will actually be performed.

[2] Normally, industrial and commercial expenditures account for about half of the total expenditures on maintenance, repairs, and alterations of structures.

[3] Employment on plant reconversion was included in calculating reconversion unemployment in Chap. II.

ers to declining industries, such a program would retard necessary shifts of labor occupationally and geographically during the transition. The reduction in weekly earnings because of work-sharing would tend to force temporary wartime workers to remain in the labor market, and a sharp and general reduction in weekly earnings caused by employment spreading would adversely affect markets.

The average hours actually worked per week will automatically be shortened during the transition as firms seek to eliminate overtime and return to a 40-hour week.[1] As indicated in Chap. II, such action may mean a considerable drop in weekly earnings of workers; and any job sharing would reduce the incomes of workers that much more. Without a national spread-work policy, part-time employment on a wide scale may occur during the transition. Some legislation and some labor agreements will tend to cause a reduction in hours below the prewar work week as employment declines. Under most unemployment-compensation laws, employers may maintain a favorable experience rating and reduced payroll taxes if they curtail hours in such a way that the weekly earnings of workers are not reduced sufficiently for the workers to be eligible for part-time benefits. Some union agreements provide for equal division of available work, at least down to a certain minimum number of hours a week.

## ANTICIPATORY HIRING AND PUBLICITY

Beyond the measures mentioned in the section on nonproductive work, business can help to contribute to workers' confidence and feeling of security by such means as (1) planning operations so that workers can be warned well in advance of a layoff,[2] (2) full and frank explanation of plans and develop-

[1] It may be necessary to maintain the long work week and large overtime payments in order to keep labor turnover down in plants that continue on munitions production during the period of preliminary demobilization.

[2] In following such a policy, it has often been found necessary to offer a retention bonus (plus, perhaps, accrued vacation time) to employees who remain on the job until the date their work is completed and they are laid off. Other-

ments by business during the transition period so that workers will know what to expect; (3) advance planning so that labor can be hired beforehand, with employment to commence at a specified later date; (4) participation in community programs for adult education and training after the war so that these programs may benefit from the advice of business and be related to developing business needs; and (5) a sympathetic and constructive attitude toward the unemployment programs which are adopted for the transition.

Anticipatory hiring of workers, including sales forces, to report for work when retooling is completed would especially help to reduce workers' uncertainty and insecurity. Some of the advantages of commitments to purchase materials and equipment in advance of their actual use apply equally to labor during the transition period. It will, of course, aid industry in making such advance plans and commitments if the Federal Government will, as early as possible, formulate and make known the details of its plans with regard to the resumption of peace production and the demobilization of the armed forces. Each company would then be in a much better position to formulate definite plans for rehiring employees.

Much has been said of the need for a favorable "economic climate" in the postwar years. As indicated above, business can make an important contribution toward the creation of such a "climate."

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wise, especially in an active labor market, many workers may leave before the work is completed, upsetting the operations and the plans for completing the task.

# VII. A PROGRAM OF EDUCATION AND TRAINING

A BROAD and flexible program covering job training and retraining, basic vocational courses, and general education should be part of the transition arrangements for unemployed workers. Though designed primarily for the unemployed, it should be open to part-time employees and even some employed workers. Responsibility for the planning, administration, and operation of the program should rest with the states. Both the kinds of courses and the methods of instruction should be determined locally by the needs of the unemployed workers in the community. The Federal Government should provide the stimulus, technical assistance, and supplementary course material where needed. To make certain that the program is adapted to local needs, responsibility for half the cost should be placed on the states and localities. The remaining half should be paid by the Federal Government by means of a grant-in-aid. This follows an accustomed pattern, since the states have already had 27 years of experience with matched federal grants for vocational education.

Such a program would provide the unemployed with an opportunity for self-improvement and would be productive of other social values as well. There is need for programs of job training, retraining, and basic vocational education to facilitate the transfer of workers from war to peacetime activities, just as there was need for a program to expedite the shifts from peace to war. The nation would gain to the extent that illiteracy was reduced, productive capacities and occupational mobility were increased, and the participants were thereby made more useful citizens. Our democracy needs adult education to develop intelligent voters and leaders, to keep citizens in step with advances in knowledge, and to prepare them for the problems of the postwar world.

As a transition measure, a program of education and training is preferable to "made work." It would give recipients of unemployment compensation an opportunity to improve themselves while unavoidably unemployed. Part of the evil of enforced idleness is its deteriorating effect on the jobless. One reason for "made work" programs in the 1930's was to keep the unemployed occupied and to keep up their morale. Compared with "made work," education and training activities have many advantages. Such activities would not expand public facilities in a wasteful manner; they would not tend to displace regular work; and they would not be seriously affected by bad weather. Participants would have every incentive to make a good record; and they would not need to wait until they became destitute in order to qualify.

The program here proposed involves the adaptation and extension of wartime arrangements for education and training to meet peacetime needs. Like the wartime arrangements, the program proposed would supplement the regular public-school programs of vocational education and adult education, which are too restricted and rigid to meet many of the needs of the transition. The permanent educational programs should continue to be developed without distortion, since they are directed toward meeting the long-run needs of the population. A supplementary transition program will help to avoid the disruption of permanent programs or the displacement of trainees under regular vocational programs by adults temporarily unemployed.

## EDUCATION AND TRAINING AS TRANSITION ACTIVITIES

Education and training are activities well suited to the transition. They can be adjusted to short-term unemployment and can be diversified to meet the needs of a great variety of unemployed workers. The "reconversion" unemployed will be laid off in groups, with fairly definite reemployment dates in many instances. Some of them will need retraining in the plant, in school, or in both. Of the "frictional" unemployed, many will have to move into new activities such as residential construction, personal service, office work, self-employment, and so forth. In many cases, training and refresher courses will be just as urgently needed for the new jobs or for successful self-employment as they were for wartime pursuits.

A transition program, including vocational education and vocational guidance, would help to increase occupational mobility, both by developing qualified personnel for expanding occupations and by improving vocational selection and adjustment. Basic vocational courses, such as shop arithmetic, English grammar, and blueprint reading, not only will help many workers to perform their prewar jobs better but will also open new opportunities for advancement. Under the Armed Forces Institute a series of orientation and preparation courses is being developed to explain the opportunities and requirements for a career in various branches of farming, forestry, railroading, and business. Such orientation courses are particularly suited to ex-servicemen and war workers who wish to examine, and to prepare for, a new type of work, including self-employment. There is also a need to encourage narrowly specialized war-work operatives to round out their training in a trade in order to qualify for peacetime jobs.

It was with such considerations in mind that the Federal Conference on Postwar Readjustment of Civilian and Military Personnel concluded, "Of all the forms of interim employment that might fill the gap between wartime and peacetime employment, education is one of the most useful to the individual and society."[1] The Conference suggested that a general program of education could be adjusted to expand and contract with the volume of unemployment.

[1] *Demobilization and Readjustment*, Report of the Conference on Postwar Readjustment of Civilian and Military Personnel, National Resources Planning Board, June, 1943, pp. 42–43.

Our wartime experience indicates that a broad program of education and training can be expanded rapidly to include large numbers if the program stresses short courses and self-administering methods. Under the special federal-state program of vocational training for war workers, consisting primarily of short courses (four to eight weeks), more than a third of a million civilians were in training during several months in 1942. Approximately an equal number of servicemen were taking vocational or cultural courses with the Armed Forces Institute in the fall of 1944. The Institute has been offering (1) correspondence courses in over 300 high-school, technical, and college subjects; (2) some 700 regular extension courses taken by mail for credit with 80-odd universities and colleges; and (3) self-teaching courses, with special textbooks and self-appraisal tests.[1] Reading materials are now being prepared for Institute courses dealing with current economic and social questions, and regular courses are being subdivided into well-rounded "units" of subject matter, each of which can be completed in ten days or two weeks.

## SHORTCOMINGS OF EXISTING PROGRAMS

The regular vocational training programs under the Smith-Hughes and George-Deen Acts were not well adapted to meet the needs of defense and war-production training. Special programs and courses were, therefore, established to give preemployment and supplemental training in war-work occupations in which there was a labor scarcity. For such emergency training the Federal Government paid the entire bill, although planning and administration remained largely in state hands.

Neither the special war programs nor the regular programs of vocational training will fully meet the needs of the transi-

[1] A self-teaching course includes a series of examinations that the student can give himself to test whether he has learned each part of the course. The final examination in the course is a written test performed under supervision.

tion. The war programs for vocational and general education will need to be adapted to the peculiar conditions of the changeover period. While building on prewar and wartime experience, we shall have to shift emphasis and direction in order to meet requirements not provided for under present arrangements.

Beginning with the passage of the Smith-Hughes Act in 1917, the Federal Government has offered matched grants to the states for certain types of vocational education in the public schools as a part of the regular school system. Since 1936 approximately 21 million dollars of federal money has been available annually for such grants, distributed among the states on various population bases and by type of training as follows: 7 million for vocational education in agriculture, 6.4 million for training in trades and industrial subjects, 4.6 million for home economics, 1.2 million for distributive occupations, and 2.0 million for training vocational teachers. During the year ending July, 1942, for example, some 2.6 million persons were at one time or another enrolled in this regular vocational-school program as all-day, evening, or part-time students.

For many needs that will arise during the transition, the regular vocational program is too rigid and too restricted in coverage. Generally speaking, federal funds cannot be used for training in clerical occupations, in commercial and business practices, in labor relations or welfare activities, in public service, in self-employment vocations outside of distribution and agriculture, in job orientation and job guidance, or in vocational counseling. The course work, which must be under college grade, is primarily designed for young people who will continue their studies for a six to nine months' term. Furthermore, vocational training under the regular program must be taken in the locality where the trainee resides. Such geographic restrictions make it extremely difficult in rural or small-town areas to train persons for many industrial occupations.

In addition to vocational training, public schools in larger cities offer night-school courses which can be taken by adults. A few city school systems are doing an outstanding job with evening programs adapted to adult needs.[1] Most night-school programs, however, consist of a repetition of the day courses under the same high-school teacher. Though costs are thereby reduced,[2] the courses are not adjusted to the requirements and experience of adults.

The number of school systems offering evening courses in Americanization and adult education declined considerably from 1928 to the outbreak of the war in 1939. Only a small percentage of cities under 50,000 inhabitants have such educational programs so that two-thirds of the population have no access to them. Some states[3] actually prohibit night-school courses to persons over 21 years of age; other states aid the localities with some financial assistance to nonvocational adult education in the public schools.

To sum up, the regular vocational and general-education programs in the public schools are not well integrated, and they are not designed primarily for adults. For the most part, they are far too narrow and inflexible to meet the needs of many workers temporarily unemployed. What is required is the adaptation and extension of the supplemental wartime programs to meet the special needs of the transition.

### NEED FOR FEDERAL AID

In readjusting wartime programs of education and training to the requirements of the transition, the Federal Government must take the lead. Without federal stimulus and aid, education and vocational training for adult workers will be inadequate in content, in coverage, and in timing. An excessive burden will tend to rest on war-boom areas, encouraging

[1] New York City, Pittsburgh, Detroit, San Francisco, and Los Angeles, for example.

[2] The average cost of instruction per student in night schools was 8.5 dollars for the school year 1937–1938.

[3] Illinois, Georgia, and Missouri.

a tendency to discriminate against in-migrants. Only with federal participation can the wartime experience and facilities (such as courses developed by the Armed Forces Institute) be fully utilized in the transition period.

The Federal Government has some obligation to assist in maintaining supplemental arrangements for education and training during the transition. Over 10 million persons have been trained, chiefly as operatives, under the defense and war-production training programs. Many of them should round out their training after the war. Large numbers will need vocational counsel and guidance. The war has warped the labor force to its urgent requirements. A program of education and training to readjust the labor force to peacetime needs and to provide profitable use of idle time during industrial changeover would seem to be, at least in part, a federal responsibility.

The Federal Government does provide for further education and training for discharged servicemen in the Servicemen's Readjustment Act of 1944. Under that Act, a discharged veteran with 90 days of service or service-incurred disability may continue his education for a year, plus an additional period corresponding to his length of active service. However, a serviceman over 25 years of age must prove that his education or training "was impeded, delayed, interrupted, or interfered with by reason of his entrance into the service" in order to be eligible for anything except a refresher or retraining course. In addition to tuition and fees, the Federal Government will pay eligible ex-servicemen who participate a training allowance of $50 a month for single persons and $75 a month for those with one or more dependents. It is estimated that perhaps one million discharged servicemen may resume their education under this program.

## A SUGGESTED PROGRAM FOR THE TRANSITION

Vocational training and general education have, in most adult education, been kept separate. In the proposed transition program they would be brought together to replace the wartime training activities and to supplement existing adult education. The participants (chiefly unemployed workers) would thereby be provided with a wide range of courses from which to select the combination that would best suit their needs and interests and would contribute most effectively to better their opportunities for later job advancement.

The framework and operating detail of the proposed transition program are outlined below. It has seemed desirable to include in the outline certain detailed proposals on which there may be differences of opinion. These can be modified or, in some cases, omitted without changing the general character of the program.

*Administration.* As is done under the defense and war-production programs of vocational education, the states should submit plans for approval by the U. S. Office of Education. Responsibility for formulating the state plan and for its administration should rest with the Governor of each state. Decisions as to instruction and courses should be mainly at the local level. At each governmental level there should be an advisory committee composed of representatives of management, labor, and the schools. The program should be sufficiently flexible to adjust to varying local needs and state plans.

*Federal Aid.* The Federal Government should match expenditures of the states and localities for such costs as instruction, vocational guidance, administration, supplies, heat, light, janitor service, and use of facilities. State and local contributions should not be subject to review by the General Accounting Office. Distribution of the federal funds to the states should not be on a population basis nor restricted by subjects. In the event that a country-wide quota of instruction hours or expenditures should seem advisable, that quota could be distributed among the states on the basis of the total number of persons drawing unemployment compensation (or the total weeks of compensation paid) in each state during a particular period.

*Courses.* A wide variety of general and vocational courses would be offered, ranging from basic vocational courses such as shop arithmetic and simple bookkeeping, and elementary courses in subjects like reading, spelling, letter writing, and general arithmetic, to advanced work in such courses as international relations, government, economics, languages, chemistry, mathematics, and American history. Courses should be so arranged that laid-off workers could begin their course work promptly. To achieve some uniformity in certain courses and to supplement local educational facilities, a center offering correspondence and extension courses, similar to the Armed Forces Institute, would be desirable. From the various courses available, eligible participants should be free to select their own studies. Most of the vocational training ought to be in lines of business and in occupations that will expand after the war. Courses will be needed to train mechanics in repair work as well as manufacture. Especially needed will be courses to prepare persons for self-employment, such as simple accounting, letter writing, and tax calculation and reporting.

*Instruction.* There may be a real problem of obtaining sufficient numbers of qualified instructional personnel for such a transition program. This difficulty could be minimized by such means as (1) wide use of correspondence and self-teaching courses which provide uniform instruction and do not depend on interpretation and elaboration by skilled teachers; (2) use of part-time instructors, especially local persons working in the field covered by the course; (3) use of phonograph records, visual aids, the radio, lectures, and forums; (4) a program of teacher-training; and (5) adequate salaries for instructors.

*Eligibility.* Any worker should be eligible to participate in the program upon referral by the U. S. Employment Service and acceptance by the educational authorities. The purpose in using the USES as a referral agency is primarily to give the worker the benefit of occupational guidance and advice at that point. USES referrals should not be restricted to the unemployed. Acceptance by the educational authorities could be based upon their appraisal of the worker's capacity to benefit from the program.

Participation in the program should be limited to 26 weeks for each person. In exceptional cases, an individual's eligibility might be extended to a year, where considered desirable by the educational authorities. At any time, a person could be dropped from the program for disciplinary reasons, such as poor attendance or effort. Frequent tests of achievement should be made. A person dropped from the program for disciplinary reasons would lose an opportunity, but his rights to unemployment compensation or relief would not be affected. Experience has indicated clearly that any educational program should be kept entirely separate from relief and that personal need should not enter into the selection or continuation of participants or instructors.

*Costs.* The cost of the proposed program would depend upon the number of participants and the distribution of the course work among correspondence, university-extension, self-training, teacher-instructed general, and shop-vocational courses. Under the Armed Forces Institute, costs for materials and instruction, including grading of examination papers, have averaged around $10 per regular correspondence course and $16.50 per university-extension course, or perhaps the equivalent of 20 or 30 cents per class hour. The cost of pre-employment training under the vocational-training program for war workers (beginning in 1940) has been about 21 cents per student-hour for instruction, overhead, supplies, heat, light, and rent. Sample studies of educational programs in the 1930's indicate that instructional costs for adult evening classes in city high schools ran around 11 cents per student-hour, with instructional costs representing two-thirds or three-fourths of total costs. For self-teaching courses the only costs are one or two dollars for the reading material and the cost of supervising the final examination. A rough estimate of the cost per student per week under the proposed program would be from four to five dollars, assuming an average of 25 course hours a week and return of printed matter for reuse.

The number participating in the transition program probably could not exceed an average of one million for the first year (which might mean 3 to 4 millions enrolled during the course of the year) without adversely affecting the quality of the program. Assuming an annual average of one million participants, the total cost would be perhaps in the neighborhood of 250 million dollars for the year, with the federal share of the cost running about 150 million dollars.[1]

The cost for the second year probably would be somewhat less than that for the first year. Since this is a transition program, it should run no more than about two years.

In no sense is this transition program a substitute for on-the-job training. It must be recognized, however, that in-plant training has definite and narrow limits. It is of no use to persons without a job or the promise of one. Such training is not well suited for many of the activities which will expand during the transition—personal service, residential construction, self-employment, and so forth. It does not supply basic vocational or educational needs, off-the-job vocations and avocations, a new line of work outside a particular company, or general training of workers as citizens and parents.

The bulk of the work under the transition program should consist of basic vocational courses and general or cultural courses rather than job training in the strict sense. It would be a mistake to raise false hopes by giving large numbers of unemployed training in lines for which there are already adequate numbers of trained persons or for which little vocational-school training is needed. A high proportion of

[1] The total expenditures of the Federal Government might be somewhat higher than those of the states and localities since there would be the federal administrative costs (including the cost of operating some central course agency) which would not be matched by the states.

jobs in American industry require no preemployment training beyond an elementary school education.[1] The widespread need for such basic education, however, is revealed by Selective Service estimates that more than 10 million men of voting age in this country lack the equivalent of a fourth-grade education and are unable to read an ordinary newspaper with comprehension.

The broad program outlined above would not be appropriate for certain groups among the transition unemployed. It is not intended to meet the needs of war workers under eighteen who should return to public school to complete their education, or of college students who wish to complete a course of study interrupted by the war. Among the laid-off workers there will also be housewives who will return to full-time household responsibilities and older workers near or past retirement age. The program is not intended for either of these groups. Obviously some unemployed for whom the program is appropriate would fail to take advantage of its opportunities.

Among the groups for whom it is intended, the program should be highly effective in improving the quality of the labor force, in increasing occupational mobility and adjustment, in developing more intelligent voters and leadership, and in maintaining morale and avoiding large-scale "made work" during a difficult period of transition.

[1] A prewar study of entrance requirements and training for 2,216 occupations, representative of 70 per cent of all gainful employment, showed that over two-thirds of all occupations require only an elementary school education and no specialized training that cannot be acquired on the job in a week, and that less than one-tenth of the occupations require a job-training period of more than six months in order to reach normal productivity. (See H. M. Bell, *Matching Youths and Jobs, A Study of Occupational Adjustment*, prepared for the American Youth Commission, 1940, pp. 56–59.) It seems probable that the war-time practice of breaking down jobs into small parts, so that the work requires less skill, may have reduced the needs for specialized preemployment training.

## VIII. A PROGRAM OF PUBLIC WORK

Are the recommended policies and programs for unemployment compensation, action by private industry, and education and training sufficient to take care of the probable total of unemployed during the changeover period?[1] Is there any need for a transition program of public work? If so, how does it fit in with the programs already recommended? How big should such a public-work program be? What kinds of projects should it include? Who should administer it? And how should it be financed?

A transition program of public work must be designed primarily for "curtailed-spending" unemployment. "Reconversion" and "frictional" unemployment are better met by unemployment compensation and a program of education and training. It is obviously impractical to provide satisfactory public work for manufacturing employees who are jobless only during the short interval of plant retooling. Public work for the "frictional" unemployed might prove unwise because it would reduce their mobility. As the most patent example, public work in deflated war-boom communities would tend to keep the migrant war worker in areas where opportunities for continued employment were declining. The waste that would be represented by large public-work expenditures in such contracting localities has already been commented upon.

Unemployed workers cannot, in reality, be as neatly classified as our discussion might seem to imply. Nevertheless, it is desirable to distinguish clearly among the three types of transition unemployment (reconversion, frictional, and curtailed-spending) in determining the role that public-work

[1] Relief is the residual program and is, therefore, omitted in this statement.

employment should play at various stages in the transition. There is no assurance, of course, that particular unemployed persons will be the ones to receive the jobs on public works. The proposals discussed in this chapter all assume that the workers will be hired from the general labor supply on a commercial basis and not according to need.

A public-work program would have to be highly flexible to help meet curtailed-spending unemployment. As indicated in Chap. II, it is impossible to predict the total volume of such unemployment at various stages of the transition. We can be certain that the total volume of money spending will vary widely from time to time during that period. It will probably prove desirable to concentrate as much public work as possible in the early months after Japan surrenders.

Ideally, a program of public work for the transition should permit expansion and contraction both nationally and locally, so that it adjusts to changes in current economic conditions. The importance of timing and flexibility points to the need for projects that can be started quickly, that reach peak employment soon after they are initiated, and that can be completed in a short period of time. Such criteria exclude large, long-range construction projects and emphasize the desirability of utilizing nonconstruction projects as well as small construction jobs. The need for including such flexible projects as resource development and minor public improvements explains the use of the term "public work" rather than "public works."

The program proposed here is divided into three levels of projects. First there are those public-work projects that will presumably be started during the transition without federal aid and regardless of employment conditions. The timing of these projects can be influenced by such means as federal assistance to speed up advance planning, advice regarding the types of projects particularly suited for the transition, statements by federal authorities indicating the desirable time schedule for starting and expanding employment on such projects, and application of wartime controls to the use of one or more materials on public work.

Should unemployment become so severe that the first category of projects failed to provide sufficient employment, the second level could be introduced. This level consists of three types of projects: (1) federal programs for soil and forest conservation, (2) direct federal subsidies for residential construction, and perhaps for roadbed and minor-repair work on the railroads, the subsidy consisting of a percentage of wages paid during a time interval; and (3) projects that states and municipalities initiate and finance in order to reduce unemployment. Much of the financial burden of unemployment falls on the states and localities. They have, therefore, a direct interest in advancing projects or adjusting public work to help avoid increased costs for unemployment compensation, relief, and other welfare activities.

"Emergency" projects constitute the third level: federal works that cannot be justified except as a means of employing jobless workers, and nonfederal work that requires a federal subsidy. Such projects can be performed under normal hiring procedures or as work relief, with employment adjusted according to relief needs. The regular method is preferable, except perhaps where a large volume of unemployment and local fiscal conditions make it necessary to resort to a relief basis.

Federal aid is proposed for advance planning of projects in the third category simply as insurance against unpreparedness. Every effort should, of course, be made to avoid the use of projects in this emergency category. Since their utility is relatively low, prosecution of such projects would involve wasteful consumption of the nation's resources. Unemployment of those resources would, however, tend to be even more wasteful.

On the score of efficient use of resources, recovery measures involving government support of markets or a government subsidy for consumption[1] are preferable to expenditures for little-needed public work. Measures designed to increase private spending should be tried before there is widespread resort to projects in the third category.

The Federal Government should guide and assist the states and localities in planning and prosecuting programs of public work during the transition. Particular attention should be given to the kinds of projects best fitted to that period. A federal program of matched grants for advance planning of nonfederal projects will help to develop appropriate projects, ready for execution at an early date.

Significant aspects of the proposed program are discussed more fully below. Particular attention is given to project requirements for the transition, federal aid to stimulate advance planning, means for coordinating the program at all levels of government, and limits to the expansion of employment on public projects. Conclusions are summarized at the end of the chapter.

## PROJECT QUALIFICATIONS FOR THE TRANSITION

Transition programs of public work should be based on a clear understanding of the project requirements for that period. The need for projects that are quick starting, that reach peak employment within a few months, and that are readily adjustable to changes in total spending, has already been indicated. In addition to sufficient flexibility, transition projects should have a high degree of utility, proper location, and a pattern of employment geared to local needs and

[1] Reference is made to programs involving such measures as a government guaranty for increased output, a government market for products under a commodity-reserve monetary standard, and a subsidy for consumption through consumer credits or similar money grants. For a discussion of these and related recovery measures based on expanded private spending see Fritz Machlup, "Programs to Maintain Employment: The Basis of Social Security," in *Social Security in America—National Conference on Social Security*, Chamber of Commerce of the United States, January, 1944, pp. 14–23, or R. A. Lester, *Economics of Labor*, 1941, Chapter 15.

resources. The following discussion applies primarily to the first and second levels of projects and not to "emergency" work.

### *Utility*

Governmental units should have little difficulty in developing a shelf of projects of high utility. During the war many public improvements have been held up for lack of materials, facilities, or labor. A considerable amount of postponed maintenance and repairs has also accumulated. In numerous instances the forced deferment of public work is involving communities in wasteful operating costs. Obviously much of this backlog of deferred items has a high order of utility.

### *Pattern of Employment*

Many of the unemployed will be factory workers. Efforts must be made to avoid too much emphasis on construction projects that require mainly skilled tradesmen. Certain construction projects, like road building and soil and forest conservation, demand relatively small amounts of such skilled labor.[1] Nonconstruction projects such as work on parks and playgrounds, on surveys and records, on health protection and sanitation, and on cleaning and painting public buildings offer the needed diversity of jobs. Well-balanced programs should be developed if states and municipalities are to avoid causing labor shortages in particular lines or overburdening short facilities.

### *Location*

Municipal public work generally has the advantage of being located near the homes of most of the unemployed. Federal public work, including programs for the development of natural resources, would not, for the most part, be located

[1] For statistics, see Harold L. Ickes, *Back to Work: The Story of PWA*, 1935, p. 200; and *Interregional Highways: Report and Recommendations of the Interregional Highway Committee*, Washington, January, 1944, p. 116.

near industrial centers. Consequently, federal projects would usually present a problem of either transporting the workers each day or operating work camps.

It would be unwise to distribute postwar public work according to the wartime location of the population or according to local variations in the volume of unemployment immediately after hostilities cease. The geographic distribution of employment has been warped by the war. To attempt through public work to sustain workers in their present locations would mean keeping many workers in areas where economic opportunities were declining and where long-run prospects for employment were poor. It would also waste the nation's economic resources to sink them in permanent projects in war-inflated areas needing fewer public facilities as postwar out-migration proceeds. Public employment should not be used to postpone necessary peacetime readjustments. Any such policy would constitute a form of made work and would have adverse effects on the nation's standard of living.

### *Flexibility*

Flexibility involves elasticity in expansion and contraction so that a program can adjust to changed conditions. A flexible program permits rapid alterations in content and pattern and enables parts of it to be terminated quickly without untoward results.

To some extent, flexibility depends on the procedure followed in constructing the project. A governmental unit may let a contract for the job to a private firm or it may itself supervise the work under so-called "force account." The latter method permits more flexibility because the governmental agency maintains complete control over the operations, whereas such control is given to the private contractor under the contract method. Once the contract is let, the contractor is free to operate as he sees fit so long as he does not violate the contract. Normally the work proceeds to completion of the contract regardless of changes in local or national labor-market conditions.[1]

Flexibility is largely dependent on the size and nature of the project. From a study of 8,000 nonfederal projects under the Public Works Administration it was found that construction projects costing $25,000 or less were usually completed within five months; projects ranging from $50,000 to $250,000 had an average construction period of five to eleven months; and million-dollar projects generally required around a year and a half to complete.[2] At the same total cost, projects involving excavation and simple construction (like sewers, water mains, and roads) required the least time, while buildings and heavy construction took the longest.

The flexibility of small projects is also apparent from a study of the time elapsing between the beginning of construction and the attainment of peak employment on the site of the project. The peak in man-hours of employment was reached in two months for projects under $50,000, in four or five months for projects of $50,000 to $500,000, and not until 10 months for projects of $500,000 and over.[3] The only significant exceptions to this general pattern were projects for streets and highways, which reached their peak of on-site employment within four months in all size classifications. Indeed, the larger highway projects tended to move along even faster than those of medium size, so that road projects in all size classifications were over 90 per cent complete within nine months after construction began.[4]

Certain significant conclusions can be drawn from these figures for construction time and peak employment. They

[1] The contract method may often be preferable from the point of view of total cost. Management contracts would permit more flexibility but they are not normal practice.

[2] See J. K. Galbraith, *The Economic Effects of the Federal Public Works Expenditures*, 1933–1938, National Resources Planning Board, Washington, 1940, pp. 89–90 and 121–127.

[3] *Ibid.*, p. 123.

[4] *Ibid.*, pp. 94–95 and 121–123.

clearly indicate the desirability of small projects, the advantages of street and highway jobs, and the need for avoiding large building projects. They also point to the important role that state and local projects must play in any transition program. The average cost of state and local construction projects has been about a quarter of a million dollars.[1] Such projects would, therefore, generally reach peak employment within four or five months after construction begins, and should be completed in most cases within a year. Federal construction activities tend to be far more inflexible. The bulk, in costs, of federal projects either authorized or under consideration is comprised of power, irrigation, and flood-control projects. Such federal projects generally cost well over a million dollars each, which means about ten months of operations before peak employment is reached and at least a year and a half of construction time before the project is completed.

The above statistical data do not include maintenance and repair work or nonconstruction activities. Such projects, usually performed under force account, can be made very flexible in terms of numbers employed during any period.

Not every part of a program of public work for the transition period needs to be highly flexible. Nevertheless, a considerable degree of flexibility throughout most of the program is desirable and that flexibility should be mainly on a local-area basis. This is true despite the fact that a part of the supply of building labor is accustomed to migrate considerable distances.

## ADVANCE PLANNING

Well-planned programs of public work have not yet been prepared for the transition. A few states and municipalities

[1] A quarter of a million dollars was the average cost of nonfederal projects under PWA and was also the approximate average cost of projects in the six-year shelf of 6 billion dollars of state and local projects collected by the Public Works Reserve in 1941 and 1942. See *ibid.*, pp. 13 and 121–127; and Benjamin

have completed the preparation of plans for certain public works; but, by and large, the country has been far too negligent in planning public work for the postwar period. Detailed plans and specifications will have to be at hand if projects are to start promptly at the appropriate date.

More time is consumed in preliminary preparations for public-work projects than is generally appreciated. Preconstruction operations include such items as authorization of the project, which may involve legislation, a referendum, or legislative approval; engineering surveys and investigations; selection of sites and rights-of-way, and arrangements for acquisition of land; the development of cost estimates; preparation of detailed working plans, specifications, and contract documents; arrangements for financing, including perhaps the sale of bonds; and advertising for bids and awarding contracts. Even after the first contract is let, a period of time elapses before construction actually commences. The contract-to-construction period averaged 48 days for a sample of 229 PWA projects.[1]

Mere statement of some of the steps that precede construction indicates the serious need for advance planning by our 165,000 governmental units[2] to avoid unnecessary postwar delay in expanding public-work employment and a last-minute scramble for (and consequent shortage of) available technical personnel for plan preparation.[3] Lack of sufficient plan preparation largely explains the delay of well over a year after Congressional action in June, 1933, before as many as 100,000 persons were employed on nonfederal projects under

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Higgins, "Problems of Planning Public Work," in *Postwar Economic Problems*, 1943 (ed. S. E. Harris), p. 198 and p. 204, footnote 1.

[1] Galbraith, *op. cit.*, pp. 84–88.

[2] As of January, 1941, in addition to the states there were 16,262 incorporated places, 18,998 townships, 3,050 counties, 118,308 school districts, and 8,382 other special districts. See *Municipal Yearbook*, 1943, p. 21.

[3] It apparently requires about 10,000 man-years of technical work preparing plans for every one billion dollars of public construction.

PWA. One result was the hasty improvisation of work projects of all sorts under FERA and CWA to fill the gap.

Although there has been much talk about the role of public work in the demobilization period, the planning of projects and programs for the immediate postwar period had not progressed far in most states by the middle of 1944. The preparation of detailed plans and specifications generally represents about 4 per cent of the total cost of constructing a project, and states and cities have for the most part been slow to appropriate funds for that purpose. Notable exceptions have been New York City, New York State, and California.

The National Resources Planning Board, before it was discontinued, had accumulated a "shelf" of federal projects, amounting to 7.7 billion dollars on January 1, 1943. Most of this shelf, however, consisted of titles. Only about 3 billion dollars of projects were already authorized or required only Presidential authorization, and no more than 1.5 billion were sufficiently advanced in their planning to be put under construction. Of the remainder, some 3.4 billion dollars of projects required Congressional authorization before detailed planning could begin, and 1.3 billion were "under study" or still being surveyed. Furthermore, four-fifths of the dollar amounts in the shelf represented federal projects for irrigation and reclamation, power generation, rivers and harbors, and flood control. Irrigation and reclamation alone accounted for over one-third of the dollar sum of all projects authorized or needing only Presidential approval. With so much advance planning still incomplete and such a high proportion consisting of large projects on which construction would extend over several years, it is estimated that no more than 600 million dollars of construction volume in the so-called "shelf" could materialize during the first 12 months of the postwar period.[1]

[1] See Frank W. Herring, "Preparing for Public Works in the Post-war Period," an address before the Metropolitan Section of the American Society of Civil Engineers (mimeographed), New York University, May 19, 1943, p. 12.

With the demise of the National Resources Planning Board, the federal agencies were instructed (by Presidential request in May, 1943, and by executive order in October) to prepare, keep up to date, and report to the Bureau of the Budget their programs for postwar federal works.

The Federal Government has made particularly ample provision for the planning of postwar highway improvements. A total of 60 million dollars has been made available for matching by the states for purposes of plan preparation on federal-aid highways.[1]

Nonconstruction projects need to be planned as carefully and as far in advance as those for new construction. Only by such advance planning can communities be certain that programs for transition unemployment will be ready, that they will contain only projects of high utility, and that they will be carried out efficiently.

### *Federal Aid for Plan Preparation*

The record to date indicates that plan preparation by states and municipalities will not be adequate unless stimulated by the Federal Government. States and localities have hesitated to pay out funds for such purposes while uncertainty exists regarding federal plans for the transition, and while there is a possibility that federal aid will be provided both for plan preparation and construction. There is also some hesitancy on the score that advances in technology may make detailed plans and blueprints obsolete by the end of the war.

It is particularly important that the 165,000 local units of government be stimulated to prepare detailed plans well in advance of the war's end. This is urgent not only because of the employment advantages inherent in location and fairly

[1] The appropriations were 10 million dollars in November, 1941, and 50 million dollars of unexpended federal-aid funds in July, 1943. It is estimated that, with state matching, the first 10 million dollars would make possible the completion of surveys and plans for highway construction projects totaling nearly 500 million dollars. See *Interregional Highways, op. cit.*, p. 94.

short construction period for local projects, but also because they account for the bulk of all expenditures on public works.[1]

A program of federal assistance for plan preparation should have been adopted a year ago.[2] Though long overdue, such a program could probably accomplish most of its objectives if put into operation at once. The War Mobilization and Reconversion Act of 1944 (approved in October) provides for Federal loans or advances to aid the states and their subdivisions in financing the preparation of plans for public works, not including housing projects.[3] Such loans cannot be made, however, until Congress appropriates funds for that purpose. No appropriation was passed during the first two months following Congressional approval of the Act.

It is too late now to rely upon a loan program to stimulate plan preparation at the state and local levels. The Federal Government should adopt at once a program of matched grants to help meet the cost of preparing plans for nonfederal works.

A federal appropriation of 150 million dollars is recommended for such a grant-in-aid program. Matched 50-50 by the states and their subdivisions, that sum would finance plan preparation for 7 or 8 billion dollars of nonfederal projects.[4] The 1940 census of population could be used as

[1] In the 1920's, public-construction expenditures by local governments represented 75 per cent of the total, compared with 15 per cent by state governments and only 10 per cent by the Federal Government. See Arthur D. Gayer, *Public Works in Prosperity and Depression,* National Bureau of Economic Research, New York, 1935, Table 8, p. 53.

[2] Bills for federal aid to public-work planning by the states and localities were introduced in Congress in 1942 and 1943. In July, 1943, the Board of Direction of the American Society of Civil Engineers endorsed a federal program of interest-free loans to cover the total cost of plan preparation, upon review of the project by the proper agency of the Federal Government. The loans would be repaid when the project was financed and proceeded to construction. See *Civil Engineering,* vol. 13, September, 1943, pp. 439–442.

[3] Of the funds so appropriated, 90 per cent are to be allotted by the Federal Works Administrator among the states on the basis of their population in the 1940 Census. The remaining 10 per cent may be distributed according to the discretion of the Administrator.

[4] Assuming that plan preparation accounts for about 4 per cent of total project costs exclusive of the site.

the basis for allocating the 150 million dollars among the states. State and local expenditures for plan preparation since the beginning of 1943 might be made eligible for federal grants, provided the federal funds received were also used in the state for plan preparation. Federal expenditures of 150 million dollars under such a program would be cheap insurance against unpreparedness and some of the wastes mentioned in the preceding paragraph.

## COORDINATION AND ADJUSTMENT TO DEVELOPMENTS

Assuming adequate advance planning, what can be done to secure proper coordination and timing of public-work employment? How can a program involving 165,000 units of government be made to adjust to developments during the transition?

Federal grants in aid for construction have been most frequently urged as a means of regulating expenditures and employment on public-work projects so that the program would conform to national needs. Other proposed devices for achieving correct timing and coordination are the continuation of wartime materials controls for public work and the use of publicity or moral suasion. Statements from Washington urging governmental units to prosecute projects on a national timing schedule could supplement either of the other techniques.

In weighing the probable effectiveness of such devices, one should bear in mind that a transition program of public work may have to be started rather suddenly, even before Japan surrenders; that it undoubtedly will need to expand very rapidly once begun; and that it may have to contract almost as quickly within six or eight months after its introduction.

### *A Federal Subsidy for Nonfederal Projects*

Theoretically, federal grants or subsidies might be made a satisfactory instrument for controlling the timing and volume of employment on state and local programs of public work. The subsidy could be made effective on a certain date; it could be made available for certain types and sizes of projects; and it could be increased or decreased from month to month as unemployment needs dictated.

Practically, a federal subsidy program would face many obstacles. The organizing of such a program would take considerable time, and months upon months would be required to process the multitude of applications from the numerous governmental units.[1] Most new construction by states and municipalities is done under contract, so that it would be difficult to control or change the pattern of employment once the contracts were let. Activities such as maintenance and repairs are rather difficult to cover under a federal grants program. Finally, a sizable federal subsidy tends to reduce nonfederal expenditures for unsubsidized activities and to stimulate projects of relatively low utility that are subject to the subsidy.[2]

[1] Harold L. Ickes, head of the Public Works Administration in the 1930's, has stated, "When such a (non-federal) project was submitted to P.W.A., even after it was recognized that it was meritorious, weeks and sometimes months went by in accumulating the detailed information that was necessary to have before action could be taken. Even vitally essential information was sometimes great in bulk and local officials were often slow in providing it." *Back to Work: The Story of PWA*, The Macmillan Company, New York, 1935, p. 218.

[2] Under the PWA program in the 1930's, a federal grant of 30 per cent of the cost of labor and materials, later 45 per cent of the total cost of the project, was provided for nonfederal public works. State allotments for the grants were established in accordance with a formula which combined state population with unemployment. Under the 1936, 1937, and 1938 legislation nonfederal projects could be approved for grants only if there were reason to believe that they would be completed by a certain date. Thus it was hoped to bring about rapid expansion in employment. Actually, expenditures for new nonfederal construction increased very little from 1933 to 1938, despite about 2 billion dollars of federal grants to municipalities for such construction. "Federal grants for non-federal public construction generally took the place of, rather than added to, construction expenditures by the states and cities." See *Report to Accompany S.* 1617, Committee of Education and Labor, Senate Report No. 961, 77th Congress, 2d Session, January 16, 1942, p. 5.

At best a program of federal financial incentives might influence the starting time, the kinds of projects prosecuted, and the total volume of the program. The PWA procedure of federal approval of applications in advance of operations could perhaps be eliminated. Arrangements could instead be made for federal reimbursement to states and localities for a percentage of whatever expenditures conformed to the stipulated requirements for a federal subsidy.

During the war, states and municipalities have markedly improved their financial position and are, in general, in the best condition they have known since 1929 or 1930. For them, borrowing for public work is a normal and sound financial process. Material and labor shortages have halted most new construction on nonfederal projects for the past two or three years so that a large backlog of normal and necessary work has accumulated. Much of the postwar nonfederal construction will consist of self-liquidating projects,[1] which presumably pay for themselves and, therefore, need no federal subsidy. If ever there is to be a time of considerable unemployment in which federal grants for nonfederal public work are not necessary, the transition period would seem to be it.

As an incentive to correct timing, a federal subsidy would create a problem in that it would tend to retain war workers, and expand public facilities, in inflated war-boom areas. For political reasons, grants (whether flat or variable) would presumably have to be distributed on some such basis as population, per capita income, or unemployment. Yet, as remarked earlier in this chapter in discussing location, such criteria might be most undesirable for the distribution of

[1] The following are included in the category of self-liquidating projects that may be financed by revenue bonds on a "pay-as-you-use" basis: reservoirs for water storage, water purification plants, and water distribution systems; public swimming pools, sewage disposal plants and sewage disposal systems; drainage works and irrigation systems; toll bridges and highways; street improvements that are not of general use but give access to private properties; off-street parking facilities; public markets; hospitals; dock facilities; and projects connected with public-owned transit and other utilities.

public-work expenditures during the transition period. Neither wartime nor prewar statistics of population or unemployment would be sound as bases for federal aid to nonfederal construction. Indeed, some who have favored federal grants for expenditures on nonfederal public projects fear that it would be almost impossible to prevent federal funds from being pumped into localities greatly overexpanded for peacetime purposes. Politically it is not possible for the Federal Government to forecast economic decline for some communities and to act accordingly in distributing its funds.

*Continuation of Wartime Controls over Materials and Equipment*

A partial alternative to a subsidy would be the continuation of wartime controls over one or more materials used for public work. Our wartime experience clearly indicates that such controls are a far more precise and adjustable instrument than a federal subsidy. In the case of public construction, the element of competition for markets is absent. Therefore, continuation of such control would be less difficult for public work than for production of finished industrial items.

Like the federal-subsidy proposal, continuation of materials controls for public work may run into political difficulty. It may not be possible to maintain such controls upon sales to governmental units after they are withdrawn from sales to private purchasers. Moreover, such controls represent restraints and are not useful when inducements to expand are needed.

Control of one or two important materials or equipment items could be employed to hold back the states and localities until the proper starting time for various types of projects. Construction equipment concerns are reported to have a year of orders on their books and, as this is being written, the Army reports that production is lagging behind schedule on certain items of construction equipment. Municipal officials have expressed fears that the demand for construction materials and equipment may be so great early in the transition that certain urgently needed projects may be held back by shortages.[1] However, such fears may prove unfounded.[2]

The states and localities have sufficient reason to carry on programs of considerable size. New construction delayed by the war, as well as maintenance and repairs, are badly needed. Furthermore, most of the cost of unemployment compensation and relief will be borne by the states and municipalities. They have, therefore, a direct financial interest in minimizing local unemployment through public work. On the other hand, should curtailed spending result in a need for a large public-work program, these accumulated needs and financial inducements might prove insufficient.

### *Subsidy for Increased Private Investment*

Should inducements be needed, a federal subsidy for private home construction (and perhaps for work on the roadbeds and rolling stock of the railroads) seems preferable to a program of grants for nonfederal public work. Grants for home building could, in fact, be more flexible, more economical, and probably more effective than a subsidy for nonfederal public construction. In the absence of adequate advance planning by state and local governments that would be especially true. Homes can be quickly planned and quickly constructed. The federal grants could be made on the basis of, say, 10 or 20 per cent of on-site payrolls during a particular period.

### *Conclusion*

Any attempt to make public and private spending conform to national employment needs is bound to be beset by diffi-

[1] See, for example, *Post-war Economic Policy and Planning*, Hearings before a Subcommittee of the Special Committee on Post-war Economic Policy and Planning Pursuant to S. Res. 102, September 11 to 18, 1943, 78th Congress, 1st Session, Washington, 1943, p. 14.

[2] For a study indicating that at the end of the war there will be sufficient construction machinery and productive capacity for materials to provide for a rate of construction expenditures of at least 12 billion dollars a year, see *Post-war Capacity and Characteristics of the Construction Industry*, U. S. Bureau of Labor Statistics, Bulletin No. 779, Washington, 1944.

culties. At best it is a matter of choosing between unsatisfactory alternatives. A combination of moral suasion through public statements, application of materials controls to public work, and federal subsidy for home building and railroad work if necessary, seems preferable to a program of federal subsidies for nonfederal public construction.

A decision needs to be made on these matters in the very near future. The continued possibility that a federal subsidy may be forthcoming for the construction of nonfederal works has in itself delayed planning for the transition by states and localities. The Federal Government should definitely remove that possibility at this time in order to eliminate the reason for such delay.

### EMPLOYMENT POSSIBILITIES

It is easy to exaggerate the amount of employment that can be provided by work on public projects during the transition period. With proper planning and sufficient inducements, employment on federal and nonfederal projects might be expanded by a maximum of 2 million additional jobs on the site of operations during the period from the beginning of the transition to the end of the first postwar year.[1] That estimate includes new construction, resource-development work, maintenance and repairs, and various nonconstruction activities falling within the first two categories of projects. "Emergency" projects are excluded, and strictly commercial methods of employment are assumed.

The elements entering into this estimate are discussed below. The hazard involved in offering a separate estimate for public construction, which is so closely related to private construction, is readily admitted.

[1] This estimate assumes that the Japanese war will end six to twelve months after Germany capitulates. It is not a prediction of what will happen, but a statement of what it seems possible to accomplish, assuming reasonably favorable circumstances.

### *Past Performance*

The monthly peaks in on-site employment on new public and private construction[1] were about 2.9 million workers in 1928 and 2.6 million in 1941.[2] Publicly financed employment on new construction reached a peak of about half a million workers in 1928, around 1.1 million in 1941, and 1.5 or 1.6 million in 1942. Most of the employment on public construction in 1941 and 1942 was on war plants and military installations. If work-relief construction is included, the all-time peak of on-site employment on new construction occurred in 1938, with roughly 3.5 million employed, including over 2 million relief workers.

In rate of expansion, the greatest increases in total new construction that the country has ever experienced occurred during the first war years, especially from the middle of 1940 to 1942. During that period neither financing nor material shortages offered serious limitations, so that the great expansionary forces acting upon construction were restrained only by the ability to plan, organize, and execute the work. Average annual employment on new construction is estimated to have increased by 560,000 workers from 1940 to 1941, with an increase of 775,000 from the first quarter of 1940 to the corresponding quarter of 1941.

On the basis of our 1940–1941 experience, Frank W. Herring, Assistant Director of the National Resources Planning Board, believes that the maximum annual rate of increase in new construction that can be expected is about 3.8 billion dollars (at 1940 prices) or 760,000 workers employed on the site of construction operations.[3] He concludes, "It is clear

[1] Excluding maintenance but including road building.

[2] Employment statistics in this paragraph have been taken from Peter A. Stone, *Construction Expenditures and Employment*, 1925–36 *and* 1936–38, Works Progress Administration, 1937 and 1939, and "Construction Employment in the United States, 1939–42," *Monthly Labor Review*, Vol. 55, October, 1942, pp. 740–741.

[3] Herring, *op. cit.*, p. 15.

to me that public construction activities alone do not hold the key to our postwar employment problem."[1]

Since 1928, expenditures on maintenance for private and public structures are estimated to have ranged from 1.8 billion dollars in 1933 to between 3.5 and 3.8 billion dollars in 1929, 1942, and 1943.[2] Corresponding employment estimates are not available, but a dollar of expenditures on maintenance is known to provide a much larger volume of on-site employment than is the case for new construction. For example, on federal and state highways the direct-indirect employment ratio is calculated at about 1 on-site hour to every ½ off-site hour for maintenance work, compared with 1 on-site hour to every 2½ off-site hours for new construction.[3]

The available evidence indicates that regular public employment on new construction and maintenance has not averaged more than a million persons in any year except during the war. In 1942 such public employment, including war construction, probably reached a monthly peak of about 2 million workers, with an average for the year of perhaps 1.6 million. The greatest 12-month increase in public employment on construction and maintenance (between 1941 and 1942) was less than half a million.

### *Possible Postwar Increases*

At the beginning of the transition, total public and private employment on new construction and maintenance will average perhaps a million workers, with the public portion amounting to no more than half of the total. An expansion of 1 to 1½ million in public employment on new construction and maintenance by the end of the first postwar year would seem to be within the realm of possibility.

Herring's estimate that the number of workers on new private and public construction could be increased by only

[1] *Ibid.*, p. 17.

[2] *Survey of Current Business*, Vol. 23, June, 1943, p. 32, and Vol. 24, June, 1944, p. 23.

[3] *Interregional Highways*, *op. cit.*, Tables 28 and 29, p. 115.

760,000 a year seems too low. It is based on a period when street and highway construction, which offer a particularly favorable area for expansion, accounted for less than 10 per cent of total new construction and when employment on roads was decreasing.

The National Interregional Highway Committee has proposed a postwar street and highway program of 3 billion dollars a year for the immediate postwar years. At 1940–1941 prices and weekly hours (averaging about 33 a week), a highway expenditure of 3 billion (2.25 billion new construction and 0.75 billion maintenance) would afford about 840,000 man-years of on-site employment, compared with a total of perhaps 300,000 employees on road work at the end of the German war.[1] This program, although almost half again as large in dollar terms as the previous peak in 1930, is considered feasible. With the planning so well advanced, total road and street employment might be expanded by as much as 500,000 workers by the end of the first postwar year, assuming an actual work week averaging 30 to 35 hours.[2]

On-site employment on other public-works construction[3] could perhaps be enlarged by nearly half a million,[4] assuming an actual work week averaging 35 hours. Possible expansion in employment on maintenance and repairs for public works exclusive of roads is difficult to estimate. By the end of the first postwar year it might be increased as much as a third to

[1] See *Interregional Highways*, *op. cit.*, pp. 110–115.

[2] Wet and cold weather act to reduce actual working hours.

[3] Including airports, river and harbor improvement, repair of naval and other vessels, demolition and restoration of structures used for military purposes, etc., but excluding roads.

[4] In some quarters it is believed that there will be little net expansion in this item during the first postwar year because of the disappearance of perhaps 300,000 jobs on war construction and the lack of sufficient advance planning for public construction. One expert estimates that less than half a billion dollars worth of public construction is now planned and prepared so that work could start promptly at the end of the war. The estimates in the text are not forecasts of actual employment but statements of the maximum possible expansion under reasonably favorable conditions.

a half a million over the figure at the beginning of the transition.

The estimated additional employment of 1 to 1½ million before the second postwar year would thus be provided by road employment, other public-works construction, and maintenance and repairs on such works.

Possible expansion on nonconstruction projects remains to be considered. Such activities include forest and soil conservation, park and range development, health and welfare activities, cleaning, cataloguing, surveying, improving records, and making special studies. A host of small jobs fall within this category. Employment in these lines will be at a low ebb when the transition begins.

Under proper conditions, public employment in such nonconstruction activities could be increased by at least half a million during the first postwar year. An examination of work that needs to be done in forest and soil conservation affords some indication of the employment possibilities on nonconstruction projects. Federal appropriations and administration are assumed.

With advance planning already well developed, federal authorities estimate that during the first postwar year some 100,000 additional workers could be put to work in publicly owned forests on such operations as forest road construction, timber planting, and fire and pest control. Part of the work, such as timber planting, is seasonal, and all of it is limited by winter conditions in certain northern areas. Trained, technical personnel for supervision of the work might be a restricting factor, and camps would have to be operated for most of the workers. The cost, on a strictly commercial basis, might run around $2,000 per worker a year.

Soil conservation surveys have been made in every state, and 45 states have organized soil-conservation districts. With plans so well developed, federal authorities estimate that government's present personnel of some 12,000 engaged on soil conservation could be increased in the first postwar year by 100,000 new workers under the supervision of 4,000 technicians already trained, and by perhaps another 100,000 workers the second postwar year, provided 4,000 more technicians were made available. At a higher ratio than 25 men to one technician, the quality of the work declines. Anti-erosion and improvement activities include terracing, planting of special grasses, repairing gullies, building small drainage dams and ponds, and so forth. Farmers, who are anxious to have the work done on their property, ordinarily will pay for practically everything (including upkeep and operation of machines) except hired labor and technical supervision. To date, the job has been completed on only 10 per cent of the land that should be included in the program. As remarked, there is a possible bottleneck in the availability of technical personnel, including supervisors; another bottleneck might arise with respect to new equipment, since a great part of the present equipment is near the point of discard. The difficulty and cost of transporting workers to work in rural areas is a further handicap.

### *Influence of Climate and Season*

The volume of possible employment on public construction is subject to climate and the season. In the North, non-federal projects under PWA were so delayed by weather that they required from one to ten weeks longer to complete than in the South.[1] The time from contract award to commencement of construction was also longer in the winter months.[2] Under normal procedures, winter weather would considerably delay employment on the construction of new roads and structures, as well as on soil and forest activities, in many northern areas.

If the war with Japan should terminate toward the end of a calendar year, the possibility of expanding employment on many of the projects discussed here would be considerably

[1] Galbraith, *op. cit.*, pp. 91–92.

[2] *Ibid.*, pp. 84–88.

reduced. One advantage of work on maintenance, repairs, records, library activities, and the like, is that much of it can be done indoors.

### *Implications*

Examination of the limits to expansion of employment on public work indicates how unrealistic it is to propose public-work programs of 25 to 50 billion dollars a year for the early postwar period.[1] Aside from insuperable administrative difficulties, such a volume of public-work expenditures could be encompassed only by resorting to projects of doubtful usefulness and to noncommercial methods of employment and pay.

Those who see a large program of public work as the saving factor in postwar employment should, however, have little quarrel with the policies underlying the program proposed here. Expansion of employment on regular public work as rapidly as possible immediately after Japan surrenders can certainly be accepted as most desirable. Advocates of a large public-work program might wish to introduce a larger number of long-range projects during the first postwar year than is recommended here. The inadvisability of such a step has been indicated; it reduces the flexibility of the program and increases the likelihood that the volume of employment on public work would become restricted by the high proportion of skilled building labor or other scarce resources required on such large construction projects.

## CONCLUSIONS

Our conclusions on a public-work program in the transition may be summarized as follows:

1. A program of public work is suited primarily for curtailed-spending unemployment.

[1] See, for example, Benjamin Higgins, "Public Works and Our Postwar Economy," an address before the Institute on Post-war Reconstruction, New York University, October 27, 1943, pp. 77 and 86.

2. Public-work programs for the transition need to be planned in advance by the Federal Government, the states, and the localities. To aid and stimulate plan preparation, the Federal Government should provide matched grants to the states and their subdivisions.

3. Transition programs for public work should be broad and diversified, extending far beyond regular "public works." To provide rapid expansibility and flexibility they should emphasize small projects and nonconstruction activities.

4. Public-work policies that tend to tie workers to areas of declining employment opportunities should be avoided.

5. Resort to "emergency" or low-utility projects should occur only after projects in the first two categories, and measures to stimulate private spending, have failed to prevent a large volume of long-term unemployed.

6. Proper coordination and timing of a public-work program are difficult to achieve since the states and localities account for the bulk of the expenditures on public projects. Moral suasion through public statements, application of wartime materials controls to public projects, and the use of a subsidy for private home building if construction lags, are suggested as the best means of providing any needed regulation or inducement. Only if there is need to resort to "emergency" projects should a federal subsidy be granted for the prosecution of nonfederal public work.

7. Decisions by the Federal Government on such matters as federal aid for plan preparation, or for actual construction, must be made so that the states and localities can determine their policies and formulate their programs.

8. In favorable circumstances, it might be possible to expand employment on public projects by 2 million jobs from the beginning of the transition to the end of the first postwar year. Further expansion of employment on public work in the first postwar year could be achieved only by resort to "emergency" projects and inferior methods, such as were characteristic of much work relief in the 1930's.

No over-all figure can be given for the cost of a transition program of public work. Should the projects be confined to the first category, there would be no "additional" cost except to the Federal Government for its grants for plan preparation. This category of projects consists of postponed work, normal work which will be performed during the transition, and work whose value would not be reduced by advancing its timing. Price and wage levels are not expected to decline sufficiently to permit such projects to be performed more cheaply if postponed to a later date.

The added costs for projects in the second category depend in part upon the need to utilize federal subsidies for home construction and perhaps railroad work. The value of the conservation and nonfederal public projects in this category, together with the resulting savings in unemployment payments, would probably come close to balancing their cost, provided normal hiring and employment practices are used.

The money cost of "emergency" projects would obviously depend upon the need to resort to such projects. Unless unemployment far exceeds expectations during the transition, a program of "emergency" works would not be needed and should be avoided.

The absence of a full-blown program of public work for the transition would not mean the absence of fairly large expenditures on public projects. The states and localities already have a big backlog of postponed and needed public work, and, in general, are in a good position to finance it. Work on some projects will get under way as soon as materials, equipment, and labor become available. A program is needed, however, to ensure that such public work is correlated to some degree with the need for employment.

# IX. TIMING, COORDINATION, AND COMPREHENSIVENESS

THE major recommendations of this report call for joint federal-state action. Such joint action is needed in the programs for unemployment compensation, unemployment relief, education and training, and plans for public work. Advance planning by the states and localities as well as by private industry is in large measure dependent upon certain decisions and legislation at the federal level.

Up to the present time,[1] planning for transition unemployment has been characterized by inordinate delay in Washington and in the states. The war and an election year may help to explain the delay; they do not excuse it.

The longer federal decisions and legislation are postponed, the more likely it is that the transition period will be plagued by the improvisation that characterized the prewar decade and the less will it be possible to rely upon joint federal-state or state action. Excessive delay now is likely to result in a quickly concocted, centralized program, passed in the midst of the transition.

Federal enabling legislation must be passed by January, 1945, if the joint federal-state programs recommended here are to be fully effective during the transition. Forty-three states begin their regular legislative sessions in that month. Most of those sessions are biennial, and many run for only sixty days. If the states are to participate in the proposed programs, most state legislatures will have to enact additional legislation early in 1945. Time is already short.

## TIMING OF THE COMBINED PROGRAM

In discussing the timing of transition programs, it is necessary to distinguish three steps: (1) the enactment of enabling

[1] Mid-August, 1944.

legislation, (2) the establishment of the necessary administrative machinery so that each part of the program can begin to operate at the proper time, and (3) the actual starting of operations under the program.

The sooner the enabling legislation is enacted, the better. If the German war ends in 1944, federal and state legislation will not have been enacted soon enough. Sufficient time will not have been allowed for step two—preparations in advance of actual operations. Such preliminary preparations eliminate waste.

The recommended unemployment-compensation and relief provisions should both go into operation right after the German war ends. The programs of education and training and public work should be inaugurated some time after the proposed improvements in unemployment compensation and relief are in effect.

The exact timing for the programs of education and training and public work will depend upon economic developments. The education and training program, designed primarily for short-term reconversion and frictional unemployment, ought to be introduced earlier than the program of public work, which should be related to curtailed-spending unemployment. Both should presumably be started some time before Japan surrenders. Even a small start on these two programs before the last shot is fired would afford some experience before the rapid postwar demobilization begins. It would enable both programs to expand to a higher peak during the first postwar year. Their scale of operation during the transition would, of course, depend upon the character and volume of both existing and expected unemployment.

The programs proposed in this report emphasize the importance of bringing about readjustments to peacetime production. That is particularly true of the program of education and training and the suggestions for financing the transfer of workers. The program of public work is purposely designed to avoid federal aid for the construction of public works in inflated war-boom areas. By providing employment for the breadwinners of families it would aid in the withdrawal of school youth, married women, and older workers over sixty-five from the labor market.

## PROBLEMS OF COORDINATION

Since our recommendations involve a number of separate programs and government agencies, there is a question of coordination and integration among the programs as well as within each program. Coordination within programs, especially between the states and the Federal Government, may prove to be the most troublesome problem.

The main elements of the combined program fit together well, with little danger of overlapping, conflict, or competition between the component programs. With reserves already established for unemployment compensation and for many public works, and with marked differences among such programs as public work, home relief, unemployment compensation, and education and training, there should be little direct competition for public funds. One reason for proposing that federal aid be available for all categories of relief on a like basis, whether matching or variable, is to avoid competition and distortion in the distribution of funds among the various kinds of relief. One reason for opposing a large program of work relief is that such relief employment would cut across, and tend to displace, regular employment on public activities.

Vital to the combined program are adequate advance planning, early enactment of the necessary federal and state legislation, and full cooperation between the various levels of government. The program particularly depends upon planning and appropriate action by state and local units.

Assuming that Congress passes the necessary legislation, would the states and localities participate fully in the various programs? Would they play their part?

As has been repeatedly pointed out, the states would have strong inducements to participate and cooperate. Federal aid is offered for participating states under the proposed programs for unemployment compensation, unemployment relief, education and training, and plan preparation on projects. In the case of unemployment compensation, it takes the form of a guaranty fund. For public work, there are the accumulated needs and favorable financial circumstances of the states and localities to rely upon. Wartime materials controls could be used to help in obtaining coordination at various levels.

The transition period will test the ability of the states and localities to meet their responsibilities in these matters. Unemployment will not be adequately handled during the transition if some governmental units fail to take appropriate action or if action follows the prewar pattern of too little, too late.

### VARIETY AND COMPREHENSIVENESS

The combined program for transition unemployment as proposed is varied and well-rounded, offering alternatives to the individual and stressing opportunities, especially in the program of education and training.

With its emphasis on flexibility, mobility, variety, and alternative opportunities, will the combined program meet the needs of special groups among the unemployed, such as youths, marginal workers, women, and ex-servicemen?

The answer to that question is twofold. Firstly, the program relies in large measure upon local initiative and action adjusted to local needs, permitting a wide variety of activities. It includes general as well as vocational education, nonconstruction as well as construction projects, increased coverage of unemployment compensation as well as assistance for the transfer of workers. The education and training program, with orientation, self-administering, and technical courses, is well adapted to meet a great variety of individual needs. The flexible program of public work includes diverse opportunities for employment, fitted to the unemployment conditions of the particular locality.

Secondly, a program too closely adjusted to the needs and requirements of various individuals would have to apply work-relief, rather than regular, methods of selection and employment. In the changeover to a peace economy, many individuals will have to make adjustments, despite their reluctance to do so, and such adjustments should not be unduly delayed by sheltered employment on public activities. An unemployment program for the transition should, therefore, assist the necessary changes by offering opportunities for education, training, and transfer.

# X. SUMMARY OF RECOMMENDATIONS AND COSTS

THE principal recommendations in this report are presented below in summary form, together with estimates of the costs involved. The supporting material and reasoning have been set forth in the preceding chapters. Each major recommendation (although summarized here by chapter subject) should be considered an integral part of a combined program.

## UNEMPLOYMENT COMPENSATION

1. Unemployment compensation should be the chief means of providing for unemployed workers during the transition. It is well suited to short-term unemployment.

2. Congress and state legislatures should extend the coverage of unemployment compensation during the transition in order to include federal employees, merchant seamen, and employees of small firms in industries now subject to the Federal Unemployment Tax. (The cost of coverage for federal employees, plus a federal contribution for a national system for merchant seamen, is estimated at about 230 million dollars.)

3. Where states are not already meeting such standards, unemployment-compensation laws should be amended so that they provide a uniform duration of 26 weeks of benefits and a benefit ceiling of at least $20 a week for workers with base-year earnings equivalent to $40 or more a week.

4. A federal guaranty fund, offering grants to exhausted state funds, should be established as a means of stimulating better benefits and more effective use of existing reserves during the transition. Two simple, reasonable, and temporary requirements for states drawing on the guaranty fund

would safeguard it from abuse. These are a minimum average rate of contribution and a maximum benefit standard. (No additional taxes would be required if the guaranty fund were financed from interest on the Unemployment Trust Fund and unexpended balances from the Federal Unemployment Tax. However, some 100 million dollars of unexpended balances would cease to be available each year to the Treasury for other purposes.)

## RELIEF

1. Congress should enact a program of federal grants to states for general relief on a matched basis, patterned after existing programs of public assistance for the aged, the blind, and dependent children. This is a residual program, based on subsistence needs for those not covered or inadequately covered by the other programs. (The cost to the Federal Government of this program is estimated at 250 million dollars the first postwar year and about 350 million dollars the succeeding year.)
2. A large work-relief program is not recommended, although it is recognized that circumstances could arise in the second postwar year that would make such a program necessary.

## PRIVATE INDUSTRY

1. Apart from existing plans for dismissal compensation and those negotiated by collective bargaining, it is recommended that contract-termination arrangements include dismissal compensation (a) as wage payment to compensate for failure to give two weeks' advance notice of dismissal, and (b) as return travel expenses for workers whose travel to the war plant was financed by the employer. Coverage is confined to workers on prime contracts. Beyond these limits, reliance should be placed on unemployment compensation. (The cost to the Federal Government, without deducting offsetting items, might total about 65 million dollars.)

2. While manufacturing plants are being reconverted, private industry should make every effort to utilize idle employees on such work as maintenance, repairs, alterations, and development activities.

3. A national policy of shortening the work week below prewar levels in order to spread employment is not favored.

4. In addition to various measures for workers' maintenance during temporary layoff, employers should strive to plan their operations so that labor can be hired in advance, with employment to commence at a specified later date.

### EDUCATION AND TRAINING

1. A transition program of education and training, both general and vocational, is proposed to take the place of the wartime programs. It would be designed primarily for persons experiencing "reconversion" and "frictional" unemployment. It would be administered by the states and localities under plans submitted for approval to the United States Office of Education. After referral by the United States Employment Service and acceptance by the educational authorities, enrollees would continue to be eligible for the program up to 26 weeks, and the limit would be extended to a year in exceptional cases. The Federal Government would match state and local expenditures for educational and other incidental costs under the program. (The total cost of this program to the Federal Government might reach 150 million dollars for the first postwar year and would be somewhat less for the second postwar year, at the end of which it would terminate.)

### PUBLIC WORK

1. Federal, state, and municipal programs of public work should be prepared to meet "curtailed-spending" unemployment. To stimulate advance planning of projects, the Federal Government should adopt a program of matched grants to the states for preparing detailed plans on nonfederal pub-

lic projects. (A federal appropriation of 150 million dollars is suggested for this program of insurance against unpreparedness.)

2. Transition programs of public work should be highly flexible. In planning such programs, government agencies should favor projects which are elastic, which require small percentages of skilled building labor, and which arrive at peak employment quickly.

3. Successive levels of projects should be planned for introduction if the volume of long-term unemployment indicates a need for them. The first layer consists of projects that will be prosecuted during the transition regardless of federal aid or employment conditions. Federal conservation projects and additional nonfederal public work can be considered as a second line of defense. A federal subsidy for the construction of private homes is also recommended for action at this level in case the expansion possibilities of the construction industry have not been fully utilized.

4. Federal exhortation and, if necessary, materials control for public work are considered preferable to a federal subsidy for nonfederal public construction as a means of gaining proper coordination and timing of the program.

5. Resort to "emergency" or low-utility projects should occur only if better projects and measures to stimulate private spending fail to prevent a large volume of long-term unemployment. A federal subsidy would be needed to induce states and localities to proceed with such "emergency" projects. (No over-all cost figure for public work can be given, since the added cost of the program will depend on the need to resort to the federal subsidies for private activities, suggested as part of the second line of defense, or to "emergency" public projects in the third category.)

### TIMING

To give the states sufficient time to put through necessary legislative change and to make advance preparations, Congress should pass enabling legislation for each of the recommended programs at the earliest possible date.

The programs recommended here should presumably be put into operation in the following order: unemployment compensation, unemployment relief, education and training, and public work. All should be operating on some scale before hostilities cease. When each program should become effective and how rapidly it should expand (or contract) will depend on unemployment developments and the need for that type of measure.

## RELATIVE COST

Our estimates indicate that the total cost to the Federal Government for the combined program might run to 600 or 700 million dollars for each of the first two postwar years. A two-year total of 1¼ billion dollars is equal to about five days of federal expenditures for war activities in mid-1944.

The warning at the end of Chap. I should be repeated here. These cost figures are not net additional costs. Undoubtedly there will be some offsetting reductions in certain state and local expenditures. Neither do they represent a corresponding real cost to the country. Payments of cash to the unemployed in the form of unemployment benefits, dismissal compensation, and relief do not, per se, involve any additional drain on the nation's labor and physical resources.

Costs should be weighed against benefits. The beneficial effects of this transition program upon workers' health and morale, upon spending and postwar markets for industry, upon labor mobility and productivity, and upon the educational levels and political climate of the country are important and should not be minimized. The economic, social, and psychological well-being of the nation will, in no small degree, depend upon a satisfactory program for unemployment during the trying period of transition to peacetime pursuits.

# APPENDIX

## DATA ON UNEMPLOYMENT COMPENSATION BY STATES

(Corrected to January 1, 1944)

| State | Minimum size of firm covered (number of employees)[a] | Eligibility requirement (minimum earnings or multiple of weekly benefit)[b,c] | Weekly benefit amount: Fraction of highest quarterly earnings | Weekly benefit amount: Minimum | Weekly benefit amount: Maximum | Average weekly benefits for total unemployment (1942) | Fraction used in computing duration | Maximum duration | Exhaustion of benefit rights (benefit year ending in 1942): Average actual duration before exhaustion, weeks | Exhaustion of benefit rights (benefit year ending in 1942): Percentage of beneficiaries exhausting rights | Maximum benefits payable in a benefit year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | 8 | \$60 (30×, inc. \$39.01 in 1 quarter) | 1/26 | \$ 2 | \$15 | \$ 9.23 | 1/3 | 20× | 17.0 | 39.7 | \$300 |
| Alaska | 8 | \$125 (25×) | 1/20 | 5 | 16 | 14.18 | 1/3 | 16× | [w] | [w] | 256 |
| Arizona | 3 | \$70 (14×)[e] | 1/26[f] | 5 | 15 | 11.82 | 1/6 of 2 years | 14× | 9.8 | 44.6 | 210 |
| Arkansas | 1 in 10 days | \$66 (22×) | 1/26 | 3 | 15 | 7.63 | 1/3 | 16× | 9.5 | 46.2 | 240 |
| California | 4 | \$300 | 1/20 | 10 | 20 | 15.00 | Table | 23.4× | 16.7 | 33.6 | 468 |
| Colorado | 8 | \$150 (30×) | 1/25[j] | 5 | 15 | 10 60 | 1/3 | 16× | [k] | [k] | 240 |
| Connecticut | 4 in 13 weeks | \$144 | Table | 6 | 22[l] | 12.70 | 1/3[l] | 18×[l] | 10.4 | 22.5 | 396 |
| Delaware | 1 | \$200 | 1/25 | 5 | 18 | 9.29 | [i] | 20× | 9 0[m] | 50.2[m] | 360 |
| District of Columbia | 1 at any time | \$150 (25×)[e] | 1/23 | 6 | 20 | 12.97 | 1/2 | 20× | [w] | [w] | 400 |
| Florida | 8 | \$150 (30×) | Table | 5 | 15 | 10.63 | 1/4 | 16× | 11.4 | 52.7 | 240 |
| Georgia | 8 | \$100 (table: 25× 30× and 40×, including wages in 2 quarters) | Table | 4 | 18 | 9 20 | Flat | 16× | 14 0[m] | 46.2[m] | 288 |

DATA ON UNEMPLOYMENT COMPENSATION BY STATES.—(*Continued*)

| State | Minimum size of firm covered (number of employees)[a] | Eligibility requirement (minimum earnings or multiple of weekly benefit)[b,c] | Weekly benefit amount | | | Average weekly benefits for total unemployment (1942) | Fraction used in computing duration | Maximum duration | Exhaustion of benefit rights (1942) | | Maximum benefits payable in a benefit year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Fraction of highest quarterly earnings | Minimum | Maximum | | | | Average actual duration before exhaustion, weeks | Percentage of beneficiaries exhausting rights | |
| Hawaii | 1 | $150 (30×) | 1/25 | 5 | 20 | 11.14 | Flat | 20× | 15.7 | 14.1 | 400 |
| Idaho | 1 and $78 in 1 quarter | $140 (table: 28–52×, including wages in 2 quarters and at least $78 in 1 quarter) | Table | 5 | 18 | 12.22 | 1/4 | 17× | 12 2 | 33.3 | 306 |
| Illinois | 6 | $225 | 1/20 | 7 | 18 | 14.22 | Table | 20× | 12 1 | 30 1 | 360 |
| Indiana | 8 | $250 and $150 in last 2 quarters | 1/25 | 5 | 18 | 12 84 | 1/4 | 18× | 11.8 | 35.8 | 324 |
| Iowa | 8 in 15 weeks | (15×) | 1/26[i] | 5[h] | 15 | 10.35 | 1/6 of 2 years | 15× | 8 5 | 46.7 | 225 |
| Kansas | 8 | $200 or $100 in 2 quarters | 1/25 | 5 | 15 | 10.70 | 1/3 | 16× | 10 4 | 47.6 | 240 |
| Kentucky | 8 or $50 to each of 4 workers during each of 3 quarters | $200 | Annual Table | 5 | 16 | 8 36 | Flat | 16× | 16.0 | 46.0 | 256 |
| Louisiana | 4 | $60 (20×) | 1/20[i] | 3 | 18 | 9.90 | 1/4 | 20× | • | • | 360 |
| Maine | 8 | $144 | Annual Table | 6 | 18 | 8.67 | Flat | 16×[n] | 14.0 | 21.9 | 288 |
| Maryland | 4 | $210 (30×) | 1/20 | 7 | 20 | 12.98 | 1/4 | 23× | 10 9 | 44.9 | 460 |
| Massachusetts | 1 | $150 | 1/20 | 6 | 18 | 11.13 | 30% | 20× | 15 4 | 47 2 | 360 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Michigan | 8 | $250 (including wages in 2 quarters) | 1/20 | $10 | $20 | $16 50 | 1/4[a] | 20× | 15.2 | 26.9 | $400 |
| Minnesota | 1[d] | $200 | Annual Table | 7 | 20[d] | 12.38 | Table | 16× | 13.8 | 42.6 | 320 |
| Mississippi | 8 | $90 (30×) | 1/26 | 3 | 15 | 9.00 | Flat | 14× | 14.0 | 43.0 | 210 |
| Missouri | 8 | $120 (40×) including wages in 3 quarters[e] | 1/25 | 3 | 18 | 12.35 | 1/5 of 2 years | 16× | 11.0 | 41.4 | 288 |
| Montana | 1 or in excess of $500 in 1 year | $150 | 1/25 | 5 | 15 | 11.25 | Flat | 16× | 16.0 | 32.0 | 240 |
| Nebraska | 8 | $200 | 1/25 | 5 | 15 | 10.67 | 1/3 | 16× | 13.9 | 36.4 | 240 |
| Nevada | 1 and $225 in 1 quarter | $200[f] | 1/20 | 5 | 15 | 13.36 | 1/3 | 18× | 13 1 | 37.3 | 270 |
| New Hampshire | 4 | $200 | Annual Table | 6 | 18[i] | 9.23 | Flat | 18×[i] | 14.9 | 18 4 | 324 |
| New Jersey | 8 | $150 | 1/22 | 7 | 18 | 13 50 | 1/5 | 18× | 10.5[k] | 39.7[k] | 324 |
| New Mexico | 2 in 13 weeks or $450 in 1 quarter | $150 (30×, including $78 in 1 quarter) | 1/26 | 5 | 15 | 9 43 | 1/3 | 16× | 14 7 | 35.2 | 240 |
| New York[e] | 4 in 15 days | $250 (25×)[g] | 1/28 | 10[g] | 18[g] | 12 95 | Flat | 20×[g] | 13 0 | 46.6 | 360 |
| North Carolina | 8 | $130 | Annual Table | 3 | 15 | 7 01 | Flat | 16× | 16.0 | 43.7 | 240 |
| North Dakota | 8 | $150 (30×) | 1/26 | 5 | 15 | 10 55 | Flat | 16× | 13.5[m] | 38.7[m] | 240 |
| Ohio | 3 at any time | $160 and 20 weeks employment | Table | 5 | 16 | 12 43 | Flat | 18× | 18.0[r] | 24.3 | 288 |
| Oklahoma | 8 | $132 (22×) | 1/20 | 6 | 16 | 12.03 | 1/3 | 16× | 8.8 | 56.7 | 256 |
| Oregon | 4 on 1 day and $500 in same quarter | $200[c] | 6% | 10 | 15 | 13.66 | 1/6 | 16× | 6.5 | 29.6 | 240 |
| Pennsylvania | 1 | $100 ($50 in each of 2 quarters) | 1/25 | 8 | 18 | 11 82 | Table | 16× | 9.2 | 36.5 | 288 |
| Rhode Island | 4 | $100 | Table | 6 75 | 18 | 12 42 | Table | 20.25× | 9.1 | 52.6 | 364.50 |

DATA ON UNEMPLOYMENT COMPENSATION BY STATES.—(*Continued*)

| State | Minimum size of firm covered (number of employees)[a] | Eligibility requirement (minimum earnings or multiple of weekly benefit)[b,c] | Weekly benefit amount: Fraction of highest quarterly earnings | Weekly benefit amount: Minimum | Weekly benefit amount: Maximum | Average weekly benefits for total unemployment (1942) | Fraction used in computing duration | Maximum duration | Exhaustion of benefit rights (1942): Average actual duration before exhaustion, weeks | Exhaustion of benefit rights (1942): Percentage of beneficiaries exhausting rights | Maximum benefits payable in a benefit year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| South Carolina | 8 | $120 (30×; 40× for all amounts above minimum) | 1/26 | $ 4 | $15 | $ 8 33 | Flat | 16× | [w] | [w] | $240 |
| South Dakota | 8 | $126 | Annual Table | 7 | 15 | 9 00 | Flat | 16×[n] | 14.0[m] | 31.4[m] | 240 |
| Tennessee | 8 | $125 (25×; 30× for all amounts above minimum) | 1/26 [p] | 5 | 15 | 9.50 | Flat | 16× | 16.0 | 42.7 | 240 |
| Texas | 8 | $80 (16×) | 1/26 | 5 | 15 | 8 87 | 1/6 | 16× | 9 4 | 57.3 | 240 |
| Utah | 1 and $140 in calendar quarter | $150 (30×) | 1/20 | 5 | 20 | 14 30 | Flat | 20× | 20.0 | 25.1 | 400 |
| Vermont | 8 | $180 (30×) | Table | 6 | 15 | 10.17 | Flat | 18× | 13.2 | 37.0 | 270 |
| Virginia | 8 | $100 (25×) | 1/25 | 4 | 15 | 9 37 | 1/4 | 16× | 13.4 | 24.3 | 240 |
| Washington | 1 at any time | $200 | 1/20 | 7 | 15 | 12 86 | 1/3 | 16× | 11 6 | 17.3 | 240 |
| West Virginia | 8 | $250 | Annual Table | 7 | 18 | 10.67 | Flat | 16× | 16.0 | 31.0 | 288 |
| Wisconsin | 6 in 18 weeks[e] | 14 weeks employment | Table | 8 | 20 | 12.40 | 1/2 of varying period | 20–36 1/2×[q] | 12.7 | 26.8 | [r] |
| Wyoming | 1 and $150 in 1 quarter | $175 (25×, including $70 in 1 quarter) | 1/20 | 7 | 20 | 14.03 | 1/4 | 16× | 10.3 | 24.5 | 320 |

[a] Requires employment of specified minimum number of workers in at least 20 weeks except where otherwise stated.

[b] The dollar amount represents the minimum earnings requirement; where the wage qualification is a multiple of the weekly benefit rate, the multiple is shown in parentheses.

[c] The qualifying wages must have been earned in a 1-year base period in all states except the following: Arizona, 3-quarter base period; Missouri, 2-year base period; Oregon, 1-year base period that may be extended up to 2 years.

[d] But services for employers not subject to Federal Unemployment Tax and located outside the corporate limits of a city, village, or borough of 10,000 population are excluded.

[e] Maximum $250.

[f] Or twice the square of the weekly benefit amount, whichever is greater, and including earnings in either case of five times the weekly benefit amount in some quarter other than that of highest earnings.

[g] Benefits are paid for each accumulation of 4 "effective days." "Effective day" is defined as the fourth and every subsequent day of total unemployment in a week in which not more than $24 is paid to the individual.

[h] Or full-time weekly wage, whichever is the lesser.

[i] $15 maximum weekly benefit amount and maximum duration of 16 weeks if fund fails to equal or exceed 8 million dollars for two successive months.

[j] Or 50 per cent of full-time weekly wage.

[k] Benefit years ending July-December 1942.

[l] Lower maximum rates and duration are provided when balance in the fund is less than 2 per cent of the payroll for 3 years ending with the base period for the benefit year.

[m] Data relates to operations under provisions which have since been liberalized; the presently included statistics are the latest available.

[n] Benefit duration for lower wage classes is less.

[o] Or, where employer's records do not permit accurate count, if total annual payroll is $6,000 or more.

[p] Rate is $\frac{1}{20}$ and $\frac{1}{25}$ for weekly benefit accounts of $5 and $6.

[q] Duration depends on continuity of unemployment and number of base-period employers.

[r] For nondisqualified claimants filing on or after October 1, 1941; 12.0 for disqualified claimants.

[s] Day base plan in effect since November 30, 1942, whereby benefits are paid for accumulations of 4 "effective days" of unemployment instead of weeks of unemployment.

[t] Duration equals 10 times weekly benefit amount plus 1 times weekly benefit amount for each $200 of base-period wages, with a maximum of 20 times weekly benefit amount.

[u] Higher fraction if year's wages are under $800.

[v] Not possible to state, as it depends on whether benefits are drawn from more than one employer's amount and whether unemployment is continuous or noncontinuous.

[w] Data not available.

[x] State changed from individual to uniform benefit year; therefore, comparable data not available.

Source: Social Security Board.

## A NOTE ON THE COMMITTEE FOR ECONOMIC DEVELOPMENT AND ITS RESEARCH PROGRAM

The Committee for Economic Development was organized in August, 1942, by a group of business leaders who were convinced that the attainment and maintenance of high employment after the war dare not be left to chance. To seize the opportunities for unprecedented peacetime prosperity in the postwar era and to avoid the real perils of mass unemployment or mass government employment, they believed that individual employers, while in no degree relaxing their efforts toward military victory, must begin to plan promptly, realistically, and boldly for rapid reconversion and vigorous expansion after the war.

There is widespread agreement among economists that American prosperity after the war calls for the sustained employment of 7 to 10 million more workers than in 1940, our banner peacetime year hitherto. The only sound road to such increased employment is the enlargement of production and sales of goods and services to a level some 30 to 45 per cent higher than that of 1940. This means that businessmen must make their plans for postwar business on a greatly expanded basis as compared to any known peacetime year.

To assist them to make their maximum contribution toward this goal, the Committee for Economic Development—through its Field Development Division—has organized locally (as of November, 1944) in 2085 communities in all states of the union. More than 50,000 businessmen are working as members of these committees to persuade and aid as many as possible of the nation's 2 million private employers to begin the planning of their postwar production and employment.

No pattern or over-all program is imposed on these local committees. Each is autonomous, since each understands the peculiar problems of its community better than can any outsider. Yet the problems they meet and the tools they need are in basic respects the same.

Therefore, tested procedures for making both postwar production and employment plans are supplied to them by the national C.E.D. office. In addition, the country's outstanding specialists in industrial management, in product design, in advertising and selling, and in training of sales personnel have placed their skills freely at the service of all cooperating businessmen, through handbooks, films, training courses, business clinics, and forums for the local committees.

To plan for the future, the businessman needs particularly some measure for estimating postwar demand for his individual product. Another important service of C.E.D. is its postwar market analysis, which is being conducted with the cooperation of many trade associations and leading industrial firms and will cover more than 500 finished-goods products.

Even with the best of tools the businessman knows he cannot be wholly successful in carrying out plans for postwar expansion unless national policies prevail that make business expansion possible. To define what these national policies of government, business, and labor should be to encourage higher production and more jobs is the special task of the C.E.D. Research Division. This is the purpose of the research reports, of which this volume is the fourth.

To the long-range economic questions involved in this undertaking have been added the particular economic problems arising out of the war. Both areas are being studied. It is hoped that the reports, as a group, will provide the information that many have been seeking concerning problems intimately related to the life of each of us, as well as to the future of our society.

The authors of these reports have already won distinction in their own fields. Perhaps more important is the fact that their previous work has demonstrated not only the competence but the vigor of thought which these complex problems demand. Knowing, however, that the problems that would be scrutinized—demobilization of the war economy, taxation, monetary policy, international trade, agriculture, and the like—are not separate ones, but are integrated and must be studied in relationship one to the other, the C.E.D. sought to make possible an exchange of information and views by the experts and, equally important, between the scholars and businessmen.

What may be a unique scheme of conferences was established, the objective being to blend the practical experience and judgment of the business world with the scholars' knowledge of the action of economic forces. A Research Committee consisting of representative successful businessmen was set up; to this group was added a Research Advisory Board whose members are recognized as among our leading social scientists; and finally, the persons who would be responsible for the individual reports were named, to comprise the Research Staff.

The subject matter of each report is discussed by the members of these three groups, meeting together. "Discussed" is an inadequate term. "Earnestly argued, and for long hours" does more justice to the work. The author of the report therefore has the benefit of criticism and suggestion by many other competent minds. He is able to follow closely the development of the reports on other economic matters that affect his own study.

No effort has been made to arrive at absolute agreement. There is no single answer to the problems that are being studied. What is gained is agreement as to the determinative factors in each problem, and the possible results to be achieved by differing methods of handling the problem. The author of the report has full responsibility, and complete freedom, for proposing whatever action or solution seems advisable to him. There is only one rule—the approach must be from the standpoint of the general welfare and not from that of any special economic or political group; the objective must be high production and high employment in a democratic society.

Since the author is free to present his own conclusions and does not speak for the Research Committee or for the Research Advisory Board, the Research Committee will issue, for each study, where desirable, a separate C.E.D. *policy statement.* This may endorse all of the recommendations arrived at by the author, or it may disagree with some.

The research studies already under way divide roughly into two parts:

A. *The transition from war to peace:* the problems involved in the early *attainment* of high levels of employment and production when the war is over;

B. *The longer-term fundamental problems* involved in the *maintenance* of high levels of productive employment after the transition period has passed.

The subjects to be covered by the individual monographs in the two series are:

A. *The Transition from War to Peace:*

1. *The Liquidation of War Production,* by A. D. H. Kaplan, Professor of Economics, University of Denver (already published). The problems involved in the cancellation of war contracts and the disposal of government-owned surplus supplies, plants, and capital equipment are weighed quantitatively as well as qualitatively. How much war plant has the government financed, and what part of it could be put into civilian production? What criteria should prevail in selecting the producers to be released first from war manufactures, as the war production program is curtailed? How and when should surplus goods be sold? Rapid resumption of peace-

time production, with conditions favorable to high levels of employment, is the gauge by which the recommendations are measured.

2. *Demobilization of Wartime Economic Controls*, by John Maurice Clark, Professor of Economics, Columbia University (already published). When and how should the wartime controls be removed? The interdependency of the wartime controls of production, manpower, prices, wages, rationing, credit policies, and others is made clear. How relaxation of each control may affect the peacetime economy —in terms of demand and supply, and therefore in terms of job and production levels—is weighed. The conditions that can be expected to prevail at different stages of the transition from a wartime to a peacetime economy are outlined, with emphasis on the variables with which we must be prepared to deal. Professor Clark does not overlook the significance of attitudes and objectives.
3. *Manpower Demobilization and Reemployment*, by Robert R. Nathan, formerly Director of the Planning Committee, War Production Board. The relationship of demobilization policy to reemployment. Recommendations are made for a program that would avoid long-period joblessness among returning servicemen as well as war workers.
4. *Providing for Unemployed Workers in the Transition*, by Richard A. Lester, Associate Professor of Economics, Duke University (the present volume). An estimate of the size and the duration of transition unemployment. The efficacy of public works employment, relief employment, the adequacy of unemployment compensation, wartime savings, dismissal pay and the like are appraised. A program is developed to provide for the maintenance of workers who will be out of jobs in the transition from war to peace.

5. *Financing Industry during the Transition from War to Peace*, by Charles C. Abbott, Associate Professor of Business Economics, Harvard University. The sources upon which business has relied for its capital are examined, along with the current financial condition of large and small corporations. These two are weighed against the likely needs of financing by industry for reconversion and expansion in the transition years following the war.
6. *Monetary and Banking Policies in the Postwar Transition Period*, by John K. Langum, Vice-president, Federal Reserve Bank of Chicago. What monetary and banking policies can do to encourage production and employment. Federal fiscal policy is analyzed in its relationship to the financial requirements of business in reconversion and expansion. The significance of monetary policies prior to the war and the money and banking conditions that will stem from war financing are reviewed. The relationship of business spending to other money flows and the resultant production pattern is discussed.

B. *The Longer-term Fundamental Problems:*

1. *Production, Jobs and Taxes*, by Harold M. Groves, Professor of Economics, University of Wisconsin (already published). A study of the federal tax structure as it affects the creation of jobs. This is to be followed by a comprehensive report now in preparation on the development of a constructive tax policy. The larger report will inquire into the problems of state and local, as well as federal, taxation.
2. *Agriculture in a Developing Economy*, by Theodore W. Schultz, Professor of Agricultural Economics, The University of Chicago. An investigation going to

the roots of the "farm problem." The significance of excess labor resources on farms, the failure of price mechanisms to induce shifts of resources out of agriculture, the differences between the farm and industrial sectors in responding to reduced demand. The importance to farmers of continued prosperity in business. A solution to the farm problem without resort to price floors or restrictions on output.

3. *International Trade and Domestic Employment*, by Calvin B. Hoover, Dean of the Graduate School of Arts and Sciences, Duke University. An examination of the kind of foreign trade policies and mechanisms we can adopt that will increase our gains from international trade and also contribute to world peace. A statement of the requirements in terms of the economies of other countries as well as our own.
4. *Business Arrangements in Foreign Trade*, by Edward S. Mason, Professor of Economics, Harvard University. A study of cartels and other forms of international business organizations.
5. *Minimizing Business Fluctuations and Unemployment*, a major series of studies which will be undertaken during the coming year, by John Maurice Clark, M. de Chazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, and others to be appointed.
6. *The Special Problems of Small Business*, by A. D. H. Kaplan, Professor of Economics, University of Denver, assisted by J. K. Wexman. An inquiry into the competitive position and the needs of small business.
7. *Providing Adequate Incentives for Enterprise*, by C. E. Griffin, Professor of Business Economics, University of Michigan.
8. *The "Billion Dollar Questions,"* by Theodore O. Yntema, Gardiner C. Means, and Howard B. Myers. An economic primer posing the basic economic problems to be faced in a free enterprise system.

C. *Supplementary Papers:*

1. *The Economics of a Free Society*, by William Benton, Vice-president, the University of Chicago. (Published in October, 1944, issue of *Fortune* Magazine.)
2. *Personnel Problems of the Postwar Transition Period*, by Charles A. Myers, Assistant Professor of Industrial Relations, Massachusetts Institute of Technology (already published). An examination of the problems that will confront employers in connection with the rehiring of servicemen and war workers, and issues that will arise in the shift of the work force from wartime to peacetime production.
3. *Federal Tax Reform*, by Henry C. Simons, Associate Professor of Economics, The University of Chicago. The development of a basic philosophy of taxation to simplify the federal tax structure and distribute the tax burden among individuals in relation to their incomes.
4. *Incidence of Taxation*, by William Vickrey, formerly Tax Research Division, Treasury Department.
5. *World Politics, Employment and Free Private Enterprise*, by Harold Lasswell, Director of War Communications Research, Library of Congress.
6. *Changes in Substantive Law, Legal Processes and Government Organization to Maintain Conditions Favorable to Competition*, by Corwin Edwards, Professor of Economics, Northwestern University.

These are the subjects so far authorized by the Research Committee of C.E.D. Others may be undertaken at a later date. These subject titles will not necessarily be the same as the book titles when finally published.

## EXCERPTS FROM BY-LAWS OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT CONCERNING THE RESEARCH PROGRAM

*Section* 3. *Research Committee.*

It shall be the responsibility of the Research Committee to initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce in the post-war period to the attainment of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy. All research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group.

*Publication*

The determination of whether or not a study shall be published shall rest solely with the Research Director and the Research Advisory Board. . . . A copy of any manuscript reported for publication shall be submitted to each member of the Research Advisory Board, of the Research Committee, and of the Board of Trustees. For each subject to be so submitted the Research Director, after consulting with the Chairman of the Research Advisory Board, shall appoint a Reading Committee of three members of the Board. Thereupon, as a special assignment each member of the Reading Committee shall read the manuscript and within fifteen days from its assignment to him shall signify his approval or disapproval for publication. If two out of the three Reading Committee members signify their approval, the manuscript shall be published at the expense of the Corporation. . . . In no case shall publication necessarily constitute endorsement by the Committee for Economic Development, the Board of Trustees, the Research Committee or by the Research Advisory Board of the manuscript's conclusions. Upon approval for publication, the Research Director shall notify all members of the Board of Trustees, of the Research Committee and of the Research Advisory Board and no manuscript may be published until fifteen days following such notification. The interval is allowed for the receipt of any memorandum of dissent or reservation that any member of the Board of Trustees, Research Committee, or Research Advisory Board or the Research Director may wish to express. Should a dissenter so request, his memorandum shall be published with the manuscript. . . . In the event the manuscript is not approved for publication at the Corporation's expense as above provided, the individual or group making the research shall nevertheless have the right to publish the manuscript.

*Supplementary Papers*

The Research Director may recommend to the Editorial Board for publication as a Supplementary Paper any manuscript (other than a regular research report) . . . which in his opinion should be made publicly available because it constitutes an important contribution to the understanding of a problem on which research has been initiated by the Research Committee.

An Editorial Board for Supplementary Papers shall be established consisting of five members: The Research Director, two members from the Research Committee, and two members from the Research Advisory Board. The members from the Research Committee and the members from the Research Advisory Board shall be appointed by the respective chairmen of those bodies. The Research Director shall be the chairman of the Editorial Board and shall act as Editor of the Supplementary Papers. . . . If a majority of the members of the Editorial Board vote for publication, the manuscript shall be published as one of a series of Supplementary Papers, separate and distinct from the regular research reports. . . . Publication does not constitute endorsement of the author's statements by the Committee for Economic Development, by the Board of Trustees, by the Research Committee, or by the Research Advisory Board.

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