SOCIAL RESERVES

P W Litchfield
Birmingham, Nov. 19, 1934.

In the course of the lives of men and nations there come times when major decisions must be made, when habits and methods must be revised to meet changing conditions.

These times are difficult for individuals. They are even more difficult for nations because the resistance to change is more pronounced in the case of the nation than it is in the case of the individual.

It seems to me to be particularly difficult to attain any satisfactory degree of speed in working out needed changes in the functioning of a democratic form of government because so many voices must be heard, so many opinions must be examined, so many divergent considerations must be reconciled.

In approaching the subject of "Social Reserves" one should not evade the fact of our national inertia nor fail to accord it proper consideration. It makes the solution to the problem just that much more difficult but it does not in any sense remove the necessity for action. As a matter of fact, it seems to me that this very fact of national inertia presents compelling reasons why we should not delay the initial steps which must be taken.

For the greater part of five years we have been in the throes of depression. Unemployment figures have reached the ponderous millions and the problem of extending immediate relief to those in actual want has occupied our minds almost to the exclusion of all other considerations.

We have seen a nation drop dizzily from the heights of self-satisfaction to the depths of despondency. Our banking structure virtually collapsed, our great industrial machine was dangerously close to complete idleness, the whole nation staggered under the great burden of an economic depression the like of which we have never before experienced.

The causes of this depression were various. For the purposes of this discussion it is not necessary to examine them in detail. But the most pernicious result of those causes, the result to which may be appended our inability to extricate ourselves, the result which produced its own baleful off-shoots, may be summed up in one word -- unemployment.

Let us cure or relieve unemployment and we are on the road to recovery. Let us make a dent in this one big problem and many of our other pressing problems will begin to cure themselves.

In the span of your lives and mine, we have seen our nation emerge from an era where production could not equal needs to the modern machine age when we have facilities to produce in excess of demands. But this machine age has brought out inequalities in our system of distribution. Our present emergency will be relieved in due time but it appears inevitable that we will again encounter the problems of depression as the series of peaks and valleys continues to register our surges of production and idleness. Until we have attained our human millenium it will not be possible to organize in such a way as to totally avoid

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these peaks and valleys; it will be impossible for us to so order our affairs that we may be certain of an even tenor. I think we may, however, find methods of fortifying ourselves against the more distressing consequences of these recurring periods of retarded production and employment.

Nature's own program of production, while basically steady and continuous, has outward manifestations of peaks and valleys. In the spring comes a surge of buds and blossoms, in the summer there is much visible activity as the fruit develops. In the fall comes the final ripening of the fruit and the harvest. Then there comes a winter of starkness and apparent inaction but all during this time the forces of nature are at work reviving the strength which will produce another cycle of blossoming and bearing.

Man's general program of production is much the same. There are periods of great activity followed by periods of inactivity. We observe these recurring cycles as we look back over our history but with the coming of vast improvements in methods of production, the tendency is likely to be toward even greater periodic differentials.

Unemployment is a social evil having a direct effect upon public health, morals and welfare.

Unemployment begets more unemployment because the man out of work is no longer in the market as a normal consumer.

View it from almost any angle and certain national responsibilities in the problem are not to be escaped. Now I do not intend to convey the idea that the nation owes its citizens a living but I do believe that the function of government is to provide each person, able and willing to work, with an opportunity to work.

In our present low state we cast a regretful eye back at those days of plenty and rue the fact that we were so improvident. We wish we might have used less of our means during those better days so that we might have more to carry us thru our present plight. Well, it is too late to devote much time to condemning ourselves for our lack of preparedness. But it is not too early to begin devising ways and means of combatting a chronic evil.

Before the days of fire insurance and accident insurance, great burdens of loss and distress were placed upon individuals. The head of a family whose life's savings were tied up in the roof which protected him, was often wiped out by fire. The family of another man who met with a fatal accident was left in dire straits when an unforseen accident took their bread winner.

It was a perfectly logical corollary of our deep instincts to protect ourselves that our system of insurance became so highly developed that it encompasses almost all forms of loss and misfortune.

Under the protective shield of insurance it is no longer necessary for a single person to suffer such great burdens of loss in case of fire or accident. The insurance system does not prevent fires and accidents but it provides for a sharing of the risk of these misfortunes.

The essence of insurance is group cooperation based upon the broad assumption and experience that but a small proportion of the group is likely to encounter misfortune at the same time, but on the further assumption that some of the group is bound to meet the misfortune.

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Members of the group contribute to a single fund out of which sufferers are indemnified for losses. From actuarial and experience tables, rates are computed and the burden of the cost is thus divided in an equitable manner. The rates or premiums paid may be regarded as constant losses but they are undertaken by individuals in the interest of keeping these losses small rather than seeing them mount to devastating proportions. Losses are pooled in the expectation that thru the working of the law of averages, losses will occur to but a small percentage of the group. Thus we insure our homes against fire not with the idea that we will all avoid fire but with the idea that most of those in the pool will avoid fire and that comparatively small payments from a large number will provide sufficient reserves to take care of the occasional losses. There is a form of insurance to cover almost every human business and property risk.

Since the early stages of the depression there has been a growing public demand for some forms of national insurance which would undertake to spread the cost of unemployment. There has been a growing sentiment in favor of old age pensions and many states have set up systems for handling this problem. Likewise there has been much agitation for reserves to take care of the losses suffered by wage earners thru sickness.

These three general subjects are only remotely related to each other but public thinking is directed toward them because the depression has made us more than usually conscious of the great bonds of interdependence between ourselves and our neighbors.

In the matter of public health reserves for wage earners it does not seem that we face such a difficult problem. There are ample means already provided to insure any individual worker against loss from sickness or accident and there are likewise means by which the individual victim may be assured of available reserves for hospitalization. It is true that these facilities are not employed to their fullest extent. As a matter of fact, it seems that the fellow who most needs this sort of protection is just the fellow who fails to buy health insurance. But there is no vast complication in the way of taking the means at hand and adapting them to a broader usage. Health and hospitalization insurance could be arranged for large groups of employees without great difficulty and on a basis of fairness to all concerned. The risks are already pretty well known and the rates are therefore generally established.

I believe that to bring breadwinners under the benefits of sound insurance plans is a necessary step toward social progress.

The matter of old age pensions presents a different picture from that of providing public health reserves. It is true that there are an abundance of well established insurance companies which will assist almost anyone in providing against the wants of declining years. As a matter of pure theory, every individual should accumulate, in one form or another, a fund for his old age. But theory runs into fact -- what we <u>should</u> do individually and what we <u>actually</u> do are two different things.

We may as well recognize at the outset that there is now and always has been a large percentage of the public which is given to procrastination when it comes to setting up reserves to meet the inevitable. We must deal with the facts as we find them rather than with the theories.

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For more than a third of a century I have watched labor requirements and employment policies change with the transition of industry from very small to very large units. When industrial units were small the working hours were long and the jobs were done by skilled workers who required many years to perfect their trades. In those days, brains and skill were at a premium and youth, not having acquired this skill, received much less remuneration than the older workmen. The ability of a man to earn money tended to increase during his advancing years, the older worker being able to produce more than the younger. This enabled a man to be better able to care for the responsibilities of married life and the raising of a family.

However, as industry developed, it became apparent that greater value per dollar and lower costs of production could be accomplished through mass production. The public, as a result of this, was able to buy more of the things needed or desired at lower prices and to have increasingly more than the bare necessities of life. The workmen were enabled to produce, through improved machinery and methods, more units per hour. This tendency has continued up to the present time until now we can produce in our factories not only the necessities, but many of the luxuries of life, in a shorter number of hours than before. This has naturally brought a shorter working day.

At the same time the pace of production is much speedier than formerly. This is perfectly natural and logical because it is a well known fact that a man can produce more per hour working six hours a day, with less effort and less detriment to health, than he could produce per hour working eight, ten or twelve hours a day. This is for the same reason that a sprinter in the hundred yard dash covers the ground much faster than the man running the quarter or half mile. But it does not mean that any one task is more severe than the other although there is a great difference in the speed.

The introduction of machinery has also reduced the importance of manual skill as a factor in industrial production. A better article can be produced by a young man of very short training than formerly could be produced by an artisan of many years practice. This has enabled very young men, without family repsonsibilities to command earnings equal to or greater than their elders. A situation has been created where a man in the factory reaches the peak of his earning power at a much earlier period of life than formerly. Conversely, his usefulness on this kind of work starts to diminish at a much earlier age. This tends to make it more difficult for those who have passed the prime of life.

Many social-minded employers have recognized this situation by setting aside, from earnings, pension funds to take care of these older employees who have been with them for many years.

But companies having pension plans are under a handicap in competition with those which do not have to set aside funds for this purpose and who utilize savings thus made in cutting prices of competitive products. Even at best, a single employing industry cannot provide pensions for any other than those who have given the best part of their working lives to the service of that industry.

Those who have been engaged in pursuits that call for constant shifting of employees, or who have been connected with concerns which have failed, have been without protection. Society has a duty to take care of those who are the unwilling victims of this condition. The question is, who should pay the bill? Industry, which has the benefit of choosing younger, more active employees,

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should bear part of the cost. The younger employees in active work are benefited by being able at an early age and with less experience to have a higher relative earning power and therefore should set aside some of their earnings to insure against their lack of earning power in later years. It would also seem that the public, having benefited by getting lower costs, and higher standards of living, should share in paying the bill. If this was a situation which could be controlled by the employee himself, the nature of the problem would be different. But no man can avoid growing older nor prevent his physical strength and energy from diminishing with the years. The situation is beyond his control as an individual. It therefore becomes the duty of the state to arrange for the easing of the burdens of old age with the costs being shared by those who benefit.

I believe the individual states may well undertake the handling of old age pensions altho experience may prove to us that uniform administration such as we might obtain thru a federal system would be more effective and desirable. Many states now have old age pension systems in operation or about to go into operation and out of the experience we are obtaining will come the guidance we require in the discharge of our common duty to the aged neighbor.

Let me now turn to the subject of unemployment reserves. As I have said, I consider it to be vastly different from old age pensions. One cannot control advancing years with its decline in physical and mental powers. But one can, in a large measure control his ability to get and retain his job even in times of general depression. If he keeps himself physically fit, studies his job to improve his skill and otherwise concentrates his energies toward improving his value to his employer, he will assist himself to hold his job in times of adversity. Of course, you cannot successfully argue that if ALL men succeeded in considerably improving their individual values that there would be an end to unemployment--- but the personal control one has over his own destiny in this respect is a practical factor which must be taken into consideration.

Our most effective weapon in the fight against the evils of unemployment must be found in ways and means of furnishing work rather than in supporting men in idleness. Among other things, this calls for a broader sharing of available work at times thru shorter hours. But still we must face the fact that peaks and valleys in production will bring about surpluses and shortages of labor so it seems obvious that we must set about insuring ourselves as far as possible against the distress which comes with a depression.

For too long, it seems to me, we have stood by and witnessed individual victims of a general malady bear inordinate burdens. We all know that we may be in the same plight as our unemployed neighbors. And yet, disregarding the lessons we learned years ago in the matter of sharing the risks of fire and accident losses, we fail to adopt some means of spreading the burden of inhuman losses to society incurred thru enforced idleness.

Then, too, it seems to me that to pursue our present course is to load more and more of the burden of our present situation upon future generations. That is not fair nor honest. We owe a debt to posterity because we enjoy the fruits of the labors of our predecessors. Quickly we must return to the course of honor, pay our own way for our own mistakes and not pass on to future civilization a retarding burden of expense and obligation.

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I quite frankly recognize the fact that we are setting out on a difficult course when we endeavor to provide some perfect system of unemployment insurance.

I recognize the fact that there is a grave danger of increasing unemployment thru the adoption of a faulty system. I recognize, too, the danger of a system which might put a premium upon idleness and inflict a penalty upon the virtues of individual thrift and industriousness.

I am aware of many other compelling arguments against various forms of unemployment insurance. But at the same time, I am convinced that we cannot solve the problem by evading it.

I do not appear before you today with the perfect solution to this complex problem but at the same time, I am not ready to confess that we Americans are lacking in the ability to arrive at an ultimate solution.

I believe that there should be a determined and immediate effort put forth to develop a national plan under which we can at least begin the job of preparing for the future. True, prevailing conditions make it impossible to undertake the task of taking over the relief load now borne by the government. Perhaps the current burden will remain extremely heavy for several years to come. But my point is that we should prepare <u>now</u> -- begin laying away <u>now</u> for currently originating unemployment. My consciousness of the magnitude and complexity of the task does not overcome my conviction that the cause of orderly progress insists that we make our beginning <u>now</u> -- in the face of national inertia and in the face of nationally depressed conditions.

I do not attempt to define the exact method of operation which should be followed, but I have some general convictions. Our first step should be to appoint the best talent in the country on a commission whose job it would be to make a thoro examination of all systems now in use to study our own needs and peculiarities and then proceed to inaugurate a plan.

The commission which undertakes the study probably should be made up equally of members representing industry, labor and government. For the present it appears that the original plan should concern itself with industrial unemployment rather than to risk the complications which undoubtedly would confront any attempt to embrace other and less uniform fields of employment.

In general, the plan for our nation should follow established insurance methods. It should be guided by the federal government and at the outset it should be sufficiently flexible to permit of change as experience would indicate what changes should be made.

In the drafting of such a system, extreme care should be taken that it constitutes no invitation to the natural shirkers. We must preserve every possible inducement to work and avoid any encouragement to loaf.

At the same time we should guard against a system which would permit political usurpation of the right to dispense benefits from the national reserves.

I believe the reserves should be built from assessments against employers and employees with no part of the funds coming from the public treasury except in case of extraordinary drains upon the reserves during severe depressions.

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Whether the assessment against employers and employees should be on the basis of uniform, flat payments or percentages of wages could best be determined by the study. Frankly, I could not hazard a guess. But if the assessments are made on a percentage basis, then it should follow that the workers paying the most money into the reserves should be entitled to commensurately higher relief benefits than those who contributed less.

The effect of assessing the cost against employers and employees would be to reduce the hazards. Just as fire insurance premium payers are required to eliminate fire risks from their own premises, so would the employers be likely to seek earnestly for ways and means of reducing unemployment to the end that their premium costs would be held to the lowest possible figure.

Another beneficial possibility of these joint assessments is found in the invitation it offers participants to assume more rigid supervision of the administration of such funds. With employers and employees paying money out of their own pockets into a publicly administered fund, the likelihood of abuses in such administration is considerably reduced.

Any such system must eventually recognize the law of supply and demand as it applies to wages and working hours. To adapt itself to this law, the system must be flexible. In times of high demand and consumption, wages will be higher because labor will be in demand. And hours are likely to be longer. But in times of curtailed markets, wages are bound to be lower because there is a surplus of labor and hours should be shorter in order to take up some of the slack in employment.

Under such a system, when employment and wages are high much greater sums would be paid into the reserves. Lesser amounts would be paid in during dull times but the reservoir would have a cushioning effect upon business and employment drops of the future.

It would seem wise, too, to consider a method for co-ordinating the knowledge of employment services with the operations of the unemployment reserve administrators. Thus wilfull idleness could be guarded against and no man could turn down a reasonable opportunity for employment and at the same time continue to receive unemployment benefits. Another safeguard against abuse of the spirit of the plan might be provided thru the establishment of a reasonable margin between the date of loss of employment and the date of the first benefits possible.

The most essential requirement of any plan is that it be susceptible to honest, sincere administration and free from provisions which might offer temptations to the political manipulator. That is a pretty big order, I confess, but it can be filled if the problem is approached from the proper angle.

I have said that the drafting of a sound plan for the creation and use of unemployment reserves presents many difficulties. But we are not the first nation, by any means, to have to face the problem.

Earliest of systems for insurance against unemployment were brought out during the last century by certain craft organizations in Europe. Later, in some countries, these plans were subsidized by national or local governments but many of them are still maintained by their members exclusively.

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More than twenty countries are giving support in one form or another to unemployment insurance. Great Britain's system of compulsory unemployment insurance is more than twenty years old. Other compulsory systems, similar in nature, were adopted later by such countries as Austria, Bulgaria, Germany, Irish Free State, Italy, Poland, Queensland and Mexico. In most of these countries, agricultural and domestic workers are excluded from participation. Methods of financing the systems vary in different countries, costs being borne by the workers, the employers and the government, either singly or jointly.

The State of Wisconsin has recently inaugurated a system of unemployment insurance which offers a proving ground for the national system I am now advocating.

The Wisconsin law seems to have been carefully thought out and a sincere attempt made to avoid abuses. It provides a degree of flexibility in many respects. For example, an employer may be exempted from making payments into the State fund if he can give a satisfactory guarantee to the State Industrial Commission that he will meet the requirements of the system. Employees who care to work harder and make their own contributions to the fund are thereby in position to obtain additional benefits. Another provision of this law makes it possible for employers in one locality to pool their reserves and thus share the cost of and responsibility for localized slumps in employment. Otherwise the reserve funds are kept separately for each employer.

There is an admirable attempt in the Wisconsin law to withhold encouragement from the natural shirker. Any employee refusing "suitable" employment is barred from further benefits. Applications for benefits are made thru the State Employment Office.

It is experimental, but it has the virtue of providing a basis upon which the state may work toward a solution or a mitigation of its unemployment problem.

With the experience available, we should soon be able to devise a system which would avoid obvious pitfalls and at the same time serve to meet a most pressing need.

In pure theory, I suppose, every worker should provide for himself against the day when he will be unable to find employment. But here again we run into the fact that it is human nature to procrastinate. That same human trait is reflected in the failure of our local and national governments to conserve in times of plenty so that there may be reserves available for times of want. And so we may as well face the facts as we find them.

In my judgment, to further delay the start of building of an adequate plan for unemployment reserves, is to court the danger of consequences even more dire than we are experiencing in our present difficulties.

Peaks and valleys will continue with increasing intensity. The immediate past and the present gives us our warning of what is to come. If we are to control this great productive machine we have created, then we must apply our intelligence and experience to the task. Expedients and half measures will not suffice--they are justified only when immediate grave danger threatens. Proper planning, however, can prevent future depressions from attaining such devastating proportions. For example, the present depression might not have attained its ultimate

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severity if at the outset there had been an adequate cushion provided for those who first entered the ranks of the unemployed and were immediately without the power to buy the goods made by other men.

Our concern should be for the worker who, thru no fault of his own, finds himself unable to earn a livlihood. Any program for the payment of unemployment insurance benefits should in no way halt us in our efforts to solve unemployment thru other orderly methods. Managerial methods must be improved and there must be more care taken in the advance planning of public works projects to the end that they may serve as employment reservoirs. Seasonal and cyclical unemployment may be mitigated thru further earnest study. In times such as the present we cannot be too sure of the accuracy of our traditional theory that social welfare must be a by-product of enlightened self interest.

On the contrary, it is high time that employers as a whole plunge with renewed vigor into problems of better and broader planning with an eye to their social responsibilities as well as their other duties. If we do not voluntarily accept the responsibility for creating thru our own efforts a better ordering of social affairs, then that responsibility may be forced upon us by the government and we will have only ourselves to blame.

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Unemployment

See Lennfeld argument attached

" M.B. Folsom, Eastman Kodak – dec.

" Wilson – Dr's letter of 3/30

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