

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 26, 1937To Mr. Goldenweiser, Mr. CurrieSubject: The effect upon unemployment of
limiting the employment of unskilled
workers to 36 hours per weekFrom Mr. Conklin

Preliminary draft

There is no disagreement on the desirability of reducing unemployment. The question is whether this end could or should be achieved by reducing hours and if so how much hours should be reduced and to whom the reduction should apply.

The proposal to reduce the work week for unskilled workers to 36 hours should be considered in relation to the outlook for unemployment in the absence of such a plan. Business activity has been increasing at a very rapid rate and the number unemployed has been correspondingly reduced. It is estimated that there are now about 5,000,000 or 6,000,000 employable persons unemployed as compared with a depression peak which was more than twice as large. The construction industry and certain other durable goods industries, although increasing in activity, are still operating at a low level. With further increases in these fields and in business generally, unemployment will continue to be reduced. For this reason the alternative to reducing unemployment by shortening hours is not continued unemployment and continued government relief to those able to work.

If it is desired to supplement the reduction in unemployment likely to result from continued business recovery, it is necessary to compare the proposed plans with others and to consider some of the broad social questions involved. Legislation aimed at improving working conditions should apply to all classes of employees subjected to the conditions it is desired to

improve. From this point of view it would not seem reasonable to limit the work week of unskilled employees without similarly limiting the work week of skilled and semi-skilled wage earners and of salaried persons. Social legislation aimed at eliminating burdensome hours, say in excess of 48 hours, providing more leisure to working classes, or effecting some redistribution of income should attempt to reach its objective with a minimum of readjustment within the business structure. The proposed plan would necessitate considerably more readjustment and would be much more difficult to administer than would plans covering a wider range of occupational classes and changing the hours of each by a small amount.

Effect of shorter work week upon unemployment

In considering the proposal to eliminate or reduce unemployment by curtailing the hours of unskilled labor, it is essential to determine how many employable persons are unemployed, how many unskilled jobs there are, and what is the average number of hours worked per week by the persons now filling those jobs. Presumably agricultural employees and domestic servants would not be affected by a plan to reduce hours and, therefore, the unskilled in these occupations are not included here. It is estimated that out of a total of 8,000,000 or 9,000,000 unemployed persons there are about 5,000,000 or 6,000,000 available for jobs not requiring skill, that there are about 6,000,000 jobs now filled by persons doing unskilled work, and these persons work on the average about 43 hours a week. These estimates are necessarily rough approximations, but the general conclusions would probably not be essentially altered if complete data were available. The bases by which the estimates were arrived at are given in the last two pages in this memorandum.

With a maximum of 36 hours per week the average hours worked by unskilled employees would probably be slightly less, perhaps 35 hours per week. Taking the estimate of 6,000,000 jobs for unskilled workers and assuming complete mobility of unskilled labor and no change in activity either in individual establishments or in the country as a whole, reduction in the average hours worked per week from 43 to 35 would create about 1,400,000 jobs, or enough for nearly a fourth of the employable persons now unemployed. It appears probable, however, that if the plan were put into effect the number of jobs actually created would be considerably less than this number.

Factors tending to reduce the effectiveness of the proposed plan

To begin with labor is not entirely mobile, and to the extent that the unemployed cannot be shifted around, there would be shortages of labor rather than reductions in unemployment if the jobs created did not occur in localities, occupations, and sexes in which there existed a sufficient number of unemployed to take up the slack.

With weekly wages maintained at the level prevailing before the plan took effect, wage rates and the total amount paid to unskilled workers would be raised, thus increasing the use of labor-saving machinery. Presumably the relatively greater attractiveness of unskilled jobs would tend to draw workers from borderline semiskilled jobs and might result in some shortages. The relationship of labor costs in individual firms would be altered considerably, depending upon the proportion of unskilled workers and the average number of hours worked per week, and this in turn would be reflected in readjustments in prices and in capital values. To the extent that changed competitive conditions resulted in reduced activity at establishments having a relatively large number of unskilled workers or having a long work week, there would not be a proportionate increase in the number of new jobs created and the lower rate of activity might even cause unemployment in other occupational groups in excess of the new employment for unskilled workers.

There is no way of telling just what the combined effect of these various forces would be, but it seems likely that they would be important and that the total reduction in unemployment would be less than a million persons. The fact that the proposed plan might bring about some reduction

in unemployment is a point in its favor, but it is probable that it would accomplish this less satisfactorily than would alternative plans, such as a smaller reduction in hours affecting a broader occupational classification.

Special problems

One of the greatest administrative difficulties of the proposed plan would be to determine just what unskilled labor is. This would have to be decided industry by industry, for men and for women, and for each locality. There are marked differences of opinion concerning this question and an endless amount of trouble would doubtless be involved in putting into effect and in administering what would necessarily be arbitrary distinctions between the skilled and unskilled.

Estimates of number of employables unemployed, number of jobs available for unskilled workers, and the average number of hours worked per week

Current estimates of "unemployment" are in fairly close agreement at around 8,000,000 or 9,000,000 persons. Part of the unemployment, perhaps 1,500,000 to 2,000,000, is due to usual labor turnover, including that caused by seasonal shifts in activity. In addition, many persons classed as unemployed are unfit for employment even as unskilled workers; consequently the actual number of jobs which would need to be created would be somewhat smaller than total unemployment, perhaps in the neighborhood of 5,000,000 to 6,000,000.

The occupational statistics of the 1930 Census classified by type of work and industry ^{1/} show 5,400,000 classed as gainful workers in non-agricultural pursuits classed as unskilled wage earners. It seems likely that part of the salaried workers, such as sales persons in some types of retail establishments and part of those listed as service workers should also be included as unskilled. Allowance has been made for such workers by adding to the unskilled wage earners half (900,000) of the sales persons in trade and half (800,000) of the service workers other than domestic servants. Presumably agricultural employees and domestic servants would not be affected by a plan to reduce hours of work and, therefore, the unskilled in these occupations are not taken into account here.

This adjustment brings the total number of unskilled gainful workers, including unemployed as well as employed, up to 7,100,000 for 1930. The number of unskilled workers employed at that time was probably in the

^{1/} "The Labor Supply in the United States" by the Social Science Research Council.

neighborhood of 1,000,000 persons, leaving about 6,000,000 actually employed. This proportion of unemployment was higher than that among gainful workers generally, reflecting the fact that most of the unemployment in 1930 was in the wage earners groups in which unskilled workers are largely concentrated. The level of employment currently is slightly lower than in April 1930. It is estimated that the derived figure of 7,100,000 unskilled gainful workers in 1930 should be lowered by about 1,000,000 or to a total of 6,000,000 as the number of unskilled workers actually employed at the present time.

With regard to the length of the working week, data published by the Bureau of Labor Statistics show an average for November 1936 of slightly less than 42 hours for all wage earners at reporting factories, mines, railroads, utilities, and in trade and service industries. In the private construction industry an average of 34 hours per week was reported. It is likely that employees at non-reporting establishments worked slightly more hours per week than at reporting establishments but an inspection of the figure by industries points to the conclusion that the difference would not be great. There is little basis for determining whether unskilled employees work longer or shorter hours than skilled workers and for this reason the average for all wage earners, which is estimated at about 43 hours per week, is applied to unskilled workers.