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EMPLOYERS' WELFARE WORK:

The Historical and Contemporary Significance of the BLS' 1913 Report

by

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When originally created in 1884, the Bureau of Labor Statistics (then the Bureau of Labor) took a major part of its mission to be improving the condition of American workers by exposing poor conditions and pointing to good practice and public policy.[1] The modern BLS, in contrast, has a more clinical and technical mission. It supplies accurate data which politicians and government officials can use in developing labor-market strategies and which business and labor can use in setting firm-level employment policies. But it is no longer an advocacy agency.

No precise date marks the transition from one role to another. However, the creation of a cabinet-level Department of Labor in 1913 within which BLS was to be housed certainly was a turning point. The year 1913 also saw the publication of a pioneering study by the BLS of "Employers' Welfare Work," a catch-all phrase used in that era to cover almost any company policy which went beyond wage payments to benefit workers.[2] BLS was to continue its program of studying welfare policies during World War I, but its later reports began to take on the more professional, systematic, and statistical tone now associated with the Bureau.[3] In contrast, the 1913 report was more in keeping with the Bureau's original social mission and style of research and presentation.

The 1913 report consisted of short descriptive case studies undertaken with little regard to sampling. These studies were intended to provide a guide to good employer practice. But despite its flaws, the 1913 report is a document of historical importance. It illustrates BLS methodology during a period of transition for the agency. And it provides a glimpse of personnel practices in larger enterprises at a critical point in American labor-market history.

In the coming World War I period, U.S. employers were soon to be faced with the challenges of a severe wartime-induced labor shortage and government-encouraged growth of unions. The policies they followed in response to these later challenges emphasized retention of employees and alternative mechanisms of employee representation. These responses to special circumstances conditioned subsequent norms of American personnel practices.[4] Thus, a picture of employment practices prior to later abnormal pressures in the labor market is presented in the report's case studies.

The 1913 BLS report also has relevance to current schools of thought in the so-called new economics of personnel.[5] It is fashionable today to view employer practices as efficient policies rather than as an accumulation of historical accidents and cultural traditions. Various rationales have been put forward recently for the provision of pensions and other benefits as optimal incentive contracts. By looking at those employment practices prevailing <u>before</u> World War I, however, it is possible to observe how employers set policy just prior to the unsettling subsequent era of labor shortages and union threat. The tax subsidy for benefits which is so prominent today also was absent in the period covered by the 1913 report. Just what did employers think was optimal personnel policy in a laisser-faire period predating modern norms, constraints, regulations, and subsidies?

<u>Welfare Work Circa 1913</u>

Since no summary data are provided in the report itself, Table 1 has been assembled from a textual analysis of the 50 case studies included.[6] Shown are the frequencies with which various policies were followed or benefits offered. Firms were ranked by the sum of the practices and benefits provided - an admittedly arbitrary methodology - in order to separate firms with high or low commitment to welfare work. Table 1 provides separate data for the top 9 (high-commitment) and bottom 9 (low-commitment) firms according to this ranking.

The 1913 report was not a neutral document; it was an exercise in advocacy. Its focus on larger firms obviously biased the sample toward employers more likely to have formal personnel practices. And firms selected for inclusion tended to be those noted for their welfare work. Thus, the

Table 1

Proportion of Firms in 1913 Study with Presence of Selected Welfare Practice

Practice	All Firms	High Commit-ment Firms	Low Commit-ment Firms
Formal welfare dept. or secretary	16%	44%	0%
Employee representation plan	2	11	0
Company housing	16	0	44
Training/apprenticeship program	18	33	22
General education facilities	10	11	0
Eating facility	68	78	44
On-site medical facility or attendant	42	78	22
Other recreational/cultural facility (a)	86	89	89
Special attention to lighting/ventilation	36	56	11
Other noteworthy health and safety policies	6	22	0
Sickness/disability pay	72	100	11
Pension plan	20	22	11
Stock or profit-sharing plan	8	11	0
Death benefits	56	89	0
Accident benefits (b)	10	33	0
Mutual benefit association	54	100	0
Paid vacation plan	18	22	11
Formal link to savings institution or plan	18	44	11

(a) Presence of a locker room is not counted.
(b) Plans providing compensation for loss of limbs and similar injuries excluding sickness/disability plans.

Note: The 50 firms described in the 1913 study were ranked by the proportion of the 18 welfare programs listed above which they provided. The top 9 firms on this ranking are reported as "high-commitment firms"; the bottom 9 are reported as "low-commitment firms."

Source: See text.

report conveys the impression of a more widespread practice of welfare policies than surely existed. Its author, Dr. Elizabeth Lewis Otey, clearly viewed welfare work as a Good Thing and introduced the study with a condemnation of those in "labor circles" who saw welfare work as paternalism financed by lower wages. (pp. 5-7) Citing French and American studies, she admitted that workers were less militant when they were in the employ of a company with welfare policies. But this beneficial effect was merely the result of the "quid pro quo relation of employer and employee." Well-treated workers simply had nothing to strike about.

Report Criticisms

Although the case studies involved personal site visits, workers were not in fact interviewed. Rather, "the employers opinions and estimates have been accepted," Dr. Otey reported. She officially abjured criticism of the policies of the firms studied in her introduction. Yet this stance was not consistently maintained in the material that followed. Dr. Otey noted the absence of particular desirable employer policies at various points, with the clear implication left to the reader that improvements were needed.

As an example, at the Hotel Astor in New York City, she reported that 30 employees slept in a single room in the dormitories and that those scrub women who had to sleep by day had no shades on their windows to keep out sunlight. (pp. 74-75) The observation that these women were not allowed to receive visitors in their dormitories because the employer could not "take on the added responsibility" of guests may have been intended as an irony. As a hotel, the employer was - after all - in the guest business. Similarly, a pointed reference to the lack of "adequate provision for the employees' clothes" and to "washrooms without soap and towels" at a textile firm must be read as a criticism of the employer's stinginess. (p. 28)

At times, however, the quaint writing style of the period makes it unclear whether praise or criticism of company practice is intended. Consider the reference to a 30-minute lunchtime break allowed employees at H.J. Heinz during which employees were allowed to roam through a roof garden and "take in Pittsburgh oxygen." (p. 34) Given air quality standards prevailing in Pittsburgh at the time, the intent of the reference is ambiguous.

Obstacles to Welfare Work

The modern reader will find a heavy paternalist undertone in many of the case studies, despite Dr. Otey's reluctance to accept that term as applicable to welfare work. At Cleveland Twist Drill, sickness benefits were not payable in cases of accidents resulting from bicycle racing, sports, or intoxication. (p. 7) Carelessness and carousing were not to be rewarded. And there is much reference in the report to employer attempts to uplift their employees' cultural and social lives and to instill worthy habits such as thrift. In contrast, other than in the introduction, unions are mentioned only once and then in a negative context. The limited success of a particular company housing plan is ascribed to ideological opposition by organized labor to welfare work. (p. 10)

Tradition-bound and ignorant immigrants were also depicted as a potential problem in implementing a successful welfare program. At Pocasset Worsted, the company's establishment of an employee social club was not fully appreciated by its young female workers whose Italian parents had "no idea of club life." (p. 27) This result disappointed the employer and led to its reluctance to expend more funds on worthy welfare projects. But other employers persevered in their efforts to improve worker lives. A paint manufacturer in Ohio, for example, established a "High Standard Club" for its women employees to promote interests in music and literature as well as "sociability." (p. 32) The moral is clearly that model employers should persist in their welfare efforts, even if employees are not initially receptive.

Benefits of Welfare Work

Despite occasional criticisms of employer deficiencies, the tone of the 1913 report is generally upbeat as it reports on welfare programs. A picture emerges in many of the descriptions of almost idyllic workplace circumstances. Employers provide libraries, reading rooms, gymnasiums, lounges with pianos, and gardening clubs. At the Chicago department store Marshall Field, the employee choral society performs "The Creation" and "Hiawatha's Wedding Feast," among other musical numbers. Some firms employ welfare secretaries, especially for female employees, to whom workers can take personal problems and who can be useful in making "a thousand little delicate adjustments." (p. 51) At R.H. Macy, turkeys are handed out at Thanksgiving, although only to married employees. (p. 54) And other firms provide team sports, company newspapers and picnics, lectures on hygiene, and discounts at the local YMCA.

However, even apart from the already-cited instance of union intransigence, the modern reader will detect other glimmers of friction within the idyllic aura. A clothing manufacturer employed a "matron" to be a "friend and advisor" to its female employees. But apart from friendship and advice, the matron "looks after the 'spirit' of the institution and has the power to discharge any woman employee who runs counter to this spirit." (p. 30) Reference is made to a manufacturer who discontinued a pension plan and was then subject to litigation from frustrated beneficiaries. (p. 39) As a result, Dr. Otey reports, the company decided not to extend its executive profit-sharing plan to rank-and-file employees.

In an era when employees did not pay income taxes, the distinction between employer-paid and employee-paid benefits was less important than it is today. Often in the modern world, employer-paid benefits delay or avoid taxation. Employers circa 1913 were more likely to see benefits as something for employees to provide for themselves, perhaps with some organizational assistance from the firm. Purely company-paid benefits were often seen as undermining the virtue of self-reliance which welfare work was intended to instill.

A common practice was to encourage formation of an employee mutual aid society. Employee dues to the society would then finance sick and disability leave and death benefits (burial insurance). In some cases, even paid vacations were to be financed from society dues. The mutual aid society might be run by an employee committee or by the firm. Sometimes employees essentially paid dues to what amounted to a company personnel department to support its services to them. But in others employee control was more important.

Outside of mutual aid societies, however, employers were not seeking employee participation in management. As noted, independent unions are barely mentioned in the report. And only one instance of an employer-sponsored employee representation plan - the famous one at Filene's department store in Boston - was reported. The Filene Cooperative Association was established "to give the members a voice in their government, to create and sustain a just and equitable relation between employer and employee, to increase efficiency, and to add to social opportunities." (pp. 56-57) Although later during World War I, and again under the union threat of the 1930s, employers were to create many such representation plans,[7] they felt little need for them in the more tranquil period covered by the 1913 report. And certainly the contemporary interest in quality circles and employee-involvement programs which developed in the 1980s was far in the future.

In the modern workplace, pension and insurance benefits are routinely provided, especially at larger firms. Most full-time workers covered in recent BLS reports on medium-to-large firms have pensions, health insurance, and life insurance.[8] But these plans now receive substantial tax subsidies which - as noted earlier - did not exist at the time of the 1913 report. As Table 1 shows, pensions were not common at the time, even among firms otherwise committed to welfare work. Even where pensions were in place, the probability that any given worker would receive one was small due to shorter life expectancies and restrictive company policies. For example, payments could be cut at the discretion of management or denied to workers who sued the company for workplace injuries. (pp. 69-70) Pensions were not in any case viewed as contractual obligations, a position some employers made clear to workers. (p. 72)

Health insurance as it is understood today, i.e., the payment of medical bills, is not mentioned in the report. Firms often reportedly had on-site "hospitals", clinics, or company doctors or nurses to treat workplace injuries. In some cases, these were available for treatment of non-job related illnesses. Precise circumstances under which such facilities were available for such purposes and the lengths to which firms would go to underwrite patient costs are unclear. The Shredded Wheat Company had no such facility but "when the women employees are ill they (were) either sent home or to a hospital in a carriage at the company's expense." (p. 35) Some mutual aid societies, or the employers themselves, might make discretionary "relief" payments to defray medical expenses. However, all citations of sickness insurance in the report appear to refer only to paid (or partially paid) sick and disability leave. This version of sickness insurance was common and was often paid for by employees through the company mutual aid society.

The Efficiency Question

Using the simple scoring scheme of Table 1, the contrasts between those firms with the most and least commitment towards welfare work can be seen. The low-commitment firms did not have formal welfare departments or officials. They were less likely to have noteworthy investments in the health and safety areas. Sick pay and death benefits were rarely provided, in part because the low-commitment firms did not encourage the creation of mutual benefit societies to fund such benefits. The only benefit which the high-commitment firms were <u>un</u>likely to provide relative to low-commitment firms was company housing.

Since a wide range of practices prevailed in this early period, it apparently was not obvious to all employers then that installing welfare programs was profit maximizing. Deferred compensation in the form of pensions was rare, even at the firms most committed to welfare work. And the employee-paid death benefits reported on Table 1 - while common - were often limited burial insurance amounts in the range of $50-$150, perhaps 1-3 months' pay. Given the modern emphasis on deferred compensation programs as components of efficient labor contracts, this historical observation at least should raise questions concerning employer motivation and optimality. Absent tax incentives, pensions were uncommon and true medical insurance was nonexistent.

Employers had varying interpretations of their own behavior. Some, such as the Sherwin-Williams paint company, were anxious to depict their welfare expenditures as sound investments which were repaid in worker retention and "more intelligent and conscientious work." (p. 31) But no reference is made in the report to any systematic attempt by employers who cited such general gains actually to weigh costs against the alleged benefits. As will be noted below, Dr. Otey was skeptical that firms would provide enough welfare benefits if left to their own devices.

Nonetheless, some firms did provide concrete examples of productivity improvements associated with welfare work. The Chicago Telephone Company reported that before its provision of free noontime meals to employees, its switchboard operators brought in unwholesome lunches from home. Their resulting indigestion would diminish the quality of afternoon telephone service and result in wrong numbers. (pp. 61-62) It should be noted that despite its productivity-orientation toward welfare work, the Chicago Telephone Company was among the high-commitment firms on the scale used on Table 1.

Overall, therefore, the case for looking at modern counterparts of welfare work as efficient contracts receives limited - but only limited - support from the 1913 BLS report. It appears that absent artificial incentives, employers would install <u>some degree</u> of welfare programs - although nothing as extensive as modern benefit packages. Deferred compensation, which features so prominently in the contemporary efficient contract literature, was not a major feature of voluntarily provided benefits circa 1913. It took tax incentives and union pressure to spread modern pensions and other employer-based insurance.

As a social reformer of her era, Dr. Otey concluded the 1913 study with the observation that reliance on employers was producing insufficient results when measured against the unmet needs of the overall American workforce. She ended with a call for legally-required welfare practices, since these practices "are things which concern the welfare of society as a whole, and should be under the direct supervision of the State." (p. 76) As the current debate over mandated health insurance and family leaves illustrates, the conflict between mandates and voluntary provision of benefits remains a public policy issue.

Footnotes

1. A history of the BLS can be found in Joseph P. Goldberg and William T. Moye, The First Hundred Years of the Bureau of Labor Statistics, bulletin no. 2235 (Washington: GPO, 1985).

2. Elizabeth Lewis Otey, Employers' Welfare Work, U.S. Bureau of Labor Statistics bulletin no. 123 (Washington: GPO, 1913). In the text that follows, parenthetical page references refer to this bulletin.

3. U.S. Bureau of Labor Statistics, Welfare Work for Employees in Industrial Establishments in the United States, bulletin no. 250 (Washington: GPO, 1919).

4. A history of the development of modern personnel practices can be found in Sanford M. Jacoby, Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900-1945 (New York: Columbia University Press, 1985).

5. The literature in this area is vast. For a review of pension issues, see Zvi Bodie, "Pensions as Retirement Income Insurance," Journal of Economic Literature, vol. 28 (March 1990), pp. 28-49. A model suggesting that extra compensation of employees could be part of a reciprocal exchange of benefits for productivity can be found in George A. Akerlof, "Labor Contracts as Partial Gift Exchange," Quarterly Journal of Economics, vol. 97 (November 1982), pp. 543-569. Empirical attempts to link personnel policies to economic performance of the employer can be found in Morris M. Kleiner, Richard N. Block, Myron Roomkin, and Sidney W. Salsburg, eds., Human Resources and the Performance of the Firm (Madison, Wisc.: Industrial Relations Research Association, 1987). A special supplement (designated "Part 2") of the October 1987 Journal of Labor Economics is devoted to a symposium on the new economics of personnel.

6. The report also cites the policies of the Cleveland Chamber of Commerce, essentially recommendations of the Chamber to area employers. Since the Chamber of Commerce was not acting as an employer, its policies are not included on Table 1.

7. U.S. Bureau of Labor Statistics, Characteristics of Company Unions, 1935, bulletin no. 634 (Washington: GPO, 1938).

8. The BLS' 1989 survey of practices at medium and large firms indicated that 81% of full-time workers were covered by some type of retirement plan, 92% were covered by a medical care plan, and 94% by life insurance. Source: U.S. Bureau of Labor Statistics, Employee Benefits in Medium and Large Firms, 1989, bulletin no. 2363 (Washington: GPO, 1990), p. 4.