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EMPLOYER RECRUITMENT AND THE
INTEGRATION OF INDUSTRIAL
LABOR MARKETS, 1870-1914

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ABSTRACT

The substantial shifts in the sectoral and geographic location of economic activity that took place in the late nineteenth-century United States required the reallocation of large quantities of labor. This paper examines the response of labor market institutions to the challenges of unbalanced growth. Based on previously unexploited descriptive evidence from the reports of the Immigration Commission it argues that employer recruitment was crucial to the adjustment of labor markets to shifting patterns of supply and demand. Because individual employers could capture only a fraction of the benefits of recruitment, however, investment in this activity may have been less than would have been socially optimal, suggesting a possible explanation for the persistence of large geographic wage differentials.

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I. Introduction

The extension of markets, and the consequent expansion of opportunities for trade, has been recognized by economists as an important source of economic growth ever since Adam Smith. Between the Civil War and the First World War, rapid additions to the rail and telegraph networks, and substantial improvements in transportation and communication technology made possible the emergence of a truly national economy in the United States.¹ Improvements in transportation and communication facilities were a prerequisite for increased geographic integration of the economy, but the formation of a national market also required the creation of institutions and organizations to enable potential buyers and sellers to communicate and transact with one another.

In manufacturing, producers in a wide variety of industries responded to the opportunities created by transportation and communication improvements by introducing capital intensive technologies that allowed them to produce in sufficient volume to supply the national market. The resultant increase in production overwhelmed existing channels of marketing and distribution, however, obliging manufacturers to integrate forward and backward to maintain the volume of production dictated by their high fixed costs. As they struggled with the organizational changes that vertical integration required, these manufacturers gave birth to the modern corporate form of business organization.² In financial markets, economic historians have documented the emergence of a variety of new institutions that served to improve the interregional distribution of capital and helped to reduce the substantial interregional interest rate differentials that had existed after the Civil

¹ Taylor and Neu (1956, pp. 23-24, 50-51). Between 1870 and 1900 track mileage in operation increased by a factor of more than five, while the establishment of a standard gauge, better physical interconnection, and consolidation of national rail systems all contributed to the smoother flow of goods and people. On the impact of telegraphic communication see Field (1992).

² Chandler (1977).

War.³

The growth of large factories, the increasing concentration of manufacturing in urban areas, the expansion of rail and telegraph networks, heavy investment in urban infrastructure, and the shifting fortunes of different regions and sectors of the economy that were the consequences of industrialization, necessitated the mobilization of large quantities of labor. Although the expanding volume of European immigration and the significant internal redistribution of population that characterized the postbellum period have been widely noticed, they have generally not been examined from the perspective of the emergence of a national labor market. In particular, there has been little systematic examination of the labor market institutions that helped to mobilize the extensive population movements necessary for late nineteenth-century industrialization, or the ways in which these institutions responded to the improvements in transportation and communication that were occurring at this time.

This paper presents a partial account of the operation of labor market institutions in the late nineteenth century, focusing primarily on the markets for unskilled and semi-skilled men in industrial employments.⁴ Many of the elements of this account are familiar, but the synthesis that I offer is new. In addition, I present new evidence of the importance of employer recruitment in the adjustment of labor markets to shifting geographic patterns of labor supply and demand. Although employer recruitment influenced only a small fraction of long-distance migrants in this period, migrants attracted by employer recruitment provided the foundation on which the kin and friendship based networks of communication that informed and directed the vast majority of migrants could be established. Because the increased labor supply that employer recruitment produced benefited all employers at a particular location, however, the private and social returns to recruitment diverged. The inability of employers to internalize the benefits from recruitment, and the consequent

³ Davis (1965); James (1978); Sylla (1969); Snowden (1987).

underinvestment in this activity offers at least a partial explanation for the persistence of large geographic wage differentials during the late nineteenth century.⁵

At the outset it is important to acknowledge that it will never be possible to adequately describe all the myriad transactions that occurred within the labor market. Late nineteenth-century labor market institutions were only rarely manifested in formal organizations of the sort that emerged at this time in manufacturing and financial markets. Instead, they were the product of the decentralized but interdependent decisions of job-seekers, employers, and small, mainly transitory intermediaries. Many factors must have influenced the allocation of labor, and it seems likely that many participants were responding to false, or inaccurate information. Nonetheless, the market did succeed in directing labor from areas of relative abundance to those of relative scarcity. Because the majority of labor market participants left little trace on the historical record it is not possible to provide an exhaustive description of all labor market transactions. It is possible, however, to characterize the institutions that operated to impart some systematic direction to the allocation of labor. To identify these institutions it is necessary to examine the interaction of workers job-search strategies with the methods used by employers to recruit labor, and the functions performed by third-party intermediaries. Of these topics, the most is already known about the behavior of job-seekers. I begin by briefly reviewing the large literature on this topic in the next section. I then turn, in the next two sections, to the activities of employers and employment agencies.

II. Job-Seekers and the Search for Work

Although the job-search strategies used by workers have not been studied within a broader labor market context, the large volume of immigration during the late nineteenth

⁴ It seems possible that many of the conclusions reached here would apply as well to markets for more skilled labor, and possibly those for women, but the evidence I have been able to uncover to date is not sufficient to warrant a comprehensive discussion of the markets for these types of labor.

⁵ The magnitude of geographic wage differentials is discussed in Rosenbloom (1990a).

century attracted considerable attention from contemporary observers, and continues to interest scholars today. As a result a great deal is known about the forces that directed long-distance movements of labor. The broad consensus of most students of this subject is that word-of-mouth information communicated through networks of friends and relatives already resident in the United States was the most important factor influencing the destinations of immigrants. Summarizing much of this research, Charles Tilly observes that "the effective units of migration were (and are) neither individuals nor households but sets of people linked by acquaintance, kinship, and work experience...." Friends and relatives not only supplied information about when and where to go, but often helped to finance the costs of passage, and provided a place to stay once the immigrant had reached his destination. One quantitative measure of this assistance is the high proportion of immigrants traveling on prepaid tickets. In 1880, a representative of one steamship line estimated that 30 to 40 percent of German immigrants traveled on such tickets. By the early twentieth century as many as 60 percent of immigrant arrivals reported that their travel had been arranged by friends or relatives in the U.S.⁶

The impact of word-of-mouth communication channels on long-distance movements of labor is also evident in aggregate statistics of immigrant destinations. When across-state variations in the intended destinations of immigrants are regressed on state per capita income, other state characteristics, and the stock of previous immigrants of the same nationality, the last variable is consistently positive and often highly statistically significant. Interestingly, inclusion of the immigrant stock variable reduces the magnitude and statistical significance of state per capita income.⁷

In contrast to the extensive information regarding the forces directing long-distance

⁶ Tilly (1990, p. 84). Recent surveys of the immigration history literature are found in Bodnar (1985) and Morowska (1990). Additional evidence is cited in Rosenbloom (Forthcoming).

⁷ For example, Dunlevy (1980) Murayama (1991).

migration, much less is known about the movements of workers within local labor markets. But the limited evidence available suggests that information provided by friends and relatives was also important within urban labor markets. Urban workers, however, could also search for work through direct application at the factory. Prior to the widespread diffusion of the automobile, factories and working class neighborhoods clustered together making this a practical job-search method for urban workers.⁸

Since the 1920s systematic evidence on job-search methods has been collected primarily through surveys of workers. Because most of these studies focused on contemporary job-search methods they offer little direct insight into methods used prior to the First World War. However, one survey of 2,500 workers in Philadelphia conducted by Gladys Palmer in 1936, and recently reexamined by Walter Licht asked for retrospective information on the entire employment history of each respondent. In a number of instances these stretched back in to the 1880s.⁹ In comparison to more recent studies, Palmer's survey shows that information provided by friends and relatives was somewhat less important and direct application somewhat more important around the turn of the century. Still, over 50 percent of those interviewed had secured their first job through information provided by friends and relatives. The importance of family and friends declined a bit, to 40 to 44 percent, for subsequent jobs, but continued to be significant. The primary alternative to word-of-mouth was to walk from factory to factory, making direct

⁸ As this description offered by a Philadelphia worker laid-off in 1910 indicates, it was possible to visit many potential employers in a single day, though it did not guarantee that a job would be found: "I got up at 5:30 and went to Baldwin's and was told no help required. From there, I went to Hale & Kilburn at 18th and Lehigh Avenue and met with the same answer. I then walked to 2nd and Erie Avenue to Potter's Oil cloth Works, and they needed no help. Then to the Hess Bright company, at Front and Erie Avenue, and again met with the same result. Next I came back home...for a meal. In the afternoon, I went to Edward Bromley's; no help needed there; from there to a firm at American and Girard streets, with the same result. I tried two other places in the neighborhood, whose names I have forgotten, and none had any work." Quoted in Licht (1992, p. 52).

⁹ Palmer's study is unpublished. The following paragraph relies heavily on Licht (1992, pp. 31-40), which reports his analysis of the unpublished interview schedules. References and discussion of post-1920 studies can be found in Rosenbloom (forthcoming).

applications. Among those interviewed by Palmer, 40 percent reported obtaining their first job through direct application, and 46 to 50 percent reported using this method to obtain subsequent jobs. In contrast, only 9 to 10 percent of respondents reported obtaining jobs by answering want-advertisements or using employment agencies.¹⁰

III. Employer Recruitment

Historians of the emergence of modern bureaucratic personnel practices have depicted the period prior to the First World War as one of abundant labor, in which hiring and firing were delegated to foremen who exercised their authority in a casual if not arbitrary fashion. According to Jacoby:

The foreman's control over employment began literally at the factory gates.

On mornings when the firm was hiring--a fact advertised by signs hung outside the plant, by newspaper ads, or by word of mouth--a crowd gathered in front of the factory, and the foreman picked out those workers who appeared suitable or had managed to get near the front.¹¹

Once in place, kin and friendship networks provided an effective and inexpensive means of mobilizing labor. Prompted by word of favorable labor market conditions passed on by friends or relatives already at a particular location subsequent migrants provided a continuing flow of job-seekers, swelling the ranks of those searching for work at the factory gate, or finding employment through the referrals of their friends or relatives. But this channel of labor recruitment was just one part of a more complex set of labor market institutions. As the locations of supply and demand shifted, new connections had to be established, and the primary means for establishing these connections was employer

¹⁰ Licht (1992, pp. 31-40), reports that the proportions using the different job-search methods are the same for the oldest group of workers--those 45 to 77 years old in 1936, who would presumably have entered the labor market in the late nineteenth century--as for the entire sample.

¹¹ Jacoby (1985, p.16); also see Nelson (1975, pp. 79-81).

recruitment.

There is unfortunately little quantitative evidence regarding employers' role in the operation of late nineteenth-century labor markets, but the reports of the Immigration Commission contain extensive though somewhat impressionistic evidence on this subject.¹² Established in 1906 to investigate the impact of immigration on American industry and workers, with members appointed by the President and leaders of both houses of Congress, the Commission studied over 20 different industries and visited many of the leading manufacturing centers around the country. The results of this investigation were ultimately published in 41 volumes containing extensive information on local labor market conditions, patterns of migration, employment policies, and the factors that had influenced migration. Immigration was a politically charged subject at this time, and most of the Commission's members favored legislation restricting immigration. Although these views clearly colored the Commission's final report, most later analysts have concluded that the underlying data gathered by the Commission are largely free from bias. Nonetheless, one might be concerned about the willingness of employers to report on unpopular or illegal practices, such as the use of contract labor. While this possibility cannot be entirely dismissed, it appears that employers were not reticent about describing their efforts to attract and employ immigrant workers, and there is no suggestion in the reports that such activities were viewed by the investigators in a negative light.¹³

¹² I am aware of only one quantitative study of employer hiring practices in this era, a 1910 study of 45 large employers in Chicago. Consistent with Jacoby's description, hiring at the gate was nearly universal, being used regularly by 43 of the firms and occasionally by 1 other, but referrals by current employees--used regularly by 23 firms and sometimes by 16--and newspaper advertisements--used regularly by 16 firms and occasionally by 13--were also commonly used. In contrast, the use of employment agencies, either regularly or occasionally, was mentioned by just 9 firms. Chicago (1914, p. 17).

¹³ U.S. Immigration Commission (1911). The industries studied by the Commission were: bituminous and anthracite coal mining, iron mining, copper mining and smelting, oil refining, cotton goods, woolen and worsted goods, clothing, silk goods and dyeing, collars, cuffs and shirts, leather goods, boots and shoes, gloves, cigars and tobacco, sugar refining, slaughtering and meatpacking, furniture, iron and steel, glass, and agricultural

Several important conclusions emerge from a systematic reading of the reports of the Immigration Commission. First, employer recruitment was common when employment was seasonal or workers were needed in sparsely settled areas. Second, industrial employers located in or near urban areas also recruited labor occasionally, but such recruitment typically lasted only a short while, and was usually associated with periods of rapid expansion. Third, employers were quick to encourage the formation and operation of word-of-mouth channels of recruitment based on kin and friendship connections. They urged current employees to write to friends and relatives seeking work, and in some cases even advanced money for their passage. In addition, they placed responsibility for hiring and firing decisions in the hands of foremen who often had close links to the immigrant community and could use those connections as a means to recruit and retain workers.

Throughout the late nineteenth and early twentieth centuries, railroad construction and repair, construction of urban water supply and sewage systems, ice harvesting, timber cutting, harvesting of agricultural crops, and a variety of other seasonal activities, required the assembly of large numbers of unskilled workers, often in remote and unpopulated areas. Employers could not hope to hire the needed workers at the site, and resorted to other methods of attracting labor. Early in the nineteenth century they were most likely to dispatch agents to New York or Chicago to recruit newly arriving immigrants. By the end of the century, however, they were more likely to turn to one of the numerous employment agencies operating in those cities.¹⁴

implements. While all of these industries relied heavily on immigrant labor, they varied greatly in most other characteristics. See Rosenbloom (forthcoming) A number of economic historians have used quantitative information gathered by the Immigration Commission. See, for example McGouldrick and Tannen (1978); Higgs (1971) Blau (1980); and Chiswick (1992). The reliability of the data gathered by the Commission is discussed in Handlin (1957), and Hourwich (1912, pp. 48-60), as well as the above mentioned articles

¹⁴ Gates (1957 p. 70); U.S. Immigration Commission (1911, Part 22, pp. 331-43). The activities of employment agencies are discussed below, but see also Rosenbloom (1990b)

When mining operations were initiated at a new location, mine operators also faced the problem of assembling a workforce in a relatively unpopulated area, but unlike railroad construction and other seasonal activities, mining was conducted on a continuing basis, and the communities that developed around the mines provided the basis for the formation of kin and friendship based networks that could be used in place of employer recruitment. The reports of the Immigration Commission concerning mining communities offer numerous examples of employer recruitment and the role employer encouragement played in the transition to the use of referrals by current employees. In Pennsylvania, bituminous coal mine operators reported that during the rapid expansion of production which began around 1879, they had turned to employment agencies in New York and sent their own agents to major ports to attract workers. By the early twentieth century, however, when the investigators from the Immigration Commission arrived, this initial phase of labor market development was long over, and word-of-mouth information provided by "fellow-countrymen" appeared to be the principal factor directing new labor to the mines. As one operator described, when the demand for labor was strong, "the mine foremen have communicated the situation to the immigrants in their employ, with the expectation that they would send for their relatives and friends."

Much the same sequence of events was played out somewhat later in mining communities in the Oklahoma and Kansas. When production began to expand in these regions in the mid-1880s, operators at first sent agents to mining communities in Pennsylvania and chartered special railroad cars to carry the recruits. By the early 1890s, however, this was no longer necessary, because a sufficient number of applicants could be recruited through the referrals of current employees. All that was necessary was for "the companies...[to] let it be known that anyone wishing to bring relatives or friends could do so...." Occasionally operators would advance the cost of passage and other expenses for new recruits traveling with current employees returning from visits to their homeland, the

loans being collected out of the workers' paychecks.¹⁵

Investigators visiting iron mining communities in the upper peninsula of Michigan also reported that employer recruitment was an important factor in attracting an adequate labor supply. As was true of the coal mining communities early recruits had attracted subsequent migrants, but the continued expansion of mining in the area forced mine operators to continue recruiting labor, primarily through employment agencies in Chicago.¹⁶

Steel making was clearly not as location-specific as mining, but the establishment of large, capital-intensive facilities requiring low-cost access to bulky raw materials meant that steel makers also had to confront the problem of meeting rapidly expanding labor requirements at locations some distance from established population centers. Like mine operators, steel makers used the services of employment agencies, or sent their own agents to New York and other immigrant centers to attract workers. Once these workers became established, however, the Immigration Commission reports indicate that they attracted a continuing stream of new job-seekers. Writing about one of the communities they visited, the Commission noted that "the constant influx of friends and relatives of immigrants already in the community creates a labor supply sufficient to meet the demand of the various companies...."¹⁷

The reports of the Immigration Commission provide fewer and less explicit examples of employer recruitment in urban areas. In part, no doubt, this is because the mingling of many different streams of chain migration in larger industrial centers made the actions of individual employers more difficult to detect in urban areas than in company

¹⁵ U.S. Immigration Commission (1911, Part 1, vol. 1, pp. 257, 532, 534; Part 1, vol. 2, pp. 9-10, 25, 61). Fishback (1992, pp. 31-35), offers a very similar description of the evolution of labor recruitment in the coal mining regions of Kentucky, West Virginia, and Virginia.

¹⁶ U.S. Immigration Commission (1911, Part 18, pp. 392-405).

¹⁷ Ibid. (Part 2, vol. 1, pp. 249, 33, 602, 733-34, 744).

towns. On the other hand, employers in urban areas may have been more reluctant to engage in direct recruiting than those located in more isolated communities, because it was more difficult for them to capture the benefits of their initial investment. The opening of new sources of labor supply, was in effect a public good: employers in a company town could capture most of the benefits of subsequent chain migration, but once a group of job-seekers had arrived at a location with many employers, they and the subsequent migrants they helped to attract expanded the labor supply for all employers in the vicinity. As a result of this externality, private and social benefits diverged creating the possibility of underinvestment in recruitment.

When employers in urban areas could not meet their labor needs through the referrals of current employees and applicants at the gate, they were most likely to seek additional labor by sending their agents or foremen into the surrounding community. The reports of the Immigration Commission do, however, cite a number of instances where rapid growth outstripped the supply of labor that could be recruited locally or attracted through word-of-mouth channels. In one Indiana community, for example, the expansion of a large plow works had obliged the company to "import a large number of Poles directly from Europe and other sections of the United States." In New England cotton textile mills, investigators reported that most workers had found jobs through direct application, having followed friends or relatives already employed in the mills, but that at an earlier date it had been necessary for the mills to advertise extensively and to dispatch agents to Canada to attract additional recruits.¹⁸ In most of these cases the employer involved appears to have been large relative to the other nearby employers, suggesting that they were able to at least partially internalize the benefits of their actions. While the public goods aspect of labor recruitment thus did not entirely dissuade urban employers from active recruitment, it is

¹⁸ Ibid. (Part 13, pp. 546, 551, 571-72; Part 20, p. 758). A variety of similar instances are reported in such industries as glass-making, garment-making, and woolen and worsted production (Part 6, pp. 410-11; Part 12, p. 149; Part 3, pp. 117, 283, 551-572).

probable that the conditions of labor scarcity had to be more severe before they would undertake such an investment.

The descriptions contained in the reports of the Immigration Commission suggest the existence of what might be termed a "life-cycle" evolution of labor recruitment practices. Initially, when there were few workers at a site, it was necessary for employers to seek out workers at a distance using employment agencies or their own agents. As the stock of previous migrants expanded at places where year-round employment was available, however, they provided an alternative channel of labor market information. Employers were quick to encourage the transition to this channel, presumably because of the lower cost and/or higher quality of the workers recruited in this way. Thus, while recruitment by employers was a pivotal factor in mobilizing labor in response to shifting patterns of demand, the number of labor market transactions facilitated in this way was dwarfed by the much larger numbers of subsequent migrants who followed in the footsteps of the first recruits. Once established, word-of-mouth channels provided a low-cost means of continued recruitment, but when demand increased substantially, the supply of potential migrants in the sending region declined, or employers located in a new area, the process of employer recruitment had to be begun again.

IV. Labor Market Intermediaries

Not all job-seekers or potential migrants had friends or relatives in a position to assist them: and not all employers could tap an established labor force to provide a supply of job applicants. During the latter part of the nineteenth century large numbers of private employment agencies emerged to bridge the gap between these two groups. While some agencies specialized in matching workers with specialized skills--for example, textile mill managers, or clerical workers--with employers requiring these skills, most of the agencies and the bulk of the transactions they accounted for involved matching unskilled workers with employers seeking temporary or seasonal workers.

Migration from new regions of emigration was initiated by pioneering job-seekers who set out without the prospect of assistance from friends and family at their destination in response to the inducements provided by information in press reports and promotional materials distributed by employers and state governments seeking to encourage immigration. During the second half of the nineteenth century employment agencies, boarding houses, immigrant banks, and labor bosses sprang up in most major immigrant destinations to provide the services these pioneers required. By the turn of the century, when state and federal departments of labor first began to study these institutions there were over 750 licensed agencies in New York, 289 in Chicago, roughly 150 in Baltimore, and something over 100 in Boston. Outside these cities, numbers fell off rapidly: there were just 40 agencies in Minneapolis-St. Paul, 14 in Indianapolis and only 5 more in the rest of the state, 21 in Colorado, mostly in Denver, and 69 in California.¹⁹

The employment agencies serving unskilled workers were both a formal mechanism of labor allocation and an extension of the word-of-mouth kin and friendship based networks described above. Although they served as intermediaries between job-seekers and employers in the same way that banks and other organizations did in financial markets, they rarely had the same lasting impact on the markets they served. Most employment agencies were small, transitory operations founded by immigrants who served their fellow countrymen and operated within the immigrant community. Once the initial wave of

¹⁹ Rosenbloom (1990b, p. 14-16). In addition to agencies for supervisory and clerical workers, there were agencies serving markets for teachers, nurses, barbers, and, in New York and Chicago, a number of what were listed as theatrical booking agencies. In the markets for unskilled labor agencies specialized in supplying domestic and hotel and restaurant help or general laborers. Quantitative evidence concerning the volume of business done by different types of agencies is scarce for the pre-World War I period, but Cowgill (1928, p. 14) reports in Chicago 230,000 of the 597,000 positions filled by employment agencies during 1927-1928, 230,000 were filled by 150 railroad and general labor agencies. In comparison, during this same period, only 17,000 domestic servant and 6,000 restaurant worker positions were filled. Private employment agencies played little part in the operation of markets for skilled craftworkers. To some extent this function was filled, however, by placement mechanisms established by unions--in the case of building--or employers--as was more often the case in metal working, Rosenbloom (1988, p. 24); Klug (1989); Harris (1991).

immigration from a particular location had passed, and an increasing number of arrivals were following in the footsteps of friends and relatives, the number of agencies serving them diminished. In Chicago, for example, Charlotte Erickson has described how during the 1860s the expanding volume of Swedish and Norwegian immigration led to the growth of employment agencies in the city's Scandinavian community. By the 1880s, however, most of these agencies had disappeared, being replaced by agencies serving newer immigrant groups from other countries.²⁰

Job-seekers arriving at a new location without friends or relatives to assist them required in addition to information about employment opportunities, housing and food, and possible help adjusting to unfamiliar working conditions and a new language. Reflecting this range of requirements it was common for one person to operate a labor agency, boarding house, saloon, and/or bank. Even when these were separate establishments, they were typically located in close proximity to one another, and were frequently operated by the same person.

Whatever advantages private employment agencies may have possessed in gathering information had to be weighed against the fees that they charged and the risk of receiving unreliable information.²¹ For both job-seekers and employers, kin and friendship based networks offered a lower cost and more reliable means of communication. As a result, employment agencies were successful only in markets involving highly specialized skills, or where employers and job-seekers lacked ready access to word-of-mouth channels of recruitment. A 1908 study of the 56 Chicago employment agencies

²⁰ Erickson (1957, pp. 88-92); Rosenbloom (1990b, p. 15).

²¹ According to Sargent (1911, pp. 36-37), common complaints made by job-seekers against employment agencies included charging a fee and failing to make an effort to find work for the applicant, sending applicants where no work existed, sending applicants to distant places where there either was no work available or the available work differed from what had been promised, and collusion with employers who would lay workers off once they had paid their fees to the employment agencies thus obliging them to return to the agency. See also Rosenbloom (1990b, pp. 5, 15, 17).

furnishing work for immigrant men found, for example, that the positions they filled were mainly in seasonal industries located at a great distance from the city. These jobs included railroad and other construction projects, ice and lumber camp work, harvest labor, and gang labor in foundries and slaughterhouses. Jobs within the city included building demolition, odd jobs on railroads, and cleaning buildings. Similarly, investigators for the Missouri bureau of labor statistics found that all of the 9 employment agencies for men located in St. Louis or Kansas City provided employment mainly on railroad construction projects. Statistics reported for 1904-1905 by licensed employment agencies in New York, reveal that 55 percent of workers placed in jobs outside the city found employment in railroad construction, and another 20 percent were in other forms of seasonal gang labor.²²

The growing numbers of private employment agencies during the second half of the nineteenth century combined with increased concern among public officials about the social problems created by unemployment led eventually to a variety of public efforts to organize the labor market. In 1890 Ohio became the first state to establish a public employment agency, opening five branch offices in major cities. By the end of the decade, the states of New York, Illinois, Nebraska and Montana, and the cities of Los Angeles and Seattle had all established public employment agencies as well. Other states and cities followed their lead. The impact of these efforts can only be described as minimal, however. At best, they provided a supplement to existing private agencies, offering an alternative channel of communication in the market for unskilled, temporary labor. In other cases, though, they failed even to attract a significant fraction of this business away from private agencies.²³

²² Cowgill (1928, p. 14) provides additional statistics for Chicago at a somewhat later date that corroborate and amplify these judgments. Sargent (1911, p. 44) reports that employment agencies in Indianapolis provided jobs mainly for railroad work outside the city, and that those in Baltimore supplied mainly general labor for ditch digging and construction. Considerable additional evidence on the connection between the demand for temporary gang labor and the operation of private employment agencies is provided by the U.S. Immigration Commission (1911, Part 22, pp. 331-43).

²³ See Rosenbloom (1990b, pp. 21-28).

V. Conclusions

In contrast to late nineteenth-century product and financial markets, where institutional responses to the opportunities for market integration created by falling transportation and communication costs were embodied in formal organizations, the process of mobilizing labor relied mainly on informal means. Although a number of private employment agencies did emerge as intermediaries, their impact was confined to a narrow segment of the market, and even they retained many of the characteristics of the more informal word-of-mouth channels for which they were a substitute. Employer recruitment through their own agents, or through private employment agencies was important in establishing new streams of migration, but once a stock of migrants was present at a location, both employers and subsequent job-seekers encouraged the shift to reliance upon word-of-mouth information provided by friends and relatives. While the number of workers recruited directly by employers or through employment agencies was small relative to the total redistribution of labor that was accomplished, these initial recruits provided the foundation on which word-of-mouth channels of communication could then be built. Understanding these institutional features of late nineteenth-century labor markets helps to explain several important features of the outcomes they produced.

Once established, networks of friends and relatives provided a reliable and relatively inexpensive means of communicating labor market information. Moreover, the financial assistance offered by earlier migrants was important in overcoming imperfections in capital markets that otherwise made it difficult for workers to borrow against prospective future earnings. But like other products of decentralized decision making, late nineteenth-century labor market institutions reveal a tendency toward path-dependence, and the potential to lock-in to sub-optimal arrangements. Path-dependence operated on at least two distinct levels in the labor market. First, the low cost of word-of-mouth channels once a stream of migration had been established tended to reinforce connections between specific

sending and receiving regions, thus producing the heterogeneous patterns of immigrant settlement that many scholars have observed. Second, once employers had learned that new arrivals in major immigrant ports provided a source of mobile labor that could be recruited either by their own agents or through private employment agencies, they tended to ignore other potential source of labor supply, such as the South. Building on historical patterns of migration prior to the Civil War, northern employers reliance on immigrant labor encouraged both the concentration of immigrant arrivals in a few cities where arrivals knew they could find employers, and the development of large numbers of employment agencies that could serve as intermediaries between new arrivals and employers seeking unskilled labor. In turn, these developments lowered the costs of attracting European immigrants relative to those of mobilizing southern labor. Only when European immigration was cut-off during the First World War were concerted efforts undertaken to develop the machinery necessary to attract low-wage southern workers.

While the dominance of word-of-mouth channels of recruitment in the labor market thus helps to explain the pattern of population movements in this period, its consequences for the efficiency of market allocation are harder to judge. It is likely that for individual northern employers the additional costs of recruiting southern workers outweighed the potential savings due to lower wages. But because of the divergence of private and social returns to employer recruitment, it is possible that for northern industry as a whole such investment would have been beneficial.

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