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CHAPTER XVIII  
**UNEMPLOYMENT INSURANCE**  
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**I. THE NATURE AND TYPES OF UNEMPLOYMENT INSURANCE**

The assumption by the general community of the responsibility for unemployment is a phenomenon of comparatively recent origin. Gradually an increasing section of public opinion has come to recognize that unemployment is not a matter of personal responsibility and that as a problem it cannot be met by throwing the burden on those who happen to be unfortunate enough to be out of work. It is, of course, still a common practice to entrust the support of the unemployed to agencies of private and public charity. But in the main there is a strong and growing tendency to devise new and more substantial methods for dealing with the problem. Such methods as have been devised rest almost universally on the assumptions that the incidence of unemployment is beyond the control of the unemployed persons and that adequate measures of treatment will lead ultimately to the control and reduction of involuntary idleness.

Among the many measures proposed for the treatment of unemployment, insurance, in one form or another, has found the most general acceptance. The principles on which unemployment insurance is based are relatively simple, although in practice many real difficulties are always encountered and are not always overcome. The procedure in a system of unemployment insurance is at bottom no different from that pursued in any other form of insurance. Once the risk, against which people wish to insure, is discovered and defined, those who suffer from the risk associate themselves for the purposes of mutual protection. The form of the association and conditions for membership in it, may, vary widely according to circumstances. Since the purpose of the association is protection against losses in income due to unemployment, the first task of the enterprise is to collect an insurance fund from which unemployed members may draw during the whole or part of their periods of idleness.<sup>1</sup> Creation of the fund and the establishment of the right to draw from it require the determination of premiums, or rates of contribution,

<sup>1</sup> A doubtful statement.—Note by T. S. ADAMS.

and of rates of benefit. Where the risk has been studied for a long time and where a considerable body of accurate and continuous statistical material has been collected, the risk can be measured with precision and the rates of both contribution and benefit calculated with a high degree of accuracy. In this regard, as is well known, all systems of insurance are by no means alike. While, for instance, the premium on a life insurance policy can now be determined within a negligible margin of error, the premium on an unemployment insurance policy can at this time lay no such claim to precision. To what extent, therefore, unemployment has become an insurable risk, in the ordinary sense of the term, is a question which will be discussed in some detail later.

As commonly considered, however, unemployment insurance falls into the special class of insurance undertakings known as social insurance. The line of division between social insurance and the ordinary or private insurance is not a sharp one. The distinction is one that has arisen in a practice dictated by considerations of social policy. Unemployment, like industrial disease and industrial accidents, is one of the hazards of industry which attacks great masses of workers who do not set up, and probably cannot be expected on their own initiative to set up, adequate insurance against the risks involved. It is not necessary to consider here the question of whether the working out of economic laws would in the end require the cost of such insurance to be borne by the workers, the employers, or the state, or by the consumers of the goods produced. The essential fact is that, if insurance is to be provided against the recurring distress due to unemployment, the initiative in establishing such insurance must be taken either by the state or by the employers, or both, acting in cooperation with the workers. The question of how the insurance premiums are collected, or by whom and in what manner they are (directly or indirectly) finally paid, is not the determining one as to the character of the insurance. If considerations of public policy indicate that insurance should be provided, and if, furthermore, the surrounding conditions are such that voluntary action toward such provision will not naturally be taken by those immediately affected, and if the people as a whole must, in some manner take the initiative in establishing the required protection, then the insurance resulting may properly be described as social insurance.

In practice, there are many variations in the details of schemes of social insurance, notably in industrial accident insurance, or workmen's compensation. Here in many instances the insurance provides not only for the compulsory payment of benefit to those who have had their incomes interrupted by industrial accident, but imposes the payment of the entire premium upon the employer on the general theory that the cost of such insurance is a legitimate burden upon the industry. By the operation of this provision which makes large risks costly, it is

hoped to supply the incentives that will lead to the study and analysis of the particular hazard and, finally, to its reduction or total elimination.

These variations in the principles of social insurance have been accompanied by changes in the form and content of systems of social insurance. Almost from the beginning of the discussion of such schemes, controversies have raged over their details. In the main the important discussion has been concerned with three issues. One is the relative desirability of compulsory as contrasted with voluntary insurance; the second, the advantages of contributory against non-contributory insurance; and the third, the merits of subsidized insurance. Later experience has proved pretty conclusively that only two of these issues are real. Both, in fact, lead to the question whether it is possible to organize a system of social insurance in which all of the people who need the insurance are included and in which the premiums they pay can yield adequate benefits, unless such a system is made compulsory by statutory enactment and provides, at least for a long time, liberal subsidies from either employers or the state or from both. However this question may be answered, the fact is that the trend in social insurance and particularly in unemployment insurance, is unmistakeably in the direction of compulsory and subsidized insurance.

To the student of all types of social insurance, unemployment insurance offers a rich field of inquiry. Throughout Europe and the United States, the problem of unemployment is met by every conceivable combination of types of unemployment insurance. In Belgium, Denmark, France, Norway, and other countries of Europe, unemployment benefits are paid by trade unions and subsidies are received from the state. Occasionally the payment of benefit stops with members of trade unions or benefit societies and at other times provision is made for subsidies to those who do not belong to such associations. In Italy, Austria, Russia, and England, unemployment benefits are provided by compulsory state insurance schemes.

In the United States, a scattering of trade unionists receive benefits from their trade unions; in one industry the payment of insurance is compulsory on the employers, and workers do not contribute at all; and in a few cases insurance is voluntarily provided for the workingmen by the employers. American experience with unemployment insurance, while of short duration and limited in its extent, has already developed features which distinguish it sharply from the forms of insurance current in Europe. Without the spur of legislation a few employers, in diverse industries, have laid aside funds from which their employees draw benefits during periods of unemployment. The level of benefits provided by these funds runs as high as from 50 to 90 per cent of the normal wages of the workers. In each case, also, the payment of unemployment bene-

fits is coupled with serious, and in the main successful, attempts to regularize the business and thus to reduce unemployment. In the field of proposed legislation, likewise, the reduction of unemployment is the primary purpose of the suggested laws. Unlike the foreign precedents, American proposals in the states of Pennsylvania, Massachusetts, and Wisconsin are so framed as to grade insurance premiums with regard to the unemployment experience of particular firms. Features such as these, it is hoped, will encourage regularization and the reduction of unemployment, since with an improvement in his employment record an employer will be rewarded either by a refund or by a reduction in his insurance premium. The present status and the extent of American schemes are considered in some detail in the third part of this chapter.

All of these experiments in unemployment aid are naturally affected by the peculiar conditions of each country. They can be studied effectively, therefore, only on the spot, and not even then without an intimate acquaintance with the local background. A number of them, moreover, have been in existence for only short periods and have accumulated little experience. Without doubt the most illuminating experiment with unemployment insurance is that which has been conducted by England without interruption since 1911. Prior to the adoption of the Unemployment Insurance Act in that year, England had employed all the devices that were then known for helping the unemployed. Many of the English trade unions paid unemployed benefits. Local and national authorities contributed poor relief. Employment exchanges were experimented with and funds were liberally appropriated for public works. The net effect of all of these expedients fell far short of what was needed. Trade union benefits touched only a small proportion of the working population. Money subsidies that were designed to help working-men, pauperised them. Emergency public works mounted so rapidly in cost through the inefficiency and unsteadiness of labor as to make their continuance impossible and undesirable.<sup>1</sup>

On this background, the government of England began in 1909 the organization of an ambitious unemployment program which has proved the most interesting of any such plans. The first step in the program was the organization in 1910 of a national system of employment exchanges. This was followed in 1911 by the enactment of a compulsory unemployment insurance scheme which in 1912 covered more than 2,000,000 people and which in 1920 was extended to cover practically the whole industrial working population of England, or roughly 12,000,000 men and women. During the ten years of its operation, the original act has been frequently amended in many particulars. The scheme has, moreover, existed through a period which has been as rich in the variety of

<sup>1</sup> Report of the Royal Commission on the Poor Laws and Relief of Distress, Command 4499, 1909, Part VI, Chap. 3.

its political and industrial incident as probably any period of similar length in the history of the world. For almost two years the scheme met the conditions of pre-war industry. Suddenly, in 1914, it was confronted with problems of war and mobilization. Then came the growth of the munitions industries and the period of great industrial activity. In 1918, almost without warning, both the military and industrial armies were demobilized. Thousands were left without work. Soon upon this came the short post-war boom, and at last the collapse of industry in the depression of 1920.

Like all public enterprises in England, the system of employment exchanges and of unemployment insurance has been subjected to frequent and expert scrutiny. The ten years' experience of England with unemployment insurance has been laid bare in one report or another, in the testimony before an investigation committee or in the memoranda of the Government Actuary. It would seem necessary, therefore, to pref-ace a considered estimate of the principles and practice of any type of unemployment insurance by a careful analysis of the experience of England since 1909 with its unemployment legislation.

## II. UNEMPLOYMENT INSURANCE IN ENGLAND

Although the English system of unemployment insurance has been in operation for about ten years, it cannot be said to have passed yet, for certain purposes, out of the experimental stage. The recognition of this fact by the various British governments, which have legislated for the scheme and administered it, has resulted in the trial in England of many devices peculiar to no single system of unemployment insurance. Enumeration of these features of the British system, including those that were discarded as well as those that were retained, will bring to light practi-cally all of the elements that are essential to any well conceived and work-able proposal for unemployment insurance. These elements will not, of course, always appear in the form in which they were used in the English legislation and administration, but essentially they are the elements which will be taken into account in any scheme for unemployment insurance. If, therefore, these elements can be distinguished and their course during the British experience can be understood, the road should be clear for fruitful generalization concerning the type of unemploy-ment insurance that will most successfully meet the needs of modern communities.

**The Maintenance of the Unemployed during Periods of Unemploy-ment.**—No matter what unemployment insurance may become in the future, its first purpose at present and in the past has been to support the unemployed. One primary test of the success of such a scheme of insurance is its ability to provide during unemployment an adequate income to the unemployed. It is a fact of first-rate importance that

practically no extensive scheme of unemployment insurance has so far met this test. Under the British plan those who are unemployed and receive benefits are considerably better off than they were formerly, but the benefits fall far short of any reasonable standard of adequacy. During the history of the British scheme, the rates of benefit and the periods for which benefits may be received have been changed frequently. But the purpose of the change has not always been the same. When the insurance fund was solvent and had accumulated a substantial surplus, it was possible to raise rates in the attempt to keep pace with the rise in the cost of living and even to raise the standards of benefit. But when the surplus had been exhausted and the scheme faced a growing deficit, the ruling consideration was no longer the standard of benefit, but the solvency of the fund. Table XLIII shows the rates of benefit for men and women during the whole history of the scheme from 1911 to the present, under both the unemployment insurance acts and the system of out-of-work donations which practically replaced the insurance acts in the year following the Armistice.

TABLE XLIII.—RATES OF BENEFIT

Source of benefit	Period	Rate of benefit per week	
		Men	Women
Unemployment insurance.	Jan. 15, 1913–Dec. 25, 1919	7s.	7s.
Out-of work donations....	Nov. 25, 1918–Dec. 12, 1918	24s.	20s.
Out-of work donations....	Dec. 12, 1918–May 25, 1919	29s.	25s.
Out-of work donations....	May 25, 1919–Nov. 25, 1919	{ 29s. <sup>a</sup> 20s. <sup>b</sup>	{ 25s. <sup>a</sup> 15s. <sup>b</sup>
Out-of work donations....	Nov. 25, 1919–Mar. 31, 1921	20s. <sup>c</sup>	15s. <sup>c</sup>
Unemployment insurance.	Dec. 25, 1919–Nov. 8, 1920	11s.	11s.
Unemployment insurance.	Nov. 8, 1920–Mar. 3, 1921	15s.	12s.
Unemployment insurance.	Mar. 3, 1921–June 30, 1921	20s.	16s.
Unemployment insurance.	June 30, 1921–	15s. <sup>d</sup>	12s. <sup>d</sup>

<sup>a</sup> This amount was paid in this period to soldiers.

<sup>b</sup> Applied to civilians receiving out-of-work donations.

<sup>c</sup> Payments to civilians stopped on Nov. 24, 1919 but were continued at the rate indicated for members of His Majesty's Forces until Mar. 31, 1921 when they came under the provisions of the unemployment insurance acts.

<sup>d</sup> Under the Unemployed Worker's Dependents (Temporary Provision) Act, 1921, an unemployed worker entitled to benefit under the principal acts receives, after Nov. 10, 1921, in addition 5s. a week in respect of a wife or housekeeper, and 1s. a week in respect of each dependent child. Under the out-of-work donation provisions, also, supplementary allowances were made in respect of dependent children under fifteen years of age at the rate of 6s. per week for the first child and 3s. for each other.

The insufficiency of these benefits, which amount to from one-fourth to one-fifth of the average weekly wages of men and women in England,

has been recognized from the very beginning. All of the acts and their amendments have, accordingly, contained provisions for the purpose of encouraging other agencies to add to the rates of benefit fixed under the State schemes. Trade unions, benefit societies, individual employers, and industrial councils have at one time or another been encouraged to establish relations with the general scheme whereby the rates of benefit could be increased through additions from these various sources. The relations of trade unions and of other voluntary associations with the general scheme are complicated and merit separate attention. In two industries, however, voluntary action by individual firms, in one case, and by the industry as a whole, in the other, has resulted in substantial additions to the benefits there paid.

Of these plans the most interesting is that introduced by Rowntree & Company, Ltd. It is, first of all, the purpose of the Rowntree plan to increase the benefits to the extent that single men and women shall receive 50 per cent of their regular earnings and married persons with three children up to 75 per cent. In order to pay this benefit, the firm has set aside £10,000 to found an unemployment fund and has agreed in each year commencing with the year 1921 to set aside sums equal to 1 per cent of its wages bill in such year, until the fund reaches £50,000 or 5 per cent of the wages bill, whichever is the greater. Thereafter the company will set aside annually such sums (not exceeding 1 per cent of the wages bill) as are necessary to keep the fund up to the amount just mentioned. The plan further provides that those employed by Rowntree must contribute to their trade unions at the rate of 2d. per week, for which they receive on the average a benefit of 6s. per week. The unemployed workman under this plan, therefore, will receive his benefit from the general scheme, an additional benefit from the trade union, and a third increment, sufficient to raise his total benefit to 50 or 75 per cent of his average earnings, as the case may be, from the fund established by the company.

A scheme that follows in practically all of its details the Rowntree plan, even with regard to the rate of benefits paid, came into force in the match manufacturing industry on April 15, 1921 and applied to the whole of that industry. On December 15, 1920, Cadbury Brothers, Ltd., of Birmingham, initiated a plan of insurance, supplementary to the State scheme, wherein the firm deposited on that date a sum of £5,000 and agreed to add annually thereafter an amount based upon a flat rate payable per ton of the company's finished product. Out of the insurance fund so established, the firm will add to the benefits payable under the State scheme 22s. per week during the first six weeks of unemployment and 11s. during the second six, in the case of married men and 16s. and 8s. per week, respectively, in the case of single men and women. Plans such as these three are typical of the attempts to

raise by outside funds the rates of benefit paid under the State scheme. There may be other examples of experiments of this nature, but it is reasonably certain that all such do not affect more than a very small proportion of the working population of the country. The great bulk of insured workers receive the State rates of benefit with the small benefits added by trade unions and other voluntary associations.

With some minor exceptions, the State insurance schemes have observed the principles of a flat rate of benefit. Little attempt has been made to vary benefits in accordance with the needs or the normal earnings of the beneficiary. In the out-of-work donations scheme different rates of benefit were for the first time given to men and women and this practice has been followed in the insurance acts of 1920, 1921, and 1922. The out-of-work donations scheme, also, first recognized the factor of need by providing additional allowances for dependent children. This measure was later revived in the special act of November 8, 1921, which provided for additional benefits in respect of dependent wife and children. Two of the supplementary schemes, described above, carry the principle of differentiation in benefits much further than they are carried under the State scheme. In the plans conducted by the Rowntree company and by the match industry, the benefit paid to a married man with three children is considerably greater, for persons of the same level of earnings, than that paid to unmarried men. Both plans depart, moreover, in another important respect from the practice under the State scheme. The periods, under the State scheme, for which benefits are allowed are determined by general rules applicable to all beneficiaries alike. But by the terms of these supplementary schemes, the period of benefit varies with the length of service in the firm or industry of the particular beneficiary, so that the periods of benefit run from 3 to 43 weeks as service in the firm varies from 6 months to 30½ years.<sup>1</sup>

**The Sources of Contributions to the Insurance Fund.**—Contributions to the insurance fund have from the outset come from three sources—the employer, the employed, and the State. As in the case of benefits, the insurance acts have always subscribed to the principle of flat rates, with no variations in the rate of contribution because of differences in the unemployment risk, either with regard to individuals, occupations, firms, or industries. At the beginning, of course, such a differentiation would have been fraught with great practical difficulties due to the lack of reliable and extensive statistics of unemployment, essential for the computation of the degree of risk. With the extension of the national scheme of insurance in 1920 and after a few years of the further collection of unem-

<sup>1</sup> Rowntree & Co., Ltd., *Unemployment Benefit Scheme, Explanatory Memorandum*, p. 2; Joint Industrial Council of the Match Manufacturing Industry, *Supplementary Voluntary Unemployment Benefit Scheme*, p. 6; Cadbury Bros., Ltd., *Unemployment Scheme*, Bournville, Dec. 9, 1920.

ployment statistics, some plan of premium rating should be not only feasible but also, on the record, highly desirable.

Although the rates of contribution, or premiums, have not been graded with reference to specific risks, the general level of the rates has been changed several times during the life of the scheme. In each case the change was made for the purpose of protecting the solvency of the fund. Experience with the rates now prevailing has shown that they have failed to serve this purpose both because of the wide incidence of unemployment and because of the increasing length of the spells of unemployment and, hence, of the periods of benefit payment. Clearly an insurance fund, not supported by a very large accumulated surplus, cannot survive a prolonged and serious industrial depression and remain solvent without the aid of additional subsidies or loans. When the rate of unemployment begins to climb and continues to do so for a long period, it is as a practical matter impossible to make, at the time, the necessary adjustments in the premiums from employers and employees. There is apparently a working level of contributions above which it would be hazardous to raise the rates.

From the outset the shares of the various contributors to the insurance scheme have not been the same. As can be seen in Table XLIV, the share of the State has varied from one-fourth to one-fifth of the total contributions. This does not, however, account for the total expenditures of the State on unemployment insurance. The cost of out-of-work donations, which largely replaced the insurance payments from November, 1918 to November, 1919 and which paid benefits to soldiers and sailors until about the middle of 1921, was completely borne by the State. The scheme was altogether non-contributory. Furthermore, the State makes annually substantial payments, in addition to its regular contributions, for the cost of administering the scheme. In the last year, also, the exhaustion of the surplus previously accumulated by the scheme has led to substantial borrowings from the State. Beyond this, the differences in the rates of contribution are slight and unimportant.

TABLE XLIV.—CONTRIBUTIONS TO INSURANCE FUND.

Period	Weekly contributions by					
	Employer		Employee		State	
	Men	Women	Men	Women	Men	Women
July 15, 1912–Nov. 8, 1920.....	2½d.	2½d.	2½d.	2½d.	1¾d.	1¾d.
Nov. 8, 1920–July 3, 1921.....	4d.	3½d.	4d.	3d.	2d.	1¾d.
July 4, 1921— <sup>a,b</sup> .....	8d.	7d.	7d.	6d.	3¾d.	3¾d.

Under the Act of 1921, (No. 1) Mar. 3, 1921, the rates fixed were lower than those given here, but the new rates of July 4, 1921 were determined upon before the old rates had become effective.

<sup>b</sup> Under the terms of the Unemployed Workers' Dependents (Temporary Provision) Act, effective Nov. 7, 1921, employers, employees, and the State pay additional premiums for men of 2d., 2d., and 3d., respectively, and for women, 1d., 1d., and 2d. The fund so collected is used as the source for benefits in respect of dependent wives and children.

It is, of course, not easy to weigh the relative burden of these contributions. For the workers the burden is clearly not excessive and amounts to probably less than 1 per cent of their average earnings. The contribution by the employers has been estimated to represent a bit more than 1 per cent of their wages bill.<sup>1</sup> The state expenditures are even more difficult to weigh in the balance because they are made to procure conditions of well-being and states of mind—intangibles not reducible to quantitative terms. So far as the contributions by employers are concerned, it is not clear that they cannot be increased so as to permit the payment of a somewhat higher rate of benefits. A few firms have already voluntarily so increased their contributions, and there is no indication that these firms enjoy peculiarly favorable conditions. It is estimated by Rowntree that, during a period in which the rate of unemployment was on the average 5 per cent, contributions by employers of  $2\frac{1}{2}$  per cent of their wages bill in addition to contributions by employees and the State substantially at their regular rates would yield an insurance fund able to pay benefits ranging from 50 to 75 per cent of the average earnings of the beneficiaries.<sup>2</sup>

**The Definition of Unemployment.**—It seems to be essential in any system of insurance to define carefully the risk and to take measures that will guard the insurance reserve against fraud, deception, or, in general, an undue increase in the incidence of the risk. So important has this factor been in the insurance business that a substantial literature has grown up concerned with the control of risks in the various branches of insurance. Even in life insurance, which rests probably on the soundest actuarial basis and where the risk would seem capable of detection and definition beyond any reasonable question, elaborate precautions are devised to ensure the payment of benefits only under appropriate conditions. Thus from the time when a prospective policy-holder makes application for his insurance until he actually receives his insurance, he undergoes severe scrutiny designed to protect the company and the other policy-holders. Purchasers of life insurance, for instance, must receive a medical examination that establishes at the time their physical fitness; they must testify concerning their family history; and they must subscribe to a variety of conditions touching such diverse matters as domicile and habits of life before they can be admitted to insurance.

The temptation to establish improper claims for benefit varies markedly with conditions. Experience shows that life insurance companies must exercise much greater care with applicants for very large

<sup>1</sup> ROWNTREE, B. SEEBOHM, Prevention and Compensation of Unemployment, *International Labor Review*, December, 1921, p. 14.

<sup>2</sup> *Ibid.*, p. 11.

insurance than with those who wish to buy only a moderate amount. In general the greater the prize, the greater seem to be the chances of deception, deliberate or unconscious. Similarly, it is held and probably with reason, that if the rate of unemployment benefit were placed too high, people would prefer unemployment to work and the volume of insured unemployment would rise to unprecedented heights, unless effective measures of control were devised. Some risks, moreover, are intrinsically difficult to define. Unemployment is a risk of this type. The establishment of a system of unemployment insurance almost universally gives rise to a host of problems relating to the definition and control of unemployment, many of which are rarely foreseen.

When, therefore, the English government embarked on its scheme of compulsory unemployment insurance in the Act of 1911, detailed provisions were therein made for the preliminary definition of unemployment. Gradually as the system came into operation and accumulated experience, these first statutory provisions were supplemented by administrative rules and orders, by rules of procedure, and by semi-judicial interpretations which together represent the definition of unemployment under the successive acts. Analysis of these many rules and provisions shows that the definition of unemployment for insurance purposes is, to a much greater degree than with other insurable risks, an arbitrary matter, determined by prevailing industrial practices and customs in the country where the scheme operates and by the financial necessities of the particular situation. And this must necessarily be the case.

Certain of the statutory provisions, which have been retained with only minor amendments throughout the history of the scheme, are financial in character and depend in practice for their effectiveness purely on the efficiency of the accounting department of the scheme. Such provisions limit the period of benefits, fix the proportion of benefits to contributions, and establish a right to benefit only when the individual has not exhausted his quota of the insurance fund. More interesting and more difficult, however, are the statutory provisions which define the conditions under which an applicant for benefit becomes and ceases to be unemployed.

Before the Act of 1920 the number of trades to which the insurance scheme applied was limited. There was frequently, therefore, the necessity under the early acts of determining whether an applicant for insurance was working in an insured trade. If he was not, he was ineligible for benefit. The 1920 Act covered practically the whole of English industry, but, as before, insurance is limited to "employed" persons, possessing certain qualifications, working in the insured industries. Once eligibility for insurance is established in accordance with these various terms, the question of the legitimacy of the particular period of unemploy-

ment becomes important. On this matter statutory provision and administrative practice have been so framed as to protect at the same time the insurance scheme against malingering and the insured from harsh and unjust measures of disqualification.

Protection against malingering is sought by providing that a workman is disqualified for benefit if he lost employment through misconduct or voluntarily left his employment without just cause; if he lost his last employment by reason of a trade dispute; and if he refuses to accept suitable employment. The workman, on the other hand, is protected by the further provisions that he is not disqualified from benefit if he has declined an offer of employment in a situation vacant as a result of a stoppage of work due to a trade dispute; or an offer of employment in the district where he was last employed at a rate of wages lower, or on conditions less favorable, than those which he habitually obtained in his usual employment; or an offer of employment in any other district at a rate of wages, or on working conditions, below trade union standards or the standards of good employers in such district.<sup>1</sup>

Simple as the terms of disqualification and of protection seem to be, they have become in practice the subject of frequent controversy. Such conceptions as "misconduct," "just cause," "suitable employment," "by reason of a trade dispute," "more or less favorable conditions," prevailing and standard rates of wages, have turned out to require frequent interpretation in the light of particular conditions. To provide for the interpretation of these provisions of the law, there has been set up under the scheme an elaborate machinery of investigation, administration, and interpretation. Decision on the validity of a claim to benefit is first made by a government agent, known as the insurance officer. He decides in the first instance whether a claim shall be allowed and also later whether the payment of benefit should be discontinued. In the event that the claimant is satisfied with the decision of the insurance officer, the case stops at that point. The claimant has, however, the right of appeal to a Court of Referees, composed of representatives of the workers and of the employers and an impartial chairman, when he is dissatisfied with the decision of the insurance officer. Should the decision of the Court of Referees affirm the decision of the insurance officer, the case is closed. Where the Courts finds differently, however, the claimant receives his benefit and will continue to do so unless the insurance officer appeals from the decision of the Court to a species of appellate court, known as the Umpire. The decision of the Umpire is in all cases final, but cases may be reopened on the presentation of new facts.

In the decisions of the Umpire, a portion of which now fill more than four thick volumes, such conceptions as "suitable employment" and

<sup>1</sup> All of these provisions of the insurance acts are as follows: Act of 1911, Sec. 86 and 87; Act of 1920, Sec. 7 and 8.

the rest take on specific meaning. There is no more illuminating source of information on the practicability of defining unemployment and on the influence of industrial practice and custom in a country on the operation of unemployment insurance, than the abstracts of the decisions of the Umpire. Concerned at first largely with fixing the demarcation of insured trades, the Umpire has gradually constructed a body of principles and rules which give force to the provisions of the statutes. In one case, for example, the Umpire held that a job offered eighty miles away from the workingman's home, which the workingman did not accept because he did not consider the work sufficiently attractive to warrant his leaving home and a wife and two children, was not suitable employment.<sup>1</sup> A large number of decisions hold that refusal to do extra work "outside the contract of service"<sup>2</sup> does not constitute leaving employment without just cause and does not, therefore, disqualify the workman for benefit. Misconduct, likewise, has been the subject of frequent interpretation. Under this last subject alone there have been a very considerable number of cases classified under such heads as, absence from work without leave, disobedience to orders, personal conduct, bad time-keeping, and general questions including among others such matters as misconduct out of working hours, false representations in order to obtain employment, and discharge for making disparaging remarks to customers about employers' material.

A large number of cases have been brought before the Umpire through requests by associations, such as trade unions, for refunds where members of the associations had been disqualified from benefit for failure to take suitable employment. In a number of interesting and important cases the association held the proffered employment not suitable because acceptance would conflict with the rules of the association. In one such case, for instance, the Umpire held that "if the Society desire to maintain such a rule [against doing piece work] in circumstances such as these where satisfactory earnings can be obtained, they alone must bear the cost. It is not a case for assistance from the Unemployment Fund."<sup>3</sup>

The determination of the loss of employment by reason of a trade dispute and of the right of a workman to decline a situation vacant as a result of a stoppage of work due to a trade dispute has occasioned considerable difficulty and has given rise to many decisions. In a series of very early cases, the task of the Umpire was to decide whether people thrown out of work in the course of a trade dispute were engaged in

<sup>1</sup> *Decisions given by the Umpire respecting Claims to Benefit, Unemployment Insurance, U. I. 440A, vol. 1, Case 43.*

<sup>2</sup> See for instance, *ibid.*, Case 5.

<sup>3</sup> *Ibid.*, vol. 3, Case 1154.

"separate branches of work commonly carried on as separate businesses in separate premises" and were therefore qualified to receive benefit.<sup>1</sup>

"This workman," said the Umpire in one of these cases, "appears to have been engaged in work of a kind which is required at all tube factories as a necessary part of the working of such factories. I do not think, therefore, that he can be said to have been engaged in a separate branch of work which is commonly carried on as a separate business in separate premises."<sup>2</sup> Another group of cases fixes the status of people thrown out of work as the result of strikes, but not themselves on strike. Thus in two early cases, the Umpire said: "This workman lost his employment by reason of a stoppage of work which was due to a trade dispute. There was a dispute between the strikers and the non-strikers and the employer of the non-strikers in connection with employment of all persons at the factory at which this workman was employed."<sup>3</sup> The benefit was in these cases disallowed. A significant finding of the loss of employment through a stoppage in work due to a trade dispute is illustrated in the case of an applicant for benefit who was in arrears with his contributions to his association and was unable, on the demand of the branch secretary, to pay them. "The employer was informed that there would be a strike of the masons employed by him unless the applicant were discharged forthwith, and in order to prevent the threatened stoppage of work the employer dismissed the applicant. It was contended that the applicant did not lose his employment owing to a trade dispute, as he had no difference whatever with his employer, who merely discharged him in order to prevent unpleasantness with the other workmen. On the other hand, it was pointed out that there was a trade dispute between workmen and workmen at the premises, and that the applicant lost his employment on account of that dispute. The Court of Referees (Western Ireland District) were of opinion that there was no trade dispute within the meaning of the Act, and accordingly recommended that the claim for benefit should be allowed." The insurance officer declined to accept the recommendation and the benefit was disallowed by the Umpire.<sup>4</sup>

In 1913 an analysis was made of the reasons for disallowance of benefits in a certain proportion of the cases coming before the Courts of Referees and the Umpire. The results of this analysis, which are shown below, indicate the preponderance of disallowances because of misconduct and leaving employment voluntarily without just cause. While the materials for a similar analysis are not readily available subsequent to 1913, it is probable that the proportions have not varied considerably,

<sup>1</sup> Act of 1911, Sec. 87 (1).

<sup>2</sup> *Decisions given by the Umpire respecting Claims to Benefit*, Unemployment Insurance, U. I. 440A, vol. 1, Case 90, also Cases 54, 79, and 92.

<sup>3</sup> *Ibid.*, Cases 88, 89, and 94.

<sup>4</sup> *Ibid.*, vol. 3, Case 1309; vol. 1, Cases 304 and 370.

with the difference, however, that after the war and the demobilization of the war industries, disallowance for refusal to accept suitable employment bulked much larger in the total than before. This was particularly the case with many women applicants for unemployment insurance benefit during the latter period.

TABLE XLV.—REASONS OF DISALLOWANCE<sup>a</sup>

Grounds of disallowance of claim	Percentage of appeals heard by Courts of Referees	Percentage of cases decided by Umpire
Section 86:		
Insufficient contributions.....	4.7	4.2
Not capable of work.....	1.2	1.4
Failure to prove inability to obtain suitable employment.....	4.3	12.7
Section 87 (1):		
Trade dispute.....	3.2	17.0
Section 87 (2):		
Misconduct.....	28.5	19.7
Employment left voluntarily without just cause.....	55.7	36.6
Other reasons.....	2.4	8.4
	100.0	100.0

<sup>a</sup>*First Report on the Proceedings of the Board of Trade under Part II of the National Insurance Act, 1911, Command 6965, 1913, p. 33.*

On the record, the task of defining unemployment and controlling it within the statutory limits has been successfully accomplished by the machinery of insurance officer, Court of Referees, and Umpire. An important factor that has contributed to the working of this machinery is the degree to which trade unionism and trade-union standards are accepted in England. The practices and standards of organized workers thus afford a measuring rod with reference to which adjustments can be generally made. In the United States, just because the trade-union practices and standards are not so completely accepted, the definition of unemployment and the determination of suitable employment or misconduct would, for a considerable period at least, encounter real obstacles.

In addition to the control exercised over unemployment by the measures just considered, the public employment exchanges, in their relation with the scheme of unemployment insurance, have played an important part in the administration of the same elements of the insurance acts. Organized in 1910, two years prior to the organization of national unemployment insurance, the national public exchanges have

been constantly extended so that they might more effectively serve the needs of the system of unemployment insurance. Indirectly their service consists in facilitating the mobility of labor by finding all possible and available vacancies and by referring the applicants for jobs to such vacancies. While the employment exchanges have constantly been exposed to severe criticism for failing to perform this function satisfactorily, the evidence points to a large measure of efficiency in this regard. But beyond this the employment exchanges are essential elements in the administration of the scheme of unemployment insurance, since it is at the exchange that the applicant for benefit lodges his unemployment book, registers daily during his period of unemployment, is offered employment, and receives his benefit. However defective the employment exchanges may be in lending mobility to labor, even their critics agree that the administration of unemployment insurance is impossible without them, or at least an equally efficient substitute. For the time being no such substitute has been produced.

Since the Armistice, November, 1918, the task of controlling unemployment has been considerably more difficult than it was before. The difficulties began on November 25, 1918, with the coming into effect on that date of the out-of-work donation scheme. Prior to the Armistice, the English government foresaw the problems which would attend the demobilization of the armed forces of the country and of the civil war workers. There was no time to extend the limits of the unemployment insurance acts. So the plan was conceived of paying to members of His Majesty's Forces and to civilians weekly benefits during prescribed periods of unemployment. The scheme differed from the prevailing system of unemployment insurance in that it covered a much greater number of persons, it was non-contributory, and the level of benefits was considerably higher than ever before.<sup>1</sup> At the same time, also, the shutting down of war industries threw out of work many persons, particularly women, who found it difficult, if not impossible, to get work under conditions as satisfactory as those they had enjoyed during the war. This plan had been in operation only a short time before it met with extensive criticism as encouraging fraud and deception and imposing excessive burdens on the country. The reply to the criticism was an elaborate investigation of the scheme which concluded with a statement by the investigating committee that ". . . the evidence so far heard by us indicated no grounds for supposing that there had been extensive fraudulent abuse of the donation scheme . . ." The impression obtained, however, that it was easy to get the donations. Changes were, therefore, made in the administration of the scheme. Among these changes was that which gave to Local Employment Committees the right to issue

<sup>1</sup>It should be remembered, however, that the increase in benefits was accompanied, indeed preceded, by great increases in prices.

additional donation policies only when they were satisfied that the applicant was normally in employment, genuinely seeking work, and unable to obtain it. The effect of this change was indubitably to eliminate many persons not eligible for benefit.<sup>1</sup>

Conditions similar to those obtaining under out-of-work donations appeared also in the administration of the Acts of 1921. In these acts, because of the great and increasing volume of unemployment, benefit was made payable to large numbers of persons who had made few or no contributions to the fund. Eligibility to benefit turned largely on the applicants having been "normally in employment" and on their "genuinely seeking whole-time employment." Again as before, there was a feeling of laxity. "The view has been expressed that in some cases young men and women, not altogether dependent upon themselves for maintenance, do in fact seek to avail themselves of benefit without making any very serious effort to seek work; and have, indeed, refused offers of employment for reasons which ought to involve forfeiture of benefit."<sup>2</sup> The administrative machinery was, accordingly, kept in a measure in the form which it assumed during out-of-work donations by the retention of Local Employment Committees, with power to inquire into such questions as normal employment and the genuine quest for work. Instructions sent to these committees from the Ministry of Labor are evidence of the difficulty of the problem of controlling employment and of the vigorous efforts made by the administration to prevent the payment of improper claims. One instruction states, for instance, that: "The mere fact that the applicant dislikes the employment offered does not, in itself, make the employment unsuitable. There must, in addition, be some satisfactory ground for the objection. For example, if a woman who is prepared to accept day work as a domestic servant objects to becoming a resident domestic servant, this is not, in itself, a ground for holding that resident domestic service is not suitable employment in her case; there must, in addition, be—for example—some valid objection arising from her domestic ties."<sup>3</sup> In another place the Ministry cautions the administration against a too great liberality in allowing claims to benefit. "The funds which accrue under the act are contributed, as to four-fifths, by employers and employed persons, and as to the final fifth by the State. The Minister and those who

<sup>1</sup> *Interim Report of the Committee of Inquiry into the Scheme of Out-of-work Donation*, Command 196, 1919; *Final Report* of the same committee July 25, 1919. Command 305, 1919; *Decisions given by Umpire respecting claims to Out-of-work Donations*, U. I. 440B vol. 1, Prefatory Note, p. ii.

<sup>2</sup> Circular letter from the Minister of Labor to the chairmen of Local Employment Committees, Mar. 8, 1921.

<sup>3</sup> *General Memorandum for the Guidance of Local Employment Committees and Officers of the Ministry of Labour* (Unemployment Insurance Act, 1921) U. I. A. 505, p. 3.

assist him are in the position of trustees for the contributors to the Fund. Accordingly, however deserving an application may be in other respects, and whatever sympathy the Committee may feel in the particular circumstances, they should . . . keep always in mind the essential fact that they are not administering a compassionate allowance, but that they are administering benefit under a compulsory insurance act."<sup>1</sup>

It has been proposed from time to time that mobility of labor could be increased and malingering more effectively controlled if the administration of the payment of benefits and of the finding of jobs were entrusted to agencies other than the employment exchanges. In many cases trade unions already have their employment offices and vacancy registers; they are in close touch with industrial conditions in the trades in which their members work; and as a result of their knowledge of industrial conditions they can the more easily and swiftly detect malingering. From the beginning, indeed, a share of the administration of the insurance acts, in this regard, has been assumed by trade unions and other associations which met the conditions imposed first by the Board of Trade and later by the Ministry of Labor. No data exist which make possible an estimate of the relative merits of one or another system of administration. There is a widespread feeling that such a decentralization of administration in the hands of specialized industrial groups does in some cases, at least, bring superior administration. In general, however, trade unions and other associations have not worked out their placement problems so efficiently as to warrant a wholesale transfer of administration from the State to these private industrial agencies.

A plan of administration that is designed to protect the insurance fund against improper claims and that is apparently working with marked success is that embodied in the Rowntree scheme of supplementary unemployment insurance. In the Rowntree scheme, the fund is administered by a committee appointed entirely by the workers. Furthermore, while the firm guarantees the premiums under the scheme, it does not guarantee benefits. "If the scheme were abused, the premium might not suffice to pay the benefits expected. Thus all the workers have an interest in seeing that it is not abused, lest on their becoming unemployed they should find the funds so depleted that they could not obtain their full benefit."<sup>2</sup> This scheme has obviously much to recommend it; but it must wait for more general adoption upon the assumption by employers of a larger measure of responsibility toward the unemployed.

<sup>1</sup> General Memorandum for the Guidance of Local Employment Committees (Unemployment Insurance Act (No. 2) 1921) U. I. A. 505A, p. 4; Suitable Employment, Note on the Application of Sec. 96 (provisos (b) and (c), to Women applicants, U. I. 445.

<sup>2</sup> ROWNTREE, B. SEEBOHM: Prevention and Compensation of Unemployment, *International Labor Review*, December, 1921, p. 13.

**The Prevention of Unemployment.**—Advanced insurance practice makes provision for the substantial reduction, if not the elimination, of the risk against which persons insure themselves. These provisions as a rule go much beyond the attempt merely to control the risk by the prevention of malingering. They, in fact, consist in taking the necessary steps to effect considerable and continuous reductions in the risk. Even in life insurance, where, of course, the risk is not totally preventable, a large degree of prevention is accomplished by measures leading to the prolongation of life. Nearly every large life insurance company today spends considerable sums on the education of its policy-holders in the elementary facts of preventive medicine and personal hygiene. In other fields of insurance the chances for almost total prevention are good. The spread of fire insurance, for example, has been followed by notable reductions in the loss of property through fires. Much the same quality of record has been achieved, in a much briefer period, under the influence of accident insurance or workmen's compensation.

In the field of social insurance, prevention has come to be accomplished by two devices that are commonly used together. The premium under such schemes is paid not by the persons who suffer from the particular hazard but by those who are, at the time, deemed to be responsible for the hazard. Premiums, moreover, are not flat and equal for all insured but are graded with reference to the degree of hazard. American workmen's compensation systems are outstanding illustrations of the type of insurance that combines both features. Under our compensation legislation the premium is paid not by the workman who meets with an industrial accident but by his employer and the employer with a bad record of industrial accidents pays greater premiums than one with fewer accidents. The insurance premium is, thus, conceived as a tax or penalty which is designed to stimulate the employers to avail themselves of all possible means of prevention so that their premiums may be reduced in proportion as their "experience" proves prevention to have been successful. The application of this procedure to unemployment insurance would produce a system in which the total premiums would be paid by the employer and the premium rates would vary with the risk of unemployment.

Preventive measures, of this type, have so far played little part in the English unemployment insurance legislation. It is true that part of the cost of the present scheme is borne by the employers but the burden is in absolute amount not great and is not graded so as to penalize carelessness in the organization and use of the labor market. Prior to the Act of 1920, the English scheme contained one provision designed to regularize employment. This provision granted employers a refund of one-third of their contributions during a year in respect of each workman

continuously in their service during that period and for whom not less than forty-five contributions had been paid during the period.<sup>1</sup> The refunds<sup>2</sup> paid under this provision were:

1913-14	£113,106	1917-18	£117,034
1914-15	120,475	1918-19	137,242
1915-16	94,034	1919-20	117,391
1916-17	107,404		

In the Act of 1920 this provision was abandoned and has not been again enacted. Its net effect on the reduction of unemployment was negligible.

The germs of a plan of preventive unemployment insurance are to be found in the "special schemes" provisions of the Act of 1920.<sup>3</sup> The plan originated, however, in a purpose quite distinct from that of prevention at the time when it was contemplated to extend the Acts of 1911 and 1916 to cover the whole industrial population of England. There then developed considerable opposition to inclusion in the scheme of compulsory unemployment insurance from industries which believed that their rate of unemployment was considerably below that of the older insured trades.<sup>4</sup> In order to placate the representatives of these industries, those which were willing to subscribe to conditions formulated in the Act of 1920 and by the Minister of Labor were allowed to "contract out," or in other words to carry and administer their own unemployment insurance. Those industries which elected to "contract out" were to receive a State grant fixed at a maximum of 30 per cent of the normal rate, or one-tenth of the contributions of employers and employees instead of the one-third paid in respect of those remaining in the general scheme. The more important conditions which industries were required to meet before they were permitted to introduce special schemes, were that the insurance would be more satisfactorily provided than under the general scheme; benefits would be not less favorable; contributions would be regular and sufficient to cover all costs without requiring special levies in bad times; appropriate machinery of administration must be established.<sup>5</sup> If, therefore, it turned out that an industry really had a lower rate of unemployment, the cost of the insurance to the industry would be

<sup>1</sup> Act of 1911, Sec. 94 (1); see also for slight amendments to this provision, Act of 1914, Sec. 5, (1) and (2).

<sup>2</sup> *Account of the Unemployment Fund . . . with the Report of the Comptroller and Auditor General thereon*, each year.

<sup>3</sup> Act of 1920, sec. 18.

<sup>4</sup> For an interesting discussion of the attitude of these industries see Ministry of Reconstruction, *Second Interim Report* of the Civil War Workers' Committee, Report of Sub-committee on Unemployment Insurance, Feb. 12, 1918, Command 9192, 1918.

<sup>5</sup> *Notes on Special Schemes and Supplementary Schemes for Industries* (Unemployment Insurance Act, 1920) U. I. A. 2. Revised October, 1920.

lower than under the general scheme and the benefits at least as high.<sup>1</sup> Before many "special schemes" could be organized, the growing volume of unemployment made it necessary to suspend the right to organize such schemes, on the general ground that, during the period of insolvency of the insurance fund, industries with low unemployment rates would help maintain the solvency of the fund.<sup>2</sup> No special industry schemes can, accordingly, be set up from July 1, 1921 until the close of the period of insolvency. Before the suspension, however, one such scheme had already been put into operation in the insurance industry<sup>3</sup> and another is under consideration for the banking industry. Neither industry is large, nor are the employees subject to considerable unemployment.

The principle of the "special scheme," if it were applied throughout the whole industry, might lead to measures for the prevention of unemployment. The defect in the plan was, however, that it encouraged "contracting out" only among those industries whose unemployment record was already fair and left in the general scheme the "bad risks." Upon the bad risks the general scheme imposes only moderately large premiums, which in turn yield inadequate benefits, and the penalty or tax on responsibility for excessive unemployment is lacking. Ten years experience with compulsory insurance against unemployment in England has not yet produced measures that have substantially affected the risk of unemployment.

**The Solvency of the Insurance Fund.**—An insurance fund, into which contributions are paid and from which benefits are drawn, rests on actuarial estimates. Except in assessment insurance where assessments are levied to meet current expenditure, the necessary size of the insurance fund is estimated a considerable time ahead from more or less accurate statistical materials. The same estimates, of course, also determine the required rates of contribution and of benefit. The purpose of these preliminary actuarial estimates is to find the rate of contribution that over a considerable period of time will produce an insurance fund or reserve, sufficient to yield the desired rate of benefit. In order, therefore, to establish an insurance fund that will possess any elements of security, it is essential to know beforehand the magnitude of the risk, the capacity

<sup>1</sup> Report by the Government Actuary on the Financial Provisions of the Bill (of 1919), Dec. 23, 1919, Command 498, 1919.

<sup>2</sup> Another reason for the suspension was, of course, that "all industries had had their share of benefit and it was right that they should stay and make it good again when employment became better." PHILLIPS, T. W., Work of the Employment and Insurance Department of the British Ministry of Labour, *Labour Gazette* (Canada), September, 1921, vol. XXI, p. 1179.

<sup>3</sup> Incorporated Insurance Industry Unemployment Insurance Board, *The Insurance Industry Unemployment Insurance Scheme and Rules*, 16 Russell Square, London.

of the insured to pay premiums, and the volume of benefits which it is desired to draw from the insurance fund. To the extent that any insurance scheme falls short of supplying such security, the insured will be exposed to frequent changes in premiums, the beneficiaries to variations in their benefit, or the insurance fund to insolvency. Any or all of these possible contingencies may indeed, as they frequently did, happen at the same time. If, accordingly, it is desired that the insurance scheme avoid the uncertainties that are normally associated with risks, such as unemployment, the rate of benefit and the conditions of receiving it must be at the outset carefully defined, the necessary rate of contributions must be accurately estimated, and the rates and rules so decided upon must be departed from only rarely. Such precision in estimating the magnitude of risks is rarely possible. For this reason it is the common practice in many branches of insurance to include in the premiums a substantial margin of safety for the purpose of building up a surplus or contingency reserve.

By the terms of the English unemployment insurance acts, the payment of benefits has always been limited by statutory provisions and the necessary rates of contribution have been computed with reference to the influence of these provisions. Thus the first act, that of 1911, limited the payment of benefit to persons who could prove employment in the insured trade in each of not less than twenty-six separate calendar weeks in the preceding five years.<sup>1</sup> No benefit was paid at all during the first six months of operation in order to enable the scheme to collect a reserve. Unemployed persons under the act received no benefit during a "waiting period" of one week. Benefits were not paid, even after the "waiting period" had elapsed, during the whole period of unemployment but were restricted to a maximum of fifteen weeks of benefit during the year. And even then benefits were not paid whenever the number of weeks' benefit received exceeded the proportion of one week's benefit for every five contributions paid by the workman under the act.<sup>2</sup> With minor modifications, the same or similar provisions were retained until shortly after the Act of 1920 became operative when a series of new and unanticipated conditions forced radical changes in procedure and, at the same time, exerted a marked influence on the status of the insurance fund.

The Act of 1920, effective November 8, 1920, extended the application of compulsory unemployment insurance from less than 4,000,000 persons to almost 12,000,000. As in the previous acts the maximum period of benefit was placed at fifteen weeks; but the proportion of benefit to contribution was changed from one to five to one to six, the waiting period reduced to three days, and the insured was required to prove

<sup>1</sup> Sec. 86 (1).

<sup>2</sup> Sec. 84.

that not less than twelve contributions had been paid in respect of him under the act.<sup>1</sup> There were likely to be, however, a substantial number of persons thrown out of work who had not had the opportunity to make twelve contributions before their spell of unemployment began. The status of such persons was met by the further provision of the Act of 1920 that insured persons who have paid four contributions shall receive benefits for a maximum period of eight weeks during the first year of the Act.<sup>2</sup> If the Act of 1920 had become effective during a period of only moderate unemployment, it would probably have been unnecessary to modify radically any of these provisions and the status of the insurance fund would have been assured. But very soon after the close of 1920 there began in England, as elsewhere, that long and severe spell of unemployment which played havoc with previous calculations and forced the adoption of new practices. As the following table shows, average unemployment of members of trade unions<sup>3</sup> during the year 1921, was more than six times greater than in 1920; it rose to a peak about the middle of 1921, then receded slightly and still remains more than seven times as high as it was during the whole of 1920. While the table below does not show the percentage of unemployment among insured persons, because the available data for the latter are not strictly comparable with the trade-union figures, the course of unemployment among insured was much the same as among the trade unionists. Unemployment among the insured likewise rose from 5.8 per cent in December, 1920 to 17.8 per cent in June, 1921 and was 14.4 per cent in April, 1922.

TABLE XLVI.—AVERAGE UNEMPLOYMENT OF TRADE UNION MEMBERS

Month	Per cent	Month	Per cent	Month	Per cent
1920		1921		1921	
Sept.....	2.2	April.....	17.6 <sup>a</sup>	Nov.....	15.9
Oct.....	5.3 <sup>a</sup>	May.....	22.2 <sup>a</sup>	Dec.....	16.5
Nov.....	3.7	June.....	23.1 <sup>a</sup>	1922	
Dec.....	6.0	July.....	16.7	Jan.....	16.8
1921		Aug.....	16.3	Feb.....	16.3
Jan.....	6.9	Sept.....	14.8	Mar.....	16.3
Feb.....	8.5	Oct.....	15.6	April.....	17.0
Mar.....	10.0				

<sup>a</sup> Coal mining excluded owing to strike.

The effect of this prolonged spell of unemployment was, on the one hand, to make it difficult for employed persons to pay their contributions

<sup>1</sup> Sec. 7, (1).

<sup>2</sup> Sec. 44. This section was later repealed as from June 30, 1921.

<sup>3</sup> Ministry of Labour, *Labour Gazette*, each month.

and, on the other, to increase seriously the need of the unemployed for benefit payments. Almost immediate action was taken, therefore, to extend the periods of benefit and to wipe away some of the restrictions on the right to receive benefits. The first of such measures was embodied in the Unemployment Insurance (Temporary Provision Amendment) Act, of 1920, which became effective December 25, 1920. This act substituted for the four contributions required in the Act of 1920, proof of previous employment. There then came a rapid series of drastic amendments of the Act of 1920 which, in order to meet the serious conditions of unemployment, made the conditions of receiving benefit on the whole considerably easier than they had been before. The one-in-six rule is practically suspended. The waiting period is raised from three to six days and the periods of maximum benefit are extended as indicated in the next table.<sup>1</sup>

TABLE XLVII.—PERIODS OF BENEFIT

Act	Date when act becomes effective	Duration of special period	Maximum weeks of benefit in special period
Act of 1921 (No. 1) . . .	Mar. 3, 1921	Mar. 3, 1921–Nov. 2, 1921	16 weeks
Act of 1921 (No. 2) . . .	June 30, 1921	Nov. 3, 1921–July 2, 1922 . . . . .	16 weeks Adds maximum of six weeks in each of the above special periods.
Act of 1922. . . . .	Apr. 6, 1922	Apr. 6, 1922–Oct. 31, 1922 Nov 1, 1922–June 30, 1923	15 weeks <sup>a</sup> 12 weeks <sup>a</sup>

<sup>a</sup> These fifteen weeks of benefit are payable in three periods of five weeks each separated by intervals of five weeks. When a person has received twenty-two weeks benefit in all since Nov. 2, 1921, he is not entitled to benefit until April 17, next. See *Report of Government Actuary on the Financial Provisions of the Bill* (of 1922), Mar. 25, 1922, Command 1620, 1922; *Memorandum on Unemployment Insurance Bill*, Mar. 24, 1922, House of Commons Bill 62, 1922.

<sup>b</sup> The Minister of Labor is empowered to grant two further periods of five weeks each, making twenty-two in all.

All of these factors, then, were making for progressively larger and larger drafts on the insurance fund, while the general state of business

<sup>1</sup> *General Memorandum for the Guidance of Local Employment Committees and Officers of the Ministry of Labour* (Unemployment Insurance Act, 1921), U. I. A. 505; *General Memorandum for the Guidance of Local Employment Committees* (Unemployment Insurance (No. 2) Act, 1921), U. I. A. 505A; Committee on National Expenditure, *First Interim Report*, Command 1581, 1922, Appendix (A), pp. 149–53; *Explanatory Memorandum* (Unemployment Insurance Acts, 1921), U. I. A., 518.

depression and unemployment would not permit substantial assessments on either employers or employed for the purpose of making good these additional withdrawals. Even in periods of relatively moderate unemployment, the suspension of the one-in-six rule and the limitation on the benefit period would add appreciably to the expenditure for insurance. The Government Actuary estimated, for instance, that the waiting week and the limitation of benefits to fifteen weeks reduced the number of "benefit days" to 71 per cent of the days of unemployment; while the further limitation under the one-in-five (in the 1911 Act) rule reduced the proportion to 64 per cent.<sup>1</sup> It is clear, therefore, that if such limitations are not to apply or are suspended, the contributions must be proportionately increased during the period of suspension unless the prevailing rates of benefits are also proportionately lowered.

The most serious obstacle in the way of preserving the solvency of an unemployment fund consists in the difficulty of predicting the frequency and duration of extreme business depressions with their widespread unemployment. From 1912 to early 1921 the insurance fund was in such a favorable situation that not only had it met all of its obligations but there had in addition been accumulated a surplus of more than £20,000,000. This condition of prosperity was, of course, a reflection of good business conditions and of steady employment. Table XLVIII shows how in a fairly long period of steady employment, the amount spent on unemployment benefit was so moderate as to permit the accumulation of a surplus. By the end of 1918 unemployment began to mount and continued upward through part of 1919. The effect of this rise in unemployment is hardly discernable in the expenditures for unemployment benefit in 1919 because from November, 1918 to November, 1919, the unemployment insurance acts were largely suspended,<sup>2</sup> while unemployed civilians drew benefits under the out-of-work donations scheme. This scheme, as said above, was entirely non-contributory. By means of it, the government paid in out-of-work donations to ex-service men £40,000,000 and to civilians

<sup>1</sup> *Report by the Government Actuary on the Financial Provisions of the Bill* (of 1919), Command 498, 1919, p. 7. The further important estimate is here made that "the several limitations proposed will restrict the benefit days to a figure between 60 per cent in periods of good trade when spells of unemployment are relatively short as well as relatively few, and 70 per cent in periods of bad trade when the contrary conditions prevail."

<sup>2</sup> "For the year 1919-1920 the Unemployment Fund was advantageously affected by the benefits granted under the Scheme for Out-of-work Donation in operation as regards ex-members of His Majesty's Forces for the whole period and as regards civilians to November 30, 1919. These benefits were greater than and not payable concurrently with, those under Unemployment Insurance; the payment of benefit normally chargeable to the Fund to a great extent ceased, and the Fund continued to accumulate during the year." Report of the Comptroller and Auditor General of Feb. 23, 1922 in *Account of the Unemployment Fund, 1919-1920*, House of Commons Paper 34, 1922.

TABLE XLVIII.—EXPENDITURES FOR UNEMPLOYMENT

Year	Per cent of working people unemployed in trades insured under the Act of 1911 <sup>a</sup>	Year	Total expenditure in unemployment benefit <sup>b</sup>
1913	3.2	1912-13	£208,317
1914	4.2	1913-14	530,592
1915	1.2	1914-15	418,700
1916	0.6	1915-16	78,969
1917	0.6	1916-17	34,308
1918	1.15	1917-18	86,152
		1918-19	152,720
		1919-20	1,009,125

<sup>a</sup> Ministry of Labour, *Labour Gazette*, January, 1919, vol. XXVII, p. 2. Owing to the suspension of the Unemployment Insurance Acts, during the greater part of 1919, strictly comparable figures with the other years are not available.

<sup>b</sup> *Account of the Unemployment Fund . . . with the Report of the Comptroller and Auditor General thereon*, each year. Figures in this column are obtained by adding together the unemployment benefits paid to workmen and refunds to associations in lieu of unemployment benefit.

£22,000,000 making a total of £62,000,000.<sup>1</sup> This amount, of course, does not enter into the insurance accounting, but it represents the sum spent in bridging over the first post-war crisis of unemployment.

The crash which came in 1921, however, was even greater and, as it has turned out, more expensive. This time the insurance fund was not helped by out-of-work donations but had to stand itself the great drain from the rising tide of unemployment. In March, 1921, the surplus of £20,000,000, which had been before then treated as a capital fund, was made available to be spent currently. By the end of June, 1921 most of the £20,000,000 was gone. Under the Act of 1921 (No. 1) the fund had been empowered to borrow from the Treasury £10,000,000. This amount was increased by the Act of 1921 (No. 2) to £20,000,000 and again further increased by the Act of 1922 to £30,000,000. For the insurance year 1921-1922, it is estimated that the amount payable in unemployment benefit exceeds £46,000,000. This expenditure is covered by estimated contributions amounting to only £33,270,000, thus leaving a deficit at the close of 1921-1922 of almost £14,000,000.<sup>2</sup> Estimates

<sup>1</sup> PHILLIPS, T. W., Work of the Employment and Insurance Department of the British Ministry of Labour, *Labour Gazette* (Canada), September, 1921, vol. XXI, p. 1175.

<sup>2</sup> *Report by the Government Actuary on the Financial Provisions of the Bill* (No. 2 of 1921), June 8, 1921, Command 1336, 1921.

moreover, for the period of fifteen months from April 6, 1922 to July 1, 1923 place the payment for benefits in that time at £60,000,000 and the total debt to the Treasury on July 1, 1923 at £27,000,000.<sup>1</sup> In little more than two years, therefore, adverse conditions, largely unpredictable, have converted a surplus of £20,000,000 into a deficiency of almost £30,000,000.

Data such as these are interesting and important not only as revealing the magnitude of the charge of unemployment insurance, but also for the light they throw on the fundamental difficulty of predicting the turn in the business cycle. When, for example, the Government Actuary made his first estimate, on June 8, 1921, of the probable income and expenditure of the fund during the year 1922–1923, he concluded that contributions would yield £35,000,000, expenditures would amount to £20,000,000, and there would accordingly be on June 1, 1923 a surplus of £15,000,000. In arriving at this estimate he assumed an average unemployment in the year 1921–1922 of 1,250,000 persons and in the year 1922–1923 an approximation to normal unemployment, together with the restoration of the restrictions on the payment of benefit contained in the Act of 1920.<sup>2</sup> Less than a year later estimates for the same periods are based on the assumptions that up to the end of June, 1922 unemployment will not exceed on the average 1,900,000 persons and that during the twelve months following June, 1922 the average number of insured persons unemployed will not be more than 1,500,000.<sup>3</sup> By that time, too, it was known that the limitations on the right to benefit were not only not restored but their suspension was extended to June 30, 1923. Consequently the revised estimates show not a surplus on July 1, 1923 but a substantial deficiency and the duration of the deficiency period becomes highly uncertain. "The proposed rates of benefit," wrote the Government Actuary on March 25, 1922, "are to continue during the deficiency period and it may be presumed that with a continuous improvement in the industrial position this debt will be steadily reduced. The rate at which the debt will be repaid must, of course, depend upon the course of unemployment and the conditions governing the receipt of

<sup>1</sup> *Report of Government Actuary on the Financial Provisions of the Bill* (of 1922) Mar. 25, 1922, Command 1620, 1922.

<sup>2</sup> The comments of the Actuary on these estimates are interesting. "It is impossible," he writes, "to suggest any close figure with reference to the probable expenditure on benefits. Even under normal conditions there is a wide fluctuation in the claims from year to year as the trade cycle pursues its course, and to estimate merely on the average of a trade cycle would give a figure which is meaningless in regard to a particular year, though it may be properly used with reference to the operation to the scheme when viewed over a series of years." *Report by the Government Actuary on the Financial Provisions of the Bill* (No. 2 of 1921), Command 1336, 1921.

<sup>3</sup> *Memorandum on the Unemployment Insurance Bill*, Mar. 24, 1922, House of Commons Paper 62, 1922.

benefit, but so far as can be seen at present, it is unlikely that the fund will become solvent until several years after July, 1923."<sup>1</sup>

The evidence is overwhelming that the greatest obstacle to successful unemployment insurance, of any type, lies in our inability to forecast the length of successive phases of the business cycle. As long as this inability continues, systems of unemployment insurance will be confronted more or less frequently with sudden catastrophes, in the form of widespread and enduring unemployment, against which they will be forced to take hasty and incomplete measures. Indirectly, also, the experience of the English scheme testifies to the absolute necessity of building adequate insurance funds when business is on the up-swing. When business is in depression, the need for benefit is great and the ability to pay low. It then becomes necessary to vary the rates of contributions and of benefit, to obtain subsidies from the outside, and the insurance scheme begins to become almost as uncertain as the hazard it is designed to insure against. Greater certainty can come only from a more adequate statistical basis for the forecast of unemployment and from an insurance fund accumulated at a time when substantial contributions are not so difficult to get as they are at present.<sup>2</sup>

**The Encouragement of Voluntary Insurance.**—Trade unions and voluntary associations of workmen, of one type or another, have for a long time played a prominent part in English economic life. One of the functions which many such associations have exercised is the payment to their members of unemployment benefit. The passage of the Unemployment Insurance Act of 1911, therefore, found a substantial number of workmen already in receipt of unemployment benefits of greater or smaller amounts. It was deemed highly desirable, in the first place, that such associations as did pay benefits should not discontinue their payment, since the statutory rate of benefit was notoriously too low. Secondly, it seemed equally desirable to avoid any unnecessary duplication in the machinery of benefit payment. The Act of 1911, accordingly, contained provisions<sup>3</sup> which made it possible for associations, which met certain conditions to the satisfaction of the Board of Trade, to assume

<sup>1</sup> *Report of the Government Actuary on the Financial Provisions of the Bill* (of 1922), Command 1620, 1922.

<sup>2</sup> For an illuminating discussion of this point see *Report by Government Actuary on the Financial Provisions of the Bill* (of 1919), Command 498, 1919, p. 8. His concluding remarks on the nature of the risk of unemployment are particularly pertinent in this connection. "It is obviously impossible to predict the course of the trade cycle or to measure the extremes in the rate of unemployment which will be touched in its progress; in this respect the Fund is subject to contingencies, such as do not operate in any other sphere of insurance, and while for practical purposes the average conditions alone can be investigated, it is clear that the resulting surplus is not of the same dependable character as the surplus found on the valuation of a life assurance company or even of a friendly society."

<sup>3</sup> Sec. 105.

the payment of the "public" benefit as well as their own. Where this was done, the members of associations, "in lieu of being concerned with two sets of rules as to benefit, and in lieu of attending at the office of the association to draw money on account of the association and at the Local Office of the Unemployment Fund to draw state benefit, may get a single combined benefit from their association."<sup>1</sup> The payment of benefit in addition to that furnished by the State was, moreover, assured by the rule that associations could not recover from the unemployment fund more than three-fourths of what they had themselves paid out. This meant that, in order to recover from the State an amount equal to the State benefit of 7s., the association had to add an amount of not less than 2s. 4d. for each week of unemployment. Associations subscribing to these rules, then, assumed a share of the administration of the scheme of unemployment insurance and paid to their members something over and above their State benefits.

The Act of 1911, unlike that of 1920, covered only a relatively small proportion of the working population of England. Probably as many as 9,000,000 employed persons were excluded from the receipt of unemployment benefit. The purpose of this early limitation of the scope of the scheme was to permit experimentation in those trades which seemed at the time to need unemployment benefit most, before applying the plan universally. At the same time, however, it was deemed advisable to encourage where possible the payment of benefits in the uninsured trades and the increase of benefits, above the statutory rates, in the insured trades. There was consequently embodied in the Act of 1911 the provision<sup>2</sup> for a species of subsidy to all associations, whether in the insured trades<sup>3</sup> or not. Under these provisions, the Board of Trade was empowered to make arrangements with an association whereby the government agreed to pay part of what the association had spent in the preceding year for unemployment benefit. The share of the government was, however, in no case to exceed one-sixth of the aggregate amount so spent by the association. Where, moreover, the rate of benefit paid by the association was more than 12s. a week, the amount in excess of 12s. was excluded in computing the State's share. The moneys spent in providing this State subvention came not from the unemployment fund, but from an independent parliamentary grant.

Both of these sets of provisions were retained substantially in their original form until the Act of 1920. Since that Act extended the operation of compulsory insurance over practically the whole industrial work-

<sup>1</sup> *First Report on the Proceedings of the Board of Trade under Part II of the National Insurance Act, 1911*, Command 6965, 1913, p. 6, paragraph 41.

<sup>2</sup> Sec. 106.

<sup>3</sup> Where associations in the insured trades claim refund under Sec. 106, the refund is calculated on the expenditure of the association after the deduction of any sums recovered by it from the unemployment fund under the provisions of Sec. 105.

ing population, the latter section, providing partly for subventions to uninsured trades, was dropped. The provisions for administration by associations, however, and for the refund of part of their payments of benefit to their members were retained almost in the same form in which they appeared in the first act.<sup>1</sup>

The effects of these provisions in encouraging the growth of voluntary unemployment insurance are hard to estimate. During the first year of the operation of the scheme, 105 associations with an estimated membership of 539,775 availed themselves of the opportunity of making arrangements under section 105. Under section 106 by the end of the first year, 275 associations with an estimated membership of 1,104,223 had been admitted as satisfying the conditions of the Board of Trade. Of these 275 associations, 103 with a total membership of 728,182 and a membership in the insured trades of 538,045 had made arrangements under section 105 as well. In addition, 343 associations with an estimated membership of 1,259,846 had by July 12, 1913, given notice of intention to claim subvention under the provisions of section 106.<sup>2</sup> The first effect clearly of the provisions of the scheme was to stimulate the payment to voluntary insurance and to encourage associations to assume a part of the administration of the scheme. The following table, for the period in which the data are available, shows the amount of benefit paid directly, to associations under section 105, and to associations

TABLE XLIX.—BENEFITS PAID UNDER SECTIONS 105 AND 106

Year	Benefits paid direct <sup>a</sup>	Refunds under section 105 <sup>a</sup>	Refunds under section 106 <sup>b</sup>
1912-13	£183,193	£25,124	£
1913-14	364,555	166,037	15,167
1914-15	249,532	169,168	114,593
1915-16	39,972	38,997	50,658
1916-17	24,133	10,175	13,736
1917-18	75,128	11,024	18,270
1918-19	148,881	3,839	7,586
1919-20	869,424	139,701	1,678

<sup>a</sup> Account of the Unemployment Fund . . . with the Report of the Comptroller and Auditor General thereon, each year.

<sup>b</sup> Civil Services and Revenue Departments, Appropriation Accounts, each year.

<sup>1</sup> See Act of 1920, sec. 17. This section provides that payment by associations to members must exceed the "public" rate of benefit by at least one-third of the amount of that benefit. In the Act of 1921 (No. 1) this provision was amended so that the payment by associations to members would exceed the "public" rate of benefit by at least 5s. per week for men, 4s. for women, 2s. 6d. for boys, and 2s. for girls.

<sup>2</sup> First Report on the Proceedings of the Board of Trade under Part II of the National Insurance Act, 1911, Command 6965, 1913, p. 15.

under section 106. After 1920, with the repeal of section 106, refunds to associations were made under provisions laid down in the section (17) that in the Act of 1920 replaced section 105. The continuous record of the refunds in 1920 and 1921 under this section are not available, but it is stated that in 1921, 193 associations with a membership of 2,110,000 were participating in the scheme under the section.<sup>1</sup>

The fear that the adoption of public insurance would discourage the payment of unemployment benefits by trade unions and the few other voluntary associations, which had been accustomed to pay such benefits in the past, was found to be apparently unwarranted. While the scheme of unemployment insurance did not have the effect of stimulating a notable increase in the volume of benefits paid by associations, it also did not lead such associations to abandon their provisions for the payment of unemployment benefits. The following statistics on the unemployment benefits<sup>2</sup> paid by trade unions reporting to the Registrar of Friendly Societies show that the volume of benefits has varied with changes in the membership of trade unions and in the rate of unemployment. In the past few years, as the tide of unemployment has risen so sharply, the volume of benefits paid by trade unions grew considerably and is stated to have reached in the year ending September, 1921, for 154 reporting unions, the sum of £7,500,000.<sup>3</sup>

TABLE L.—UNEMPLOYMENT BENEFITS PAID BY TRADE UNIONS

Year	Benefits	Year	Benefits	Year	Benefits
1908	£1,046,258	1912	£632,389	1916	£120,164
1909	904,104	1913	509,895	1917	270,489
1910	663,928	1914	885,362	1918	327,005
1911	482,972	1915	294,530		

An important, if indirect, effect of these attempts to encourage voluntary insurance has been to draw associations, particularly trade unions, into the administration of the scheme of insurance. But this has not been accomplished without friction. In the period in which unemployment was small and the scope of the act restricted, relations were easy and peaceful. After 1920, however, there came first the enormous increase in the number of insured and later the rise in unemployment.

<sup>1</sup> PHILLIPS, T. W., Work of the Employment and Insurance Department of the British Ministry of Labour, *Labour Gazette* (Canada), September, 1921, p. 1177.

<sup>2</sup> Annual Reports of the Chief Registrar of Friendly Societies for the Year ending December 31st . . . Part C, Trade Unions. Number of registered unions reporting Unemployed, Travelling and Emigration Benefits: 1911, 346; 1912, 358; 1913, 350; 1917, 294, 1918, 293; other years not available.

<sup>3</sup> *The New Statesman*, Dec. 24, 1921, vol. XVIII, p. 339.

The extension of the act produced at once ill feeling between the trade unions and the friendly societies. The trade unions were jealous of their position and the friendly societies feared that the unemployment scheme and its administrative machinery would swallow up the administration of health insurance and their place in that administration. They, therefore, demanded the right to exercise the same functions under the unemployment scheme as were exercised by the trade unions.<sup>1</sup> When, however, this right was finally granted them, most of them apparently found their duties too onerous and the drain on their finances too great, and did not avail themselves of it. The trade unions, likewise, during the period of prolonged unemployment grew restless under the burden of mounting costs of administration and were granted in addition to the normal refund a subsidy for administration of 1s. for every week's benefit paid by them.<sup>2</sup> In spite of these manifestations, which are in some measure reactions to the severe depression and its prolonged unemployment, the influence of the system of public insurance has been wholesome both in stimulating the payment of benefits and in spreading the responsibility of administration.

**Problems of Administration.**—The employment exchange is the most important element in the machinery of administration of a system of unemployment insurance. By means of the exchange, it is designed to decrease the period of waiting between jobs, to assist the less organized workers to find jobs, to enable the government to measure the volume of unemployment, and to operate the scheme of compulsory insurance. The development of the English system of employment exchanges has been practically synchronous with the growth of the scheme of insurance. Every extension of the system of insurance, as well as unfavorable conditions of employment, have thrown additional burdens on the exchanges. From the beginning the exchanges have been subjected to severe criticism on many grounds. They were too expensive. Most jobs were found by persons independent of the exchanges. They had not earned the good will of the employers and the trade unions. They were resorted to largely by unskilled workers and were not used by the skilled.

It is doubtful, however, whether the criticism stands the test of actual performance of the English system of public employment exchanges. The system necessarily had to undergo a period of scrutiny in which the attitudes of the exchanges towards trade unions and employers were closely watched. They were forced to meet extremely difficult emergency conditions at the outbreak of the war, with the extension of insurance in

<sup>1</sup> National Federation of Employees' Approved Societies, *Report of the Special General Meeting and the Annual General Meeting*, London, Oct. 12, 1920; Association of British Chambers of Commerce, *Report of Meeting of Representatives of Chambers of Commerce*, 14 Queen Anne's Gate, Jan. 12, 1921.

<sup>2</sup> *The New Statesman*, Dec. 24, 1921, vol. XVIII, p. 339.

1916, in the administration of out-of-work donations in 1918 and 1919, and during the present severe crisis. From 1910 to 1920 the staff of the exchanges increased in number from 528 to roughly 13,000 persons, with a maximum on June 7, 1919 to 21,331.<sup>1</sup> In the interval, also, from 1911 to 1919 the number of registrations for jobs increased from 1,966,000 to 5,929,000, and the number of vacancies notified from 608,000 to 1,259,000.<sup>2</sup> The coming into effect in November, 1918 of the scheme of out-of-work donations threw a heavy additional burden on the exchanges.

Both in 1919 and in 1920 the employment exchanges were made the subject of critical and competent investigations by special committees appointed for that purpose. In both cases the evidence is overwhelming that the exchanges performed their function with notable success. Most of the charges were found to have little foundation in fact. The exchanges were utilized on a very large scale by employers and by trade unions. Statistical records indicate that they were used extensively by skilled workers. While there was considerable room for greater cooperation with employers and while there was some discussion of making the notification of vacancies compulsory on employers, no change in this direction was finally recommended. In the administration of the insurance scheme, the evidence was conclusive that the exchanges played an essential part in protecting the unemployment fund by recommending to unemployed insured persons suitable employment. Through their method of local and divisional organization, their labor control section, and their machinery for notifying vacancies and applications from one district to another, they seemed to be gradually approximating as complete a control over the mobility of labor as can in practice be achieved.<sup>3</sup>

It is, however, on the score of excessive cost that the whole scheme of unemployment insurance has been most severely attacked. The great increase of the tax burden in England during and after the war has led there, as elsewhere, to the examination of those functions which are deemed either too wasteful in themselves or wastefully administered. No absolute standards exist, of course, by which it is feasible to measure the waste or profit involved in the cost of administering an extensive system of compulsory unemployment insurance. The table below shows the total cost of administration of the scheme and the contributions

<sup>1</sup> *Minutes of Evidence Taken before the Committee of Enquiry into the Work of the Employment Exchanges*, Command 1140, 1921, p. 11.

<sup>2</sup> *Ibid.*, Appendix 3, p. 434.

<sup>3</sup> *Minutes of Evidence Taken before the Committee of Enquiry into the Work of the Employment Exchanges*, Command 1140, 1921; *Minutes of Evidence Taken before Committee of Inquiry into the Scheme of Out-of-work Donations*, Command 407, 1919. See particularly the testimony of T. W. Phillips, Assistant Secretary, Employment Department, Ministry of Labor, and of Commander J. B. Adams, General Manager, Employment Department, Ministry of Labor.

paid by the government into the unemployment fund.<sup>1</sup> It does not, however, include the expenditure of more than £60,000,000 on out-of-work donations from 1918 to 1921, or the somewhat less than £30,000,000 which will have been borrowed from the government for the unemployment fund by June 30, 1923. The administrative expenses were in fact

TABLE LI.—TOTAL CHARGE ON GOVERNMENT

Year	Net charge to Ex-chequer on account of administration	Government contribution to fund	Total charge
1912-13	£489,000	£378,000	£867,000
1913-14	523,000	602,000	1,125,000
1914-15	537,000	546,000	1,083,000
1915-16	603,000	538,000	1,141,000
1916-17	576,000	746,000	1,322,000
1917-18	723,000	1,007,000	1,730,000
1918-19	1,495,000	994,000	2,489,000
1919-20	3,154,000	912,000	4,066,000
1920-21	3,478,000	2,200,000	5,678,000
1921-22	2,789,000	6,720,000	9,509,000
1922-23	870,000	8,231,000	9,101,000

larger than are indicated in the table, but a substantial proportion of them was borne by segregating from the government contribution to the unemployment fund a percentage for use in meeting the cost of administration. This percentage is included in the figures in the third column of the table, so that the total charge of the unemployment scheme on the government is properly represented in the final column.

With a view to suggesting savings in the cost of administration, the Government Actuary made in December, 1921 a report on the expenses of administration and recommendations for their reduction.<sup>2</sup> The most important of his recommendations was that there be substituted a single contribution card for the two cards now held by persons insured in the schemes both of health and of unemployment insurance. This practice, it is pointed out, means that the contribution record of each of 12,000,000 people under unemployment insurance is practically duplicated under health insurance. The suggestion is one that has been made before, but it has always been rejected, probably because it is still considered the sounder public policy to permit each scheme, for the time at least, to retain its identity. An Interdepartmental Committee appointed "to consider the relations of Health Insurance and Unemploy-

<sup>1</sup> Committee on National Expenditure, *First Interim Report*, Command 1581, 1922, p. 145.

<sup>2</sup> *Ibid.*, Appendix (B), pp. 153-60.

ment Insurance" reported on March 17, 1922 that "whatever may be our ultimate recommendation, it is not possible to bring a combined card into use so soon as next July."<sup>1</sup> when the unemployment books and the health insurance cards now in use expire.

In addition to this duplication in administration between the schemes of health and unemployment insurance, the system of unemployment insurance has used an administrative and accounting procedure that has been often regarded as too cumbersome and expensive. This procedure has originated not in any peculiar principles of administration but in what have seemed to be the requirements of sound insurance practice. Thus the rule restricting the payment of benefits to one week's benefit for every six contributions, or the "one-in-six rule," has imposed on the administration of the system the necessity of keeping a vast number of individual records of the payment of contributions and of benefits. The expense of maintaining these records is undeniably great. But the method by which the administration may be simplified is not clear. A suggestion by the Government Actuary that the claims of individuals for benefits be controlled by reference to their "general employment records" seems to raise more serious difficulties than it settles. Other proposals for drastic administrative simplification seem, likewise, to create new problems where old ones existed before.<sup>2</sup> Reform in administration, when it does come, will come slowly and experimentally and will be made with due regard, not only for cost, but also for the purposes of the scheme.

### III. AMERICAN EXPERIMENTS WITH UNEMPLOYMENT INSURANCE

American experience with unemployment insurance is more important for its promise than for its accomplishment. As in many other fields of social legislation, in this, too, the United States has followed slowly and reluctantly the steps of other countries. Until rather recently, this country treated unemployment and the unemployed with measures that are known to have outlived their usefulness. There were the hastily improvised schemes designed to solve the problem of depression unemployment. Contracts were let hurriedly for public work. Charity facilities were extended. Employers were encouraged to divide the work among all their employees. At about that point the activities of the community stopped. Within less than a decade, however, there have been carried on a few experiments in unemployment insurance in the United States that command consideration. While these experiments affect only an insignificant proportion of the whole working force of the

<sup>1</sup> Interdepartmental Committee on Health and Unemployment Insurance, *First and Second Interim Reports*, Mar. 17, 1922, Command 1644, 1922, p. 10.

<sup>2</sup> Committee on National Expenditure, *First Interim Report*, Command 1581, 1922, pp. 145, 153 ff.

country, they have in them the germs of effective measures for attacking unemployment through the medium of insurance. Unemployment insurance or compensation, as it has been called in this country, has developed in the form of establishment funds, of an industrial fund confined to one city, and of proposed legislation by three American commonwealths.

The best known examples of the establishment fund are those organized under the auspices of Deering, Milliken Company in the Rockland Finishing Company at West Haverstraw, New York, and in the Dutchess Bleachery, Inc. at Wappinger Falls, New York, and by the Dennison Manufacturing Company at Framingham, Mass. In the three instances, the fund is set aside by the companies out of their profits. Once established, the funds are administered either by a committee of workers, as in the first two cases or by a joint committee of workers' and employers' representatives as in the last. What constitutes unemployment, under the administration of the fund, is in each case defined with precision and detail and benefits range from 50 to 90 per cent of their normal wages.<sup>1</sup> In their main features, although not in their details, these provisions for unemployment insurance are quite similar to those made by the Rowntree and Cadbury firms in England to supplement for their employees the benefits from the State fund.

A sum of \$20,000, set aside by the directors of the company in 1916, was the beginning of the unemployment fund maintained by the Dennison Manufacturing Company. Additional sums were appropriated for the same purpose in 1917, 1918, and 1919. The articles governing the control and use of the fund were drafted in 1920. The accounts of expenditures from the fund in the past few years bear testimony to the degree to which this firm has been able to reduce the volume of unemployment. In 1920 the amount of unemployment compensation was \$4,490; in 1921 it was \$22,989; and in the first six months of 1922 only \$95. For both 1920 and 1921 the amount of unemployment compensation represented less than 1 per cent of its total pay-roll. At the Dutchess Bleachery and at the Rockland Finishing Company the volume of unemployment compensation seems to have run relatively higher than at the Dennison Manufacturing Company. The expenditures of the first establishment were \$15,875 in 1920 and \$11,973 in 1921, or on the average 2 per cent of the total pay-roll; and those of the second establishment were \$59,512 and \$27,660 in 1920 and 1921, respectively, or on the average about 3.75 per cent of the total pay-roll.

While these experiments in unemployment compensation have not been generally and extensively adopted, they have been received with con-

<sup>1</sup> For the details of these schemes see *Experience of American Employers Favorable to Unemployment Compensation* (reprint from *American Labor Legislation Review*, March, 1921, vol. XI, No. 1), pp. 3, 9.

siderable interest. Only in the past few months a group of manufacturers in Philadelphia, engaged in the manufacture of box-making machinery, locks and hardware, leather belting, and electric measuring instruments, has been studying proposals for the initiation of similar unemployment compensation funds. The tentative plan on which this group is working provides for the establishment of an unemployment compensation fund by the firm; it limits the liability of the firm for the payment of compensation to the fund itself; after the manner of the British scheme it proposes safeguards to protect the fund against malingering; the rate of benefits it proposes is 50 per cent of normal wages in the case of unmarried persons and 75 per cent for a married man with a wife and three children. At this writing the proposal is still in the state of discussion.<sup>1</sup>

An unemployment insurance fund which has quite a different origin was created in Cleveland in June, 1921 as a part of a collective agreement between the local branch of the International Ladies Garment Workers' Union and the manufacturers of women's clothes in that city. This agreement requires each manufacturer to guarantee his regular workers twenty weeks of employment in each six months. If the employer fails to provide this amount of unemployment, he must pay his employees during the unemployed part of the period, two-thirds of their minimum wages. Since this agreement became effective when employment was particularly low in the industry, the liability of the manufacturers for unemployment pay was limited to  $7\frac{1}{2}$  per cent of their total direct labor pay-roll during each period of six months. These funds laid aside by each employer, and deposited weekly at the office of the impartial chairman of the industry, are not thrown into a common pool but are kept separate. At the end of each six months, therefore, such employers as have not had their complete fund drawn receive refunds of their balances.<sup>2</sup>

<sup>1</sup> On Jan. 1, 1922 the Delaware and Hudson Co. put into effect a comprehensive scheme of insurance, insuring their employees against death, accident and sickness, dismemberment or death by accident, old age and unemployment. The terms under which an employee receives unemployment insurance are as follows: "Provided he applies for and keeps in force at least two of the three classes of insurance (Life, Health, and Accident)—the Delaware and Hudson Co. will undertake to insure the employee against unemployment resulting from dismissal for any cause—the entire cost to be borne by the company. The amount of such insurance shall be \$15 per week for a period not to exceed six weeks, or for so much of that time as the employee is unable to find employment except that employees whose average annual wages during the preceding two years of continuous service have not been more than \$1,000 will be paid \$10 per week for the same period."

<sup>2</sup> MACK, W. J., *Safeguarding Employment: The "Cleveland Plan" of Unemployment Compensation: American Labor Legislation Review*, March, 1922, vol. XII, No. 1, p. 25. In a decision of the Board of Arbitration, May 16, 1922, the manufacturers who avail themselves of a reduction in wages are required to raise their minimum weekly guaranty fund payment from  $7\frac{1}{2}$  to 25 per cent of their total pay-roll and to pay benefits at the rate of the full minimum wage instead of two-thirds the minimum, as before.

An incentive is thus presumably given to employers to regularize their business and to save the payment of unemployment benefit.

The interpretation of the experience of the first six months, from June to December, 1921, with this system of unemployment insurance in Cleveland is made difficult by the character of the ladies' garment industry. In Cleveland, as elsewhere, the industry is divided into two branches, the inside shops, generally of substantial size, and the outside shops of small size operated by contractors. An analysis of contributions to and expenditures from the insurance fund indicate a much greater regularity of employment in the inside shops and consequently the receipt of larger refunds by the inside manufacturers, and the more rapid exhaustion of the unemployment funds of the outside shops. From June to December, 1921 inside manufacturers paid into the fund \$93,274 and received back \$60,747; the outside employers paid in the same period \$9,609 and had refunded to them \$3,293. Of the thirty-three inside manufacturers, four received back their total contributions; three used up all of their contributions, and thirty received refunds of smaller or greater amounts. Of the forty outside employers, on the other hand, thirty-three used up all their contributions and only seven received refunds.

Not until 1921 has there been any promising attempt to establish by statutory enactment compulsory unemployment insurance for large numbers of persons. On February 4, 1921 such a bill was introduced in the Wisconsin<sup>1</sup> legislature by Senator Huber; on March 21, 1921 a bill of the same character was introduced in the house of representatives of the Pennsylvania legislature by Christian Miller;<sup>2</sup> and about a year later a similar bill was introduced in the legislature of Massachusetts<sup>3</sup> by Representative Shattuck. In many of their important features the three bills bear a close resemblance to the various English acts. The statutory definition of unemployment follows closely the English provisions, restrictions are placed on the benefit periods, waiting periods are provided, and the administration of the insurance scheme is connected intimately with the conduct of a system of public employment exchanges. In other respects, however, the English legislation and that proposed in the United States show striking differences. Under both the Wisconsin and Massachusetts bills, the burden of raising the necessary unemployment fund is not apportioned among the state, employer, and employed, but is imposed entirely on the employer. The amount of contribution, likewise, does not vary alone in proportion to the number of employees but is graded with reference to the unemployment risk of particular employers. The insurance carrier is no longer the state, as in England, but a liability insurance company or a mutual insurance company. Elaborate provi-

<sup>1</sup> 1921 Wisconsin Senate Bill No. 122.

<sup>2</sup> 1921 Pennsylvania House Bill No. 1100.

<sup>3</sup> 1922 Massachusetts House Bill No. 278.

sions are embodied in the bills for the organization of agencies qualified to study the employment experience of the insured employers, to fix and supervise the fixing of the proper premiums, and to establish the proper charges and credits. None of the bills have yet become law. But if and when they do, they will in all probability represent the first serious experiments in preventing unemployment through the medium of a scheme of unemployment insurance.

#### IV. CONCLUSIONS

The experience of England with compulsory unemployment insurance, under conditions both favorable and highly adverse, has not supported the argument of those who had predicted it would be unworkable. By the creation of adequate machinery and by coupling the insurance scheme with a comprehensive system of employment exchanges unemployment can for practical purposes be defined and fraud and evasion largely eliminated. Rules can be laid down and enforced which define unemployment in consonance with the customs and practices of the country in which the scheme operates. The whole history of the functions of the insurance officer, the Courts of Referees, and the Umpires make it entirely clear that the interpretation of statutory rules can proceed along lines that commend themselves to the common sense of the community.

So far as unemployment insurance is designed to afford relief to the unemployed, the English system has also revealed the possibilities of compulsory insurance. The benefits, to be sure, have been small; Englishmen and foreigners have complained of this mere pittance; but conditions in England doubtless have been considerably better than they would have been in the absence of the insurance.<sup>1</sup> Workmen, moreover, who have received unemployment benefit have been made aware of the difference between benefits and doles. The opposition to compulsory state insurance that characterized the debates preceding the adoption of the Act of 1911 has in large measure subsided. Little is now said of paternalism and of unwarranted state interference with private enterprise. Criticism of the scheme of unemployment insurance is, to be sure, as widespread and as vigorous as it ever was. But the terms of the criticism are not to any considerable extent concerned with general opposition to state insurance but rather with opposition to particular features of the system. Employers find the cost of administration too high. They condemn what seems to them an undue laxity in the payment of benefits. The employment exchanges are not as efficient as they might be. The trade unions and workingmen's groups, on the other hand, find the benefits too little to be satisfactory. They would

<sup>1</sup> This conclusion may be valid; but where is the evidence to convince a sceptic?—Note by T. S. ADAMS.

like industries to assume a greater share of the responsibility for unemployment and, in some instances, they recommend a differentiation in the rates of contributions. After the manner of the proposed American legislation, they would impose the total cost of unemployment benefits on the industry and would require no contributions from working-men. Thus the experience of ten years in England has shifted discussion from opposition to a principle to scrutiny of specific administrative devices. With all of its possible shortcomings, it is probably no exaggeration to conclude that compulsory insurance against unemployment has become a permanent feature of English economic life.

It is with regard to the problem of unemployment prevention that the English scheme has made its smallest contribution. Yet it is just at this point that progress is most necessary. Once or twice timid steps in the direction of prevention were made through the British scheme, but, for one reason or another, they soon came to naught. Bills introduced in American legislatures have put their emphasis on penalizing unemployment to the extent of promoting prevention, and if these should be passed in the near future, as their supporters hope, America will be the first to have this type of legislation. The bills pending in Wisconsin, Pennsylvania, and Massachusetts represent the outlines of measures that stress prevention. In them, as in our workmen's compensation legislation, the compulsory payment of benefit is coupled with a premium rate structure that penalizes unfavorable experience and rewards the favorable. In theory, at least, the incentive to prevention is provided. It will not do, however, to become too sanguine over the probable effects of this type of insurance, sound as it seems in principle. An insurance premium does not exercise its full preventive influence just because there are differentials advantageous to some insurers and disadvantageous to others. No matter what the differentials, prevention will probably not be accomplished until the premiums are in absolute amount at a very high level. As E. H. Downey has pointed out in his discussion of workmen's compensation legislation, prevention is achieved when the cost of non-prevention becomes greater than that of prevention. Unemployment, likewise, will probably not be reduced substantially through insurance if it is cheaper to pay the insurance premium than to take the measures necessary to reduce unemployment.<sup>1</sup>

<sup>1</sup> "We have given much lip service to the principle of industrial responsibility but our practice has fallen far short of our professions . . . prevention is much short of what would be attained under an adequate scale of benefits. . . . Effective safety engineering costs much money. . . . To reduce the fatality rate from three to two per million tons of coal is perfectly feasible, but when the saving represents only one-quarter cent per ton it does not pay. If the average cost per death were raised from \$2,500 to \$10,000 much would become practical which is now deemed visionary." DOWNEY, E. H., American Compensation Laws, *American Labor Legislation Review*, March, 1922, vol. XII, No. 1, p. 55.