

UNEMPLOYMENT INSURANCE*

So much progress has been made in the last decade in the popular discussion of unemployment insurance and in actual experimentation with it, that I feel it a great privilege to be able to come here and tell what little I know about the experiments in unemployment insurance in other countries, and particularly about the slight experiments now being conducted in the United States.

As one interested in social progress in this country, I should feel much happier if I could devote a greater part of my time to a discussion of the American experience in unemployment insurance, but unfortunately this experience is so slight and so recent that I cannot talk as long about it as I should like.

Now, so far as I know, the experiments in unemployment insurance that antedated the passage of the British Unemployment Insurance Act in 1911, bore little fruit for those who were interested in unemployment insurance. The experiments conducted on the continent of Europe and in England were of the character of assessment insurance, and of benefit funds built up by voluntary associations, with very little or practically no actuarial basis, and very little statistical experience of any kind. Before the passage of the Unemployment Insurance Act in England, in 1911, there was a great deal of discussion in England and in other countries as to the solution of the unemployment problem. The great British Poor Law Commissions met and discussed the problem back and forth, and unemployment was classified and re-classified, and the classification covered many, many pages of the Poor Law reports, but the results were not illuminating. Apparently they were no nearer to the solution of the problem after the Poor Law Commission had met than they were before. So when Lloyd George's political power began to rise in England, the first great step in the direction of real unemployment insurance was made. In 1911 the British Unemployment Insurance Act was passed. This Act, of course, was experimental and highly tentative, but it has been in operation for ten years. It has encountered all types of economic

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conditions. It has been modified to meet new social and economic situations, and the results are bound to influence similar experiments in other countries, even though these other experiments be radically different from the original British plan.

Before the Act of 1911 was passed the administration had to determine its jurisdiction. In England, just as there would be in the United States under the same circumstances, there was a great deal of political wire pulling. Some people felt that they could easily carry their own unemployment risks and others felt that they ought to receive some kind of government support. It was decided, after considerable discussion, that it was to apply only to those trades and industries in which the rate of unemployment seemed to be greatest. The first Act, then, applied to more than 2,000,000 wage earners employed in the engineering and building and construction trades.

The principles on which the British Unemployment Act rested were simple. Considering the conditions prevailing at that time, it is clear that only those principles could have been included in the legislation. No attempt was made at differential rates. The rates of benefit were the same for everybody. No differentials were allowed for men who were married; no distinction was made between older employees and employees who had been on the job for only a short period. The Act remained in that form until 1916, when it was deemed advisable to extend its jurisdiction over munition workers, thus raising the number of persons under the Act from two million to three and one-half million.

In 1918, a few months before the demobilization of the Army and of the workers engaged in the war industries, the problem of unemployment again became a matter of serious discussion before the British Cabinet. It was felt that unless something was done to facilitate demobilization there was likely to be trouble in England. A number of plans were suggested to meet this impending problem of unemployment. Finally, in 1918, because they had not been able to anticipate their future problem, they adopted a temporary device. They suspended their Unemployment Insurance Act and put into effect the out-of-work donations scheme. Everybody who had been in a war industry or in military service and was now out of work, was

permitted to draw his out-of-work donation for certain periods specified by rules issued by the British Ministry of Labor. This scheme, which required no contributions from anyone except the State, lasted from November, 1918, to November, 1919, for civilian workers, and into 1920 for soldiers and sailors. After the out-of-work donations activities ceased, it was evident that the problem was still pressing. England was threatened with another very violent depression and another great wave of unemployment. Again attention was turned to the unemployment problem. It was then decided that the Unemployment Insurance Act should be extended to cover all of the twelve million wage earners in England. Accordingly in the winter of 1920, the Unemployment Insurance Act of 1920 was passed, extending the jurisdiction of the Unemployment Insurance Act over all industrial workers,—a little less than twelve million workers.

The actual operation of the British unemployment insurance system can be best surveyed by referring to certain of its features. First of all, there was very little of a desire, when the first Act was passed, to emphasize the preventive features of unemployment insurance. The English Government at that time was in a frame of mind where they wanted to proceed along the simplest possible lines. They, therefore, apparently concluded that since the unemployed workers could not be asked to pay for their own unemployment insurance, the scheme would have to be a subsidized scheme and the subsidy would have to be furnished by the State.

Contributions of equal amounts were exacted from the employees and from the employers, and an additional contribution somewhat less than the contribution of the employers and employees, was made by the State. In this respect the Act has not changed from 1911 to the present time, except for very slight modifications in the rates. With regard to benefits the same rules were followed. Flat benefits were given to everybody; again with the exception of slight variations during the operation of out-of-work donations, and since the adoption of the 1920 Act.

The rate of benefit was changed from time to time to allow for changes in the cost of living and again later to protect the solvency of the unemployment fund. The benefits, started at

seven shillings a week for men and women, were raised during the out-of-work donation scheme to twenty-nine shillings, and under the 1920 Act they were reduced to fifteen shillings. Now the men receive fifteen shillings a week and the women twelve shillings.

From the time the Act came into operation the administration faced every conceivable type of economic condition. Beginning in 1911 and continuing through to 1918, when the first economic collapse came, the sailing was good. Business conditions were good. People were contented with rising prices coupled with substantial business profits, so that everything went well with unemployment insurance, just as it did with all business in that period.

At the end of 1920, making no allowance for the extra amount expended by the Government in 1918 and 1919, the Unemployment Insurance Fund had accumulated a surplus of twenty million pounds. Then, at the end of 1920, the Act was extended to cover those persons who had not come under the Act before.

When the British Actuary made his estimates and calculations for the future for the fund, he decided that the sailing would be just as clear in the future as it had been in the past. He was not able to forecast the impending industrial depression. During the early months of 1921 things went well, but very soon after the collapse came. Immediately large drafts were made on the Unemployment Insurance Fund so that in a few months the whole twenty million pounds of surplus was gone. Under such circumstances, of course, the first step is to increase the rate of contributions and reduce the rate of benefits, and both of these expedients were adopted. Unfortunately, however, the rate and duration of unemployment was growing so rapidly that these measures were soon found to be insufficient. The drafts on the Unemployment Fund continued and it was made necessary to receive financial assistance from some quarter. The Fund was, consequently, authorized to borrow from the Government a sum approximating ten million pounds. This authorized borrowing has since been increased from ten to twenty and then from twenty to thirty million pounds, so that at the present time the unemployment insurance fund is indebted to the British Government for something less than thirty million pounds.

When the British Actuary was making his forecast for 1922 and 1923, he predicted that the fund would again be solvent in 1923. He predicted that the rate of unemployment would drop and with the reduced rates of contribution and of benefit, solvency would be restored. He found, however, that he was over optimistic about the future. For at his last writing, only a few months ago, he states that he does not know when the Fund will be again solvent. Financially, these are the outstanding features in the history of the British scheme.

There were a number of conditions that contributed towards making the fund insolvent and these conditions are important because they are conditions that are likely to be confronted by any kind of general unemployment insurance scheme. The fund became insolvent not only because there was a great increase in the volume of unemployment, but also because it was found necessary to suspend a great many of the safe-guards which were erected in the Acts. For instance, in defining unemployment, in determining the period of unemployment pay, the various Acts provided that the maximum period of benefit be fifteen weeks: that there must be preserved a fixed ratio between the number of weeks benefit received to the number of weeks contribution paid. The Acts also specified a waiting period.

Now, when this great avalanche of unemployment came at the end of 1920, at the beginning of 1921 and all through the year 1922 the demands for unemployment benefit became more and more insistent. Again and again in Parliament, representatives of trades unions and representatives of unorganized labor groups complained that the people were not being supported by the insurance scheme which was designed to solve the unemployment problem in England. From time to time during this whole period from 1920 to 1922, these various safe-guards were temporarily repealed, and then the period of repeal was extended, and at the present time they are still in a state of repeal. The maximum is no longer fifteen weeks. Special benefit periods of time were provided which greatly extended the term of benefit payment. The one to five ratio was suspended. The waiting period was entirely removed, and certain provisions were modified in such a way as to make it easier for a man to receive his unemployment insurance. The great rise in unemployment, making necessary certain modifications of the rules, contributed

in producing the present state of insolvency of the unemployment insurance fund.

It is only reasonable to expect in any system which has a political foundation that it should from time to time be subject to various types of pressure. In 1920, for example, when it was desired to extend the unemployment insurance scheme to cover practically the whole of industry, there were groups like the textile workers, for instance, who did not want to come into the general unemployment insurance scheme on the same terms as the others. Finally, however, they did come in.

Accidents happened to unemployment insurance in England. The first accident was that these various people who objected to coming in, on the ground that they did not need unemployment insurance, were soon very hard hit by unemployment. They found themselves in a position in which they were drawing on funds which had not been accumulated by them but by those insured under the old 1911 Act.

When the Act of 1920 passed, a provision was inserted into this Act which made it possible for certain industries to contract out, that is, to carry their own insurance under conditions specified by the Act and agreeable to the Ministry of Labor. When the first wave of unemployment had been passed, these people who wanted to contract out under the 1920 Act, came to the Ministry of Labor and asked that they be allowed to carry their own unemployment insurance.

They thought they had passed the severe phase of unemployment in their industries and that they should then be allowed to go it alone, receiving the same rate of benefit and paying a lower rate of contribution. Then the difficulties of the Ministry of Labor began. The Ministry of Labor contended that it would not be wise to permit these trades to contract out. It was the Ministry's opinion that they ought to stay in long enough to participate in wiping out the deficit of the unemployment fund, and perhaps, in assisting to build up a new surplus. In May, 1921, this provision of allowing trades to contract out was repealed; so that, at the present time, only one industry in England, the insurance industry, is operating its own unemployment insurance.

The experience of the insurance industry with its own unemployment insurance is indicative of what some industries might

achieve if they were allowed to carry their own unemployment insurance. Everybody in the insurance industry is as adequately insured as are people under the regular insurance scheme. But the rates of contributions are lower and the Fund has accumulated a surplus. Unemployment in this industry is, of course, considerably less than in industry generally. The attempt, therefore, to establish insurance by industry was dropped because of the insolvency of the Fund, and because these particular trades who wanted to carry their own insurance had drawn on the accumulated surplus of the other trades.

Now England, in the administration of its unemployment insurance, has been confronted with many interesting problems of administration. While England has solved these problems pretty well, it is doubtful whether the same kind of problems could be solved as easily in the United States. When I describe some of her problems, it will be reasonably clear why the situation may be more difficult in this country.

One of the most puzzling problems in planning any kind of unemployment insurance arises in the definition of unemployment. Those who have attempted to define unemployment realize how cautious they must be in the matter. They must prevent malingering and at the same time make its beneficiaries feel that the system is fair and not harsh. The people have to be made to feel that they are getting the unemployment insurance which is due them and that confidence must be earned. In order to meet these conditions—these difficulties—there were inserted into all of the British Acts, certain clauses specifying the conditions under which unemployment insurance should be paid.

If a man left his job without just cause, or because of misconduct, he should not receive unemployment insurance. If he refused to take suitable employment, he was likewise disqualified. If he lost his job as a result of a trade dispute, he should not receive unemployment insurance.

Under the British Act, the machinery for carrying out the unemployment insurance was erected with a great deal of skill, just as the English carry out most of their administrative enterprises. An unemployed person has to appear before the Unemployment Exchange and register. At the Unemployment Exchange there is a public official known as the Insurance Officer.

He passes on the claim for unemployment insurance. If he grants the man's claim, he receives his unemployment benefit. If the claimant is turned down, he can either abide by the decision of the Insurance Officer or appeal to the Court of Referees. If the Court of Referees agrees with the decision of the Insurance Officer, then the decision stands. If, on the other hand, the Court of Referees disagrees with the Insurance Officer, then an appeal is proper to an individual known as Umpire who is directly appointed by the Crown, and the Umpire's decision is final.

Decisions of the Courts of Referees are not available. But the decisions of the Umpire have been tabulated and at the present time fill about five very thick volumes. They are a most illuminating source of information on the types of problems that administrators of unemployment insurance are likely to encounter. In the early days most of the cases centered around the definition of mis-conduct and leaving a job without just cause. More than half of the cases were concerned with the definition of mis-conduct and leaving without just cause. Judged by the reports of the cases they were all adjusted fairly, with a great deal of common sense.

About 1918 or 1919, after the Armistice, the emphasis on the definition shifted from just cause and mis-conduct to suitable employment. During the War a great many people had come into employment who had never worked before, and they came into employment on very favorable terms. When demobilization came, such persons presented themselves first before the Out-of-work Donation Authorities and later before the Unemployment Insurance Authorities, and insisted on receiving unemployment insurance pay. It developed that in the largest proportion of these cases, the women and men could not get work at the same rates of pay at which they had worked during the War period. In fact such employment had in large measure disappeared. The great mass of cases that came before the Courts and Umpires during the post-War periods were cases bringing into question the matter of suitable employment. Was it, for instance, justifiable to take a girl who had worked as a servant girl before the War and as a factory worker during the War and pay her unemployment insurance or to insist that she go back to her pre-War occupation? This was the situation until the beginning of the great crisis of 1921.

Then, in England, as in the United States, great numbers of people were thrown out of work, and an attempt was made by employers to regulate labor and to deflate wages. The great problem presented to the Administration was what would be the action of the insurance administration with reference to this deflation. Deflation is never accomplished peacefully; it is always accompanied by strikes. It became necessary for the Court of Referees to determine what was meant by the clause in the original Insurance Act stating that men will not receive unemployment insurance if they are unemployed by reason of a trade dispute, since there were a great mass of claims for unemployment insurance by persons who were unemployed because they were directly or indirectly involved in trade disputes. The interpretation of this provision has created considerable dissatisfaction. Only a few weeks ago there was appointed a Commission of Inquiry whose function it will be to determine the policy with reference to this phase of unemployment,—namely, that arising out of the existence of trade disputes.

In spite of difficulties of this kind, in spite of a great deal of dissatisfaction with the interpretations of all these clauses,—“without just cause,” “suitable employment,” and so on,—the general feeling that one gets by talking to Englishmen who have been concerned with the administration of the Act and by a study of the documents, is that in general they are satisfied that the Act has been administered fairly and competently.

So, to summarize the thing very briefly, we find the British system now extending over twelve million workers; the plan has had considerable administrative success in controlling fraud and malingering; the system has been forced to face insolvency on account of the adverse conditions from 1920 to 1922; the period of insolvency is not yet over nor can its end be safely predicted; and finally, little, if any, prevention of unemployment has been achieved.

In the United States there have been a number of interesting experiments which are new and may develop successfully. They are of three types.

The first type of the experiment is illustrated in the establishment by a few private employers of insurance funds from which unemployment insurance is paid to their unemployed workers. The most notable examples of this type of insurance are to be

found in the Dennison Manufacturing Company of Framingham, Massachusetts, in the Rockland Finishing Company of West Haverstraw, New York, and in the Dutchess Bleachery at Wappinger Falls, New York. All three plans are similar in general principle although they differ somewhat in detail.

Insurance funds of varying amounts were set aside by the Directors of these various companies. Provision was made for conditions under which unemployment benefits would be paid to idle workers, and benefits range in the plants from 50 per cent. to 90 per cent. of the average earnings of the unemployed worker. In one important respect, these plans possess great interest. They represent attempts not only to tide workers over their periods of unemployment, but also to regularize business and to reduce substantially the volume of unemployment. The degree to which it was possible to regularize unemployment is indicated by the fact that in the Dennison Company the total amount of unemployment compensation paid during both 1920 and 1921 represented less than 1 per cent. of its total pay-roll. The experience in the two other establishments was not so favorable and it is doubtful whether the common run of industry in this country would show, in any case, as low a rate of unemployment as was shown by these three Companies.

Experiments of this type have not been extensive in this country. Only a few months ago a group of manufacturers in the City of Philadelphia began the study of the feasibility of undertaking the establishment of similar systems of unemployment insurance in their own plants. So far as I know, this study has not yet developed into concrete proposals. It is only evidence of the fact that a larger and larger number of employers are turning their attention to the problem of unemployment insurance.

The second type of experiment is carried on in the city of Cleveland under the joint auspices of the local branch of the International Ladies Garment Workers and the cloak and suit manufacturers in that city. By collective agreement between employers and employees, there was established in June, 1921, a procedure whereby each manufacturer agreed to guarantee his regular workers twenty weeks of employment in each six months. Because of the prevailing volume of unemployment at that time it was further agreed that the employers'

liability for unemployment pay was to be limited to $7\frac{1}{2}$ per cent. of their total labor pay-roll during each period of six months. The funds so collected were set aside to the account of each employer and were deposited weekly at the office of the arbitrator in the industry. Those workers who do not receive their quota of 20 weeks employment draw unemployment pay at the rate of two-thirds of their minimum wage from the respective unemployment funds until the fund becomes exhausted, when the payment of unemployment benefit ceases. This system, of course, is limited in extent. It covers somewhat roughly four thousand workers, but its experience has been very interesting.

The cloak and suit industry in Cleveland as elsewhere, is roughly divided into two parts. Part of the industry is carried on by large manufacturers and part by the small contractors. While there are exceptions to the rule, it will generally be found easier to regularize the business of a large manufacturer than that of a contractor, and this has been the experience in Cleveland. The accounts of the experience of the fund during its first six months of operation from June to December, 1921, show that few of the large manufacturers exhausted or used even a substantial part of their unemployment funds, whereas a very large proportion of the contractors exhausted their total funds. The plan, as inaugurated in June, 1921, was modified in an important manner the following year, when the Board of Arbitration, in a wage decision, raised the guarantee of each employer to 25 per cent. of their weekly labor pay-roll in exchange for a 10 per cent. reduction in wages.

The third type of experiment in unemployment insurance in the United States has not yet left the field of discussion. Bills providing for the establishment of general and compulsory unemployment insurance were presented to the State Legislatures of Wisconsin and Pennsylvania in 1921, and Massachusetts in 1922. In most of their essential features these proposed Bills differ very slightly from the Acts in operation in England. In fact, many of the English phrases have been transferred bodily into the proposed American Legislation. Provisions defining unemployment, establishing the administration of insurance, providing for waiting periods, and limiting the period during which unemployment benefits should be received, are almost exact reproductions of similar features of the British system. In two important respects,

however, the proposed American Legislation differs radically from that now in force in England. Unemployment funds are not provided by joint contributions from State, employers and employees as in England, but are imposed wholly on the employer; nor are the rates of contribution flat, and the same for all industries and for all employers. It is proposed in this American Legislation to set up agencies which will study the unemployment risk in different industries and in different establishments, and which will work out the necessary premium rate structures. In the second place, the carriers of the unemployment insurance are not State Funds as in England, but are either mutual insurance companies or liability insurance companies, or both. It is, of course, difficult to tell what the future of such proposed Legislation will be. When the Wisconsin Act was first introduced there seemed to be a good chance that it would be passed, but in its course through the State Legislature an amendment was introduced extending its provisions to agriculture. This brought against the Bill the opposition of the farmers, and it was defeated. In Massachusetts the Bill was disposed of by the creation of an unemployment commission to study the problem of unemployment and its various remedies. In Pennsylvania the Bill received hardly any attention at all.

Judging by the extensive and sustained interest in unemployment insurance, however, it seems reasonable to believe that it will be only a short period of time before one or more of the American Commonwealths will embark on the experiment of compulsory unemployment insurance just as, several decades before, they had embarked on similar experiments in the field of accident insurance.

The problems will be difficult. Many of the obstacles to the successful working of insurance in the field of unemployment will be new and of a more troublesome nature, perhaps, than have been encountered in other fields of insurance; but it is no exaggeration to say that for the student of insurance and for the administrator of insurance enterprises, no field in this country at the present time offers a more fascinating and constructive opportunity for facing new problems and for solving them than does that of unemployment insurance.