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**THE PAST AND PRESENT
OF UNEMPLOYMENT
INSURANCE**

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THE PAST AND PRESENT OF UNEMPLOYMENT INSURANCE

The Coming of Insurance and the Scheme of 1911

ON 19th May 1909,¹ Mr. Winston Churchill, as President of the Board of Trade, announced the intention of the Government to introduce compulsory insurance against unemployment. The project seemed then, and was, a daring adventure. Except for one ill-judged and disastrous experiment in the Canton of St. Gall,² compulsory insurance against unemployment had never been attempted in any country of the world. All voluntary schemes had been immediate failures or insignificant successes. The only working model on a large scale was afforded by trade unions, which undertook no legal liabilities, were armed with almost indefinite powers of raising levies, and consisted predominantly of the picked members of skilled trades. Germany, which had led the way in accident and sickness insurance twenty-five years before, was still hesitant as to the possibility of defining insurable unemployment and testing whether it had occurred.³ In their reports just published the minority of the Poor Law Commission had definitely recommended, and the majority appeared to favour, as an alternative to direct compulsory insurance, a scheme of subsidies to trade-union insurance on the analogy of what had already been done at Ghent.

The objection to the scheme of subsidies, as it had presented itself to the officials at the Board of Trade in the autumn of 1908, was the doubt whether such a scheme

¹ In a Parliamentary debate on the recently published *Reports of the Royal Commission on the Poor Laws and Relief of Distress through Unemployment*.

² Described, with all the other schemes of unemployment insurance attempted up to that time, in a memorandum on *Insurance against Unemployment in Foreign Countries*, prepared by the Board of Trade for the Poor Law Commission (vol. ix, Appendix XXI (k)).

³ See vol. i, pp. 665-7, of the report published in 1906 by the German Statistical Office on *Versicherung gegen die Folgen der Arbeitslosigkeit*.

would do anything serious to prevent distress. In so far as the resulting insurance was confined to existing trade-union membership, it clearly would not do so; very few trade unionists, and practically none from unions giving unemployed benefits, were found among the applicants to Distress Committees. Nor was there anything in foreign experience to suggest that granting of subsidies would largely increase the scope of trade-union benefits or the numbers subscribing for them. If the promotion of unemployment insurance 'especially amongst unskilled and unorganized labour' had the 'paramount importance' attributed to it by the Majority Report, the only logical course was to try compulsion if a scheme could be framed. Mr. Churchill was fortunately prepared to will the means to effective unemployment insurance as well as the end. The officials of the Board of Trade were prepared to back their skill in making schemes, so long as they were not asked to bring all trades in at once. The resulting proposals of the Government went ahead of the Reports of the Royal Commission alike in definiteness and in scope.

The birth of compulsory unemployment insurance is a signal instance of how much the personality of a single Minister in a few critical months may change the course of social legislation. It may also be cited to illustrate the initiative of civil servants. The chief official concerned—Sir Hubert Llewellyn Smith, then Permanent Secretary of the Board of Trade—happened in 1910 to be President of the Economic Section of the British Association, and took the occasion in his presidential address to analyse the problem of unemployment insurance and, incidentally, expound the principles underlying the scheme which he with others was framing. The following extract¹ from his address has historical importance.

'The crucial question from a practical point of view is, therefore, whether it is possible to devise a scheme

¹ *Report of British Association for the Advancement of Science, 1910, pp. 678-9.*

of insurance which, while nominally covering unemployment due to all causes other than those which can be definitely excluded, shall automatically discriminate as between the classes of unemployment for which insurance is or is not an appropriate remedy.

'We can advance a step towards answering this crucial question by enumerating some of the essential characteristics of any unemployment insurance scheme which seem to follow directly or by necessary implication from the conditions of the problem as here laid down.

'1. The scheme must be compulsory; otherwise the bad personal risks against which we must always be on our guard would be certain to predominate.

'2. The scheme must be contributory, for only by exacting rigorously as a necessary qualification for benefit that a sufficient number of weeks' contributions shall have been paid by each recipient can we possibly hope to put limits on the exceptionally bad risks.

'3. With the same object in view there must be a maximum limit to the amount of benefit which can be drawn, both absolutely and in relation to the amount of contribution paid; or, in other words, we must in some way or other secure that the number of weeks for which a workman contributes should bear some relation to his claim upon the fund. Armed with this double weapon of a maximum limit to benefit and of a minimum contribution, the operation of the scheme itself will automatically exclude the loafer.

'4. The scheme must avoid encouraging unemployment, and for this purpose it is essential that the rate of unemployment benefit payable shall be relatively low. It would be fatal to any scheme to offer compensation for unemployment at a rate approximating to that of ordinary wages.

'5. For the same reason it is essential to enlist the interest of all those engaged in the insured trades, whether as employers or as workmen, in reducing

unemployment, by associating them with the scheme both as regards contribution and management.

'6. As it appears on examination that some trades are more suitable to be dealt with by insurance than others, either because the unemployment in these trades contains a large insurable element, or because it takes the form of total discharge rather than short time, or for other reasons, it follows that, for the scheme to have the best chance of success, it should be based upon the trade group, and should at the outset be partial in operation.

'7. The group of trades to which the scheme is to be applied must, however, be a large one, and must extend throughout the United Kingdom, as it is essential that industrial mobility as between occupations and districts should not be unduly checked.

'8. A State subvention and guarantee will be necessary, in addition to contributions from the trades affected, in order to give the necessary stability and security, and also in order to justify the amount of State control that will be necessary.

'9. The scheme must aim at encouraging the regular employer and workman, and discriminating against casual engagements. Otherwise it will be subject to the criticism of placing an undue burden on the regular for the benefit of the irregular members of the trade.

'10. The scheme must not act as a discouragement to voluntary provision for unemployment, and for that purpose some well-devised plan of co-operation is essential between the State organization and the voluntary associations which at present provide unemployment benefit for their members.

'Our analysis, therefore, leads us step by step to the contemplation of a national contributory scheme of insurance universal in its operation within the limits of a large group of trades—a group so far as possible self-contained and carefully selected as favourable for the experiment, the funds being derived from compul-

sory contributions from all those engaged in these trades, with a subsidy and guarantee from the State, and the rules relating to benefit being so devised as to discriminate effectively against unemployment which is mainly due to personal defects, while giving a substantial allowance to those whose unemployment results from industrial causes beyond the control of the individual.'

The analysis leads, also, as might be expected, step by step, to a scheme indistinguishable from that which had been announced a year before by Mr. Churchill and was embodied a year later in Part II of the National Insurance Act. This scheme combined compulsory contributory insurance for limited benefits in selected trades with subsidies to voluntary insurance through associations in all trades. Its main features may be summarized as follows:

The compulsorily insured trades were building, construction of works, shipbuilding, mechanical engineering, iron-founding, construction of vehicles and sawmilling carried on in connexion with any other insured trade or of a kind commonly so carried on. Every workman in those trades had to have an 'unemployment book' which he handed to his employer on being engaged, and which the employer gave back to the workman when for any cause the employment ended. To this book the employer had for each week of employment to affix a *5d.* insurance stamp, and was entitled to deduct half the value, that is $2\frac{1}{2}d.$, from the workman's wages. For an engagement of one day only the joint contribution was *2d.*, and for one of two days *4d.*; for anything from three to six days the full week's contribution of *5d.* was due. The State contribution was one-third of the sum received from employers and workmen, that is to say, roughly $1\frac{2}{3}d.$ a week, or one-fourth of the whole; in addition the State bore any cost of administration in excess of 10 per cent. of the income of the Unemployment Fund, into which all contributions were paid, and from which all benefits came.

The benefit was *7s.* a week up to a maximum of fifteen weeks in a year, subject to the provisos that no one should

get more than one week of benefit for every five contributions paid or deemed to have been paid for him, and that no benefit should be paid for the first week of any period of unemployment. In order to prevent the one-in-five rule from bearing too hardly at the outset of the scheme, all those who could show substantial previous employment in an insured trade were credited with twenty-five contributions. To get benefit the workman had to fulfil certain statutory conditions and to be free of certain disqualifications. The statutory conditions were that the applicant should prove that he had been employed as a workman in an insured trade for twenty-six weeks at some time during the past five years; that he had made application in the prescribed manner (which meant in practice that he had lodged his unemployment book at a Labour Exchange or other local office of the Unemployment Fund and filled in a form) and had been continuously unemployed since his application; that he was capable of work but unable to obtain suitable employment, and that he had not exhausted his right to benefit. Notwithstanding fulfilment of the statutory conditions a workman was disqualified for benefit:

(a) if he had lost employment by reason of a stoppage of work which was due to a trade dispute at the factory, workshop or other premises at which he was employed—for so long as the stoppage continued or till he got work again elsewhere in an insured trade;

(b) if he had lost employment through misconduct or had left it voluntarily without just cause—for six weeks from the date of so losing and leaving employment.

There were other minor grounds of disqualification.

The decision whether a workman was entitled to benefit or not was given in the first instance by a statutory 'insurance officer', who was an official of the Board of Trade; if the insurance officer decided in favour of the workman his decision was final; if he decided against the workman, the latter might appeal to a Court of Referees,

consisting of an employer, a workman and an impartial chairman, usually of legal training; under certain conditions there might be further reference to an Umpire appointed by the Crown. The ultimate responsibility for refusing benefit in individual cases—and of explaining in Parliament why it had been refused—was thus removed from the President of the Board of Trade. He could and did give general instructions to the insurance officers, but no instructions at all to the Courts of Referees or to the Umpire; the latter was a judge of a specialized kind, whose rulings bound the Courts of Referees and from whom there was no appeal; his judicial position was marked by charging his salary, like that of the ordinary judges, on the Consolidated Fund and not on any departmental vote.¹

While ingeniously side-tracking responsibility for deciding on individual claims to benefit, the Board of Trade retained direct control of the rest of the scheme, administering it through the labour exchanges. The workman obtained his unemployment book from an exchange; he claimed and received benefit there; he proved his unemployment and capacity to work by signing an unemployed register there in working hours daily, or (if living at a distance) at other required intervals; his inability to obtain suitable employment was meant to be tested and was tested substantially by whether the exchange could offer him a job or not. With this in view, an important proviso secured that a workman should not be refused benefit merely on the ground that he had declined employment in a vacancy due to a trade dispute or at less than the usual or recognized wages. The actual wording of the proviso was elaborate; the existing rule is the same in principle and is set out fully later.

The contributions were paid into, and the benefits from,

¹ The Umpire originally had also the function of deciding whether a workman was within the insured trades or not. Later (1920) this duty of demarcation was treated as an administrative function and transferred to the Minister of Labour.

an unemployment fund which had to be self-supporting. If the fund became exhausted it could obtain a loan from the Treasury, but if the Treasury thought the fund insolvent, they could then require such revision of contributions or benefits or both (within wide limits) as appeared necessary to restore solvency. Though the contributions for all trades were fixed originally at the same level, provision was made for keeping the accounts so as to show how each industry was paying in and drawing out; after five years there was to be a valuation of the fund and it was contemplated that there should then, in the light of experience, be a revision and differentiation of contributions by trades.

Such was the main structure of the scheme. A number of subsidiary provisions were added to meet possible objections to compulsory insurance at a flat rate of contributions and benefits. The most ingenious of these fancy clauses was that which entitled any workman who reached the age of sixty without drawing as much in benefit as he himself had paid in contributions, to get back any excess of his contributions above benefits, with interest at $2\frac{1}{2}$ per cent. and without forfeiting a claim to future benefits. This was meant to afford, and did afford, an almost complete reply to the steady workman who might object to insuring against a risk of unemployment that for him seemed negligible. How the scheme could afford these refunds was a mystery, till it was explained that many steady men would die under sixty and that those who lived to claim their own contributions would leave in the fund the contributions of their employers and of the State; they would be highly profitable members. Other clauses gave a refund of part of the employer's contribution for men continuously employed by him during each insurance year, allowed remission of contributions where short time was being worked systematically to avoid unemployment, provided for a reduction of the high daily rates of contribution in respect of men engaged through a labour exchange, and authorized arrangements

by exchanges to stamp health insurance cards in all casual occupations.

Finally, the position of voluntary associations already undertaking insurance—in practice these were all trade unions—was recognized in two ways. First, any such association of workmen in the compulsorily insured trades could make an arrangement with the Board of Trade, allowing its members to draw their state benefit as well as their association benefit through their association and not directly from a labour exchange. Second, the State undertook to repay to approved associations of workmen, both in the insured trades and outside them, one-sixth of any unemployed benefit paid by them to their members from their own resources. This meant in effect adding the Ghent system of subventions to the compulsory insurance scheme.

Though without precedent in its own field, the scheme had regard to all available analogies. The idea of collecting contributions by stamping of cards carried by the workmen, till then unknown in Britain, was copied from Germany. The testing of unemployment by daily signatures in working hours and many other details of administration were copied from the British trade unions. The elaborate definition of insurable unemployment by statutory conditions and disqualifications and provisos, the limitation of benefit by reference to the contributions paid, and the machinery for decisions were the original fruit of hard thinking.

After its announcement by Mr. Churchill in 1909, the scheme was not formally introduced till 1911, when it appeared as Part II of the National Insurance Bill, whose Part I was the more general but later born scheme of health insurance. Mr. Churchill had already left the Board of Trade and the piloting of the scheme through Parliament fell to Mr. Sydney (now Lord) Buxton. It had a surprisingly easy passage. No one sought to oppose it in principle, and no one outside the Board of Trade knew enough to criticize it in detail. The interval since 1909

had been fully occupied in working out the details and settling up the administrative machinery of the labour exchanges. Contributions became payable from 15th July 1912, and benefits six months later.

The scheme was thus fully launched on 15th January 1913. It took the water smoothly and found smooth water to receive it; the eighteen months from the beginning of 1913 to the outbreak of the Great War were a time of exceptional prosperity and of unemployment as low as had been known for a generation. The working of the scheme to the end of the first insurance year on 12th July 1913, covering six months of full operation, was described in a report published almost immediately after; the next insurance year was dealt with in a report printed in 1915 though never published.¹

The main features in this year and a half of opening experience may be summarized as follows:

1. The actual number of insured workpeople proved to be below expectation, about $2\frac{1}{4}$ millions in place of over $2\frac{1}{2}$ millions. The deficiency arose mainly because the building trade was found not to have grown since 1901 at the rate expected²; since the building trade was also expected to have the heaviest unemployment of the insured trades, this was a difference favourable to the finance of the scheme.

2. The contributions materially exceeded the expenditure and by August 1914 a surplus of £3,185,000 had been realized. The probable loss in a severe depression, such as that of 1908 and 1909, was estimated at no more than £5,000,000; the fund was already well on the way to security.

3. The number of claims made amounted to nearly 1,100,000, or an average of 20,000 a week in the insurance year 1913-14; the 1,100,000 claims represented about

¹ The published report is Cmd. 6965. The unpublished report, referred to below as *Report on Labour Exchanges and Unemployment Insurance* (1915), is available for consultation in the Ministry of Labour.

² The numbers occupied in building actually fell by 7 per cent. from 1901 to 1911.

550,000 individuals. This meant that in a year of exceptional prosperity one out of every four men in the insured trades became unemployed at some time or other, and that there was one claim for every two insured persons.¹ Most of the claimants, however, remained out of work for very short periods. Of the total unemployment experienced only 55 per cent. ranked for benefit; over 24 per cent. fell in the first week or 'waiting time', in another 17 per cent. the workman was disqualified for various reasons, and less than 4 per cent. occurred after benefit had been exhausted. 40 claimants out of every 100 got work again in a week and another 35 in three weeks.²

4. Voluntary provision for unemployment in the insured trades was increased by the scheme; about twenty trade unions with a membership of 100,000 which had not previously given unemployed benefit began to do so in order to make arrangements with the Board of Trade. Partly through this, partly through the relative decline of the building trade, and partly through the growth of trade unionism, the proportion of workmen claiming benefit through their associations was higher than had been expected; about 650,000 workmen, or nearly one-third of the whole number insured, were found to be in associations.³

5. Outside the insured trades, the subsidy of one-sixth

¹ The percentages falling out of work in the course of the year of best employment range from 6.6 per cent. to 28.3 per cent. but are in most cases close to 20 per cent. In 1928-9 under the general scheme, about 4,000,000 out of 11,500,000 insured individuals, or 34 per cent., made claims; this was a year of bad employment.

² In respect of recovery of work there was a significant difference by age. The average length of a spell of unemployment in 1913, taking all ages together, was 14.8 working days; for the age-group 30-34 it was 13.1 days and increased steadily for each subsequent age-group. The length of spells was above the average also in the unsettled period from 19 to 24.

³ The proportion of association claims to benefit to total claims was practically the same—31.8 per cent.—in the insurance year 1913-14. 'There is no substantial difference between the proportion of cases of unemployment among members of associations and among workmen who are not members of such associations.' *Report on Labour Exchanges & Unemployment Insurance* (1915), § 380.

offered by the State, though taken advantage of by trade unions already giving unemployed benefits, had little effect in extending the scope of such benefits. Up to July 1914, 245 associations outside the insured trades, with a benefit membership of 520,000, had been admitted to claim the subsidy; only four of these, with a benefit membership under 11,000, had introduced unemployed benefits since the passing of the National Insurance Act. Up to this point, the views of those who had doubted whether the Ghent system would materially help in dealing with distress through unemployment were justified.

In concluding in July 1913 his first report on the scheme, the Director of Labour Exchanges felt able to draw the following inferences: ¹

'First, compulsory state insurance against unemployment in scheduled trades appears to be administratively practicable. No insoluble difficulties have presented themselves as regards the definition and test of unemployment. Some sort of demarcation of the insured trades has been effected.

'Second, compulsory state insurance can be introduced without destroying voluntary insurance. The amount of voluntary insurance has, indeed, been enlarged rather than reduced by the compulsory scheme.

'On the larger question of how far the benefits of this scheme will go towards preventing distress from unemployment, in bad times as in good, judgement must for the present be suspended. The next depression of trade will show.

'It is at least possible to look forward to the next depression from a new standpoint. The invested balance of the Unemployment Fund is £1,610,000, and will increase. The machinery for distributing the Fund is established. The depression that must come in due course will not find the country wholly unprepared.'

¹ Cmd. 6965, p. 46.

The War and the Ten-Year Chaos

In place of trade depression there came the Great War. The anxieties and expectations of the authors of unemployment insurance were swept away with all their plans, first by the disappearance of unemployment during the war itself, then by the catastrophic return of unemployment after the war and the stream of emergency measures for which it seemed to call. There is no need here to survey in detail the history of the fourteen years from August 1914 to the introduction of the new model of insurance in April 1928, after the report of the Blanesburgh Committee of 1927.¹ It must suffice to name the outstanding events.

First came the efforts during the war itself, in 1916 and 1918, to extend insurance betimes as provision beforehand for post-war unemployment. The moving spirits here were the same officials as those responsible for the scheme of 1911. The fruit of their activities in 1916 was a meagre addition of 1¼ million workpeople, mainly women, to the insured classes, by the Mmunition Workers Insurance Act; solid opposition by employers and workpeople engrossed in prosperity and refusing to contemplate the end of the war, kept out all the important trades. The fruit in 1918 was a report made in February of that year by one of the committees set up by the Ministry of Reconstruction, pointing to the prospect of widespread industrial dislocation and urging generalization of insurance. 'Unless a scheme of general insurance is devised and launched at the earliest possible date it may be impossible to avoid the disastrous chaos of unorganized and improvised methods of relieving distress.'² Into this

¹ The history of insurance in this period is described in a chapter on 'Unemployment Insurance in the War and After', contributed by myself to one of the volumes of the Carnegie Endowment Economic and Social History of the World War. This volume, entitled *War and Insurance*, was published in 1927, and should be referred to for fuller information on the history summarized in the pages immediately following. I have borrowed or adapted a phrase or two.

² *Report of Unemployment Insurance Sub-Committee of Civil War*

chaos, as nine months later the Armistice guns boomed out, the nation duly descended.

Second, came the 'donation' schemes, ex-service and civilian. The ex-service scheme, under which each non-commissioned member of the fighting forces on demobilization received a free policy of unemployment insurance, having been carefully planned ahead, and applying to an easily-defined class, worked smoothly from 1918 to 1921. The civilian scheme, extemporized to meet the gap caused by failure to extend insurance, could not be expected to work smoothly; during its short life from November 1918 to November 1919 it let loose a flood of criticism, and damaged the whole principle of insurance. Thrust on the exchanges at a few weeks' notice, it allowed no time for framing watertight regulations or collecting and training staff. The root of the difficulty, however, lay deeper. No satisfactory definition of those entitled to donation was possible; as a free gift everyone tried to get all he could; casual workers and men on the border-land of being unemployable harvested the benefit, not as the result of failure of administration, but because under the scheme they were fully entitled to claim. The widespread criticism of the scheme was grossly exaggerated and was shown to be so by a Committee of Inquiry under the chairmanship of Lord Aberconway appointed in May 1919.¹ The Committee reported that there were 'no

Workers Committee, § 21 (Cmd. 9192). The Sub-Committee, of which I was Chairman, included Mr. C. F. Rey, the first General Manager of Labour Exchanges; Miss A. S. Lawrence, Mr. C. A. Lister, Mr. J. J. Mallon, and Mr. R. Young. Its report, signed on 12th February 1918 and giving in an appendix the outlines of a scheme for general insurance, was unanimously approved a month later by the main Committee. After a spell of inter-departmental battledore and shuttlecock, a committee of officials was at last, half-way through 1919, appointed by the Ministry of Labour to frame a scheme. Their proposals, not without important changes, formed the basis of the Act of 1920.

¹ Committee of Inquiry into the scheme of Out-of-Work Donation: *Interim Report* (Cmd. 196); *Final Report* (Cmd. 305). The Committee, having received from Boards of Guardians, Town Councils, Chambers of Commerce and other public bodies numerous resolutions protesting in general terms against alleged abuses of the scheme, made

grounds for supposing that there had been extensive fraudulent abuse of the donation scheme'. But the damage done by it to the principle and the credit of unemployment insurance cannot be doubted. From the donation scheme dates the term 'dole', indiscriminately applied later to insurance benefit also; from it dates the conception of largess in which all were entitled to share.¹

The third and principal event is the Act of 1920, extending insurance to nearly all employees outside agriculture and domestic service. This Act followed that of 1911 in all important details. The statutory conditions and disqualifications for benefit were repeated almost literally. The rates of benefit and contribution were raised in view of the changed value of money. The rules limiting the period of benefit to so many weeks in each year and by reference to the number of contributions paid were retained; the number of contributions required for one week of benefit was raised from five to six. A few minor provisions, such as the refund to employers for continuous employment or for short-time working, which had caused more trouble than they seemed worth, were dropped; so also was tacitly abandoned the hope of differentiating contributions for industries by the simple method of varying the insurance stamps. On the other hand, a clause was added for contracting out of individual industries from the general scheme and the setting up of special schemes for them.

In intention the scheme of 1920 was a generalization of the scheme of 1911; its fate was shatteringly different. Introduced under the shadow of declining trade, with benefits and contributions starting on the same day, with

a selection of these bodies and invited details and evidence. 'The replies were generally to the effect that the resolutions were based on general grounds rather than specific cases.' Some bodies blandly replied that they had passed resolutions on hearsay or at the request of other bodies; only one of those asked was prepared to give evidence.

¹ See the evidence of Mr. Battersby to Lord Aberconway's Committee. Qn. 2971, 2977-87.

no time for the building up of reserves either general or individual, it never had a chance; as the country passed into the worst depression recorded in British history, this belated effort at insurance sank at once beneath the flood of emergency relief. The sinking of insurance is the fourth outstanding event of this period; it is marked by the invention in March 1921 of 'extended benefit', that is to say of benefit given to those who had exhausted their insurance rights to standard benefit, from the same funds and at the same rates, but subject to special conditions and to a general discretionary power of the Minister of Labour; at first extended benefit was given only for a limited time, i. e., up to a maximum of sixteen weeks in the special period of eight months from 3rd March to 2nd November 1921, and fresh legislation was introduced for successive special periods.

By the invention of extended benefit, relief was grafted on to insurance. Other measures varied the insurance scheme itself from day to day, under veering gusts of political opinion or changing estimates of the economic situation. The custom of passing two or three Unemployment Insurance Acts each year was established; everything that could be called system disappeared. The rate of benefit for adult men, which had been raised to 11s. at the end of 1919 and 15s. in the Act of 1920, was raised to 20s. in March 1921, lowered again to 15s. four months later, and raised to 18s. in August 1924. Meanwhile, in November 1921, benefit proper had been supplemented by an allowance of 5s. for an adult dependant and 1s. for each child; the latter was raised to 2s. in 1924. The total weekly contribution for an adult male workman, put at 10*d.* in August 1920, became 13 $\frac{3}{4}$ *d.* in the Act of March 1921; but this rate, before it became operative, was replaced by a higher rate of 18 $\frac{3}{4}$ *d.* under the Act of July 1921, which in turn gave way to 25 $\frac{3}{4}$ *d.* in the following November. In 1925 reduction had its turn and the total contribution was put at 23*d.*, but this rate also never operated, being superseded in the interests of

Exchequer economy by a rate of 21*d.* The foregoing are the benefits and the total contributions for one class of contributor—adult males; there were other changes, sometimes consequential and sometimes not, in the rates for other classes, as well as new classifications, and there was incessant change in the shares taken by the three contributing parties. The Exchequer share, in particular, changed according to Budget exigencies or the Chancellor's policy, and since the Act of 1911 has been successively about 25, 20, 26, 35, 29 per cent. of the total. The most bewildering changes have been those of the 'waiting-time' at the beginning of each period of unemployment for which no benefit is paid; reduced from 6 days to 3 by the Act of 1920, it was put up to 6 again in July 1921, down to 3 in August 1924 and back to 6 again in 1925. The refund of contributions at the age of 60 to contributors drawing less than their own contributions was abolished in 1924. Finally, the trade-dispute disqualification, which had held its own against incessant criticism since 1911, was amended in 1924 by the Labour Government, and in 1925 partially re-amended in the opposite sense by the Conservative Government that succeeded. Altogether unemployment insurance was the subject of fifteen Acts of Parliament in six years from July 1920 to July 1926.¹

In this welter of legislation the second Act of 1924 may be selected as a final landmark, both for what it did and what it led to. By this Act, the short-lived Labour Government of that year made extended benefit unlimited in time and abolished the Minister's discretion; extended benefit became a right like standard benefit, though subject to additional general conditions, and could be drawn indefinitely.² This Act had to be carried through

¹ With the earlier Acts of 1911, 1914 and 1919 and the first and second Acts of 1929 (extending transitional provisions and raising the Exchequer contribution), the measure introduced by Miss Bondfield in November 1929, and now forming the (first) Act of 1930, is really the twenty-first and not, as she stated, twentieth in the line.

² The succeeding Conservative Government of 1925, while allowing

a Parliament in which the Government were outnumbered and was secured only by acceptance of a clause bringing benefit as a whole to an end by June 1926, a date subsequently extended to the end of 1927. The object of this clause was to force a full review of the principle and practice of unemployment insurance; the review was undertaken in due course by a committee¹ under the chairmanship of Lord Blanesburgh, which was appointed on 10th November 1925, and presented a unanimous report on 31st January 1927. This report, except in respect of rates of contribution, was accepted by the Government: its recommendations, embodied in an Act of 1927 and coming into force on 19th April 1928, defined unemployment insurance as it was intended to stand for the future. With this the ten-year chaos since 1918 may be said to have ended.

During this period—from the beginning of the general scheme of insurance on 8th November 1920 to 31st March 1928—the total receipts of the Unemployment Fund were £322,000,000, and the total expenditure £369,000,000; a reserve of £22,000,000 taken over in November 1920 from the limited scheme of 1911 and 1916 was changed into a debt of £25,000,000. Of the receipts, £236,000,000, or 73 per cent., came as contributions from employers and

the indefinite continuance of extended benefit to stand, restored the Minister's discretion. In 1927, at the time of the Blanesburgh Committee's Report described below, this discretionary power was being used to exclude (unless hardship would be involved):

'1. Single persons who are residing with parents or other relatives to whom, having regard to all the circumstances, they can reasonably look for support during unemployment;

'2. Married women—living with their husbands who are in employment, and whose incomings provide an income for the household sufficient to justify the withholding of extended benefit from the wife;

'3. Married men—living with their wives, who are in employment and whose incomings provide an income for the household sufficient to justify the withholding of extended benefit from the husband;

'4. Persons who are working short time and whose incomings are sufficient to justify the withholding of extended benefit;

'5. Certain classes of aliens.'

¹ The Committee of thirteen persons included Miss Bondfield, later Minister of Labour in the Government of 1929.

employed in respect of employment, and £85,000,000, or nearly 27 per cent. from the Exchequer, with interest and sundries accounting for a small balance of less than $\frac{1}{2}$ per cent. Of the expenditure, £331,000,000, or nearly 90 per cent., went as benefit or refunds to insured persons, and £32,000,000, or $8\frac{1}{2}$ per cent. was spent on administration, with interest and sundries accounting for the balance of $1\frac{1}{2}$ per cent. The expenditure on benefits includes standard and extended benefit. Adding the £62,000,000 spent on civilian and ex-service donation and its administration, the total for the ten years' chaos is about £431,000,000.

The New Model of 1928

The Act of 1927, following on the Blanesburgh Report, was in form an amendment of the Act of 1920—legislation by reference. In substance it introduced in 1928 a new model of unemployment insurance.

This model has been amended by an Act of 1930 which has itself been made terminable, expiring on 30th June 1933. The day of hand-to-mouth legislation is not over. Leaving the future for later consideration, it will be convenient here first to set out the scheme as it stands to-day, and then to describe and discuss the transformation effected since 1911. The description is made as summary and simple as possible; it cannot be altogether simple.¹

Broadly, all persons between sixteen and sixty-five employed under a contract of service in Great Britain and Northern Ireland are insured against unemployment. To this statement there are two main exceptions—of persons employed in agriculture and in domestic service respectively—and several minor exceptions, such as those of established civil servants, railway servants, the police, and persons earning more than £250 a year on non-manual

¹ The statutes themselves, consisting largely of wordy Parliamentary compromises and legislation by reference, with the virtually defunct Act of 1920 as the 'principal Act', are almost inconceivably hard to follow. A consolidation Act is urgently needed, but at the present moment, with the Act of 1930 made temporary, would be impracticable.

work; clerks and similar employees up to that salary are included. The Act of 1930 authorizes the Minister of Labour to reduce the lower limit for entry to insurance to the age when compulsory elementary education ceases, if and so soon as that age shall have been raised to fifteen or more.

Every person included in the insured classes has an unemployment book which he gives to his employer on being engaged. To this the employer affixes week by week a stamp representing the joint contribution of himself and the employee; he then deducts the employee's share from the wages. The weekly contribution in respect of adult men, aged from 21 to 65, is now 8*d.* by the employer and 7*d.* by the employee: that is to say the employer each week fixes a stamp costing 15*d.* to the unemployment book and deducts 7*d.* from the wages. There are lower rates of contribution for adult women (7*d.* and 6*d.*), young men from 18 to 20 (also 7*d.* and 6*d.*), young women from 18 to 20 (6*d.* and 5*d.*), boys (4*d.* and 3½*d.*), and girls (3½*d.* and 3*d.*). To the aggregate received as employers' and employees' contributions the National Exchequer adds half, that is to say provides one-third of the total income. The total contribution for each week's employment of an adult man is thus 1*s.* 10½*d.*, of which 8*d.* comes from the employer, 7*d.* from the man, and 7½*d.* from the Exchequer.

On leaving employment the employee takes his unemployment book and lodges it at a labour exchange to make a claim for benefit. This benefit for an adult man is 17*s.* a week with 9*s.*¹ for his wife (or other adult dependant) and 2*s.* for each child dependant. For other classes there are lower rates of benefit running down to 6*s.* for a boy and 5*s.* for a girl under 17. To obtain benefit the insured person, having made his claim, must show that since the date of claim he has been continuously unemployed and that he is capable of work and available for

¹ This is the figure substituted by the Act of 1930 for 7*s.* provided in the Act of 1927.

work. There was, under the Act of 1927, the further condition that the claimant should be 'genuinely seeking work but unable to obtain suitable employment'. The last words of this condition—that the claimant should be unable to obtain suitable employment—came from the Act of 1911 and were an essential part of the original definition of insurable employment. The earlier words, requiring the claimant to be 'genuinely seeking work', introduced in 1921 as an additional check on the grant of extended benefit, were made part of the conditions for all benefit by the Act of 1927, in accord with a recommendation of the Blanesburgh Committee. Both sets of words have been deleted by the Act of 1930, and replaced by a provision disqualifying for benefit a claimant who is proved to have refused without good cause suitable employment offered him by an exchange or not to have carried out written directions given him by an officer of the exchange as to seeking employment. For the purpose of this disqualification employment is not 'suitable', that is, may be refused by a claimant without penalty, if it is either:

- (a) employment in a situation vacant in consequence of a stoppage of work due to a trade dispute; or,
- (b) employment in his usual occupation in the district where he was last ordinarily employed at a rate of wage lower or on conditions less favourable than those which he might reasonably have expected to obtain, having regard to those which he habitually obtained in his usual occupation in that district or would have obtained had he continued to be so employed; or,
- (c) employment in his usual occupation in any other district at a rate of wage lower, or on conditions less favourable, than those generally observed in that district by agreement between associations of employers and of employees, or, failing any such agreement, than those generally recognized in that district by good employers.

The net result of all this is to restore, with two minor changes, the original practice of the Act of 1911, of making the exchange the substantial test of whether suitable employment is available.¹ One of the minor changes is that the exchange official has now the additional

¹ The abolition of the 'genuinely seeking work' condition was the main subject of controversy in the passage of the Act of 1930; as the Labour Government had finally to make the Act temporary in order to secure its passage, the abolished condition, in the improbable event of there being no fresh legislation meanwhile, would revive automatically on 1st July 1933, and may thus call for a brief comment here. In so far as this condition has been held to require that to keep in benefit a workman must not simply register at an exchange for work, but put up some kind of show at least of looking for work in person by going the round of factory gates, it marks a complete break with the policies of 1909. In them and in the scheme of 1911, labour exchanges and unemployment insurance went together as two halves of a single programme. The exchanges were to abolish the hawking of labour, so as to reduce unemployment to its minimum; insurance was to maintain men in the intervals of unemployment that remained. It was hoped and assumed that before long so much of the marketing of labour would be done through the exchanges as to make it unnecessary to test the reality of unemployment and the need for benefit otherwise than by requiring the workman to apply constantly to an exchange. If every vacancy for workpeople were notified to an exchange as soon as it arose, it would be impossible for any workman to draw benefit for even a day after suitable employment was available for him; the unemployment fund would be completely protected. Till the exchanges reached that development it was better to take the risk of occasional loss to the fund by the few idle workmen than to drive all workmen on fruitless journeys and perpetuate the disorganization of the labour market. The 'genuinely seeking work' condition implied an admission, not only that the exchanges did not control the labour market sufficiently for the purpose of testing unemployment, but that they never would do so and that hawking of labour, so emphatically condemned by the Poor Law Commission, ought to continue indefinitely. This is made explicit in the Umpire's elaborate decision, of about 1,500 words interpreting the condition, which is printed as an appendix to the report of the Blanesburgh Committee. The condition will not, it may be hoped, ever rise from its dishonoured grave. It should be added that the value of the condition, from the point of view of the administrators of the unemployment fund, has lain, not in keeping out the work-shy and unemployable, or causing people to get work who would not otherwise have got it, but in the weapon of offensive defence it afforded against claims by women who on marriage had practically retired from industry and were not wanted by employers, but tried not unnaturally to get something for nothing out of the fund and add to the family income. This is a real problem, but not one fairly solved by a 'genuinely seeking work' condition of universal application.

power, if he thinks fit, of directing the workman to look for work also in some other way than through the exchange. The other is that the period of disqualification for refusal of a job is defined as not more than six weeks.

There are other grounds of disqualification: for misconduct or leaving work voluntarily without just cause; while an inmate of a prison or workhouse or residing outside the United Kingdom or receiving sickness or disablement benefit or blind pension; and where the claimant has lost his employment through a stoppage of work due to a trade dispute at the factory or other premises where he was employed. This last disqualification does not apply if neither the claimant himself nor any of his fellow-workmen of the same grade or class are directly interested in or financing the dispute.

Formally, over and above the conditions named, there stands in the statute a condition requiring each claimant to prove that not less than thirty contributions have been paid in respect of him during the past two years. This condition, however, has never yet operated. The Act of 1927, which introduced it, at the same time suspended it till April 1929, and replaced it by a 'transitional provision' requiring eight contributions in two years or thirty at any time, with certain other conditions. On the approach of April 1929 the 'transitional provisions' were continued for another year and the Act of 1930 continues them to April 1932 while abolishing one of the subsidiary conditions. This Act makes a new departure in throwing the cost of benefit paid under the transitional provisions directly on to the Exchequer.

Subject to these conditions and disqualifications an insured person can draw benefit without limit of time. No benefit is payable for the first six days of any period of unemployment, but thereafter benefit continues so long as unemployment continues. For this purpose any three days of unemployment within six continuous days are regarded as continuous, and any two periods of three

continuous days are regarded as continuous with one another if not separated by more than ten weeks.

Claims to benefit are considered in the first instance by a statutory insurance officer whose decision in favour of a claim is final. If the insurance officer does not allow the claim, he must¹ submit it to a Court of Referees, consisting of an impartial chairman and equal numbers (in practice one each) of representatives of employers and employees. If the Court of Referees decide for the claim, the insurance officer can always appeal to the Umpire; if the Court decide against the claim there can be an appeal to the Umpire only, either by an association to which the insured person belongs, or with the leave of the Court, or where its decision is not unanimous. The Umpire's decision is final and conclusive, i. e., excludes the ordinary courts of justice.

Associations of insured persons may make arrangements whereby their members can draw benefit through the associations in place of from an exchange; as a condition of making such an arrangement each association must pay additional benefit from its own funds to its members, at the rate for men of at least 3s. a week up to 75s. in a year, with lower rates for women, boys and girls.²

There are a number of minor provisions authorizing administration of benefit by local education authorities which have undertaken juvenile employment work, allowing travelling expenses to work found through an ex-

¹ Unless he rejects it on the trade dispute qualification. This exception is no doubt meant to save the Courts from having to consider perhaps hundreds of identical trade dispute cases.

² Arrangements with associations are relatively much less important in the general scheme than in the limited scheme of 1911, under which they covered nearly a third of the workpeople insured and of the benefit paid. At the end of 1924, arrangements were in force with 145 associations having an insured membership of 964,000, i. e. about one in twelve of all insured workpeople; the benefit paid through associations in the financial year 1927-8 was only one-twentieth of the whole. The subsidy of one-sixth in aid of voluntary insurance provided under the Act of 1911 was dropped on the generalization of compulsory insurance in 1920. On the other hand, a grant for the expenses of administering arrangements was made to associations—originally at the rate of 1s. for each week's benefit paid, reduced since 1922 to 6d.

change to be paid in part out of the Unemployment Fund, allowing grants to be made from the fund for approved instruction for boys and girls who are insured persons and, as a consequence, requiring attendance at such courses as a further condition of getting benefit.

In form the scheme to-day is very like what was introduced in 1911; the methods of raising contributions, paying benefits and adjudicating on claims are practically unchanged; the conditions and disqualifications for benefit follow the same lines. In substance the two schemes are different. The making of benefit unlimited in duration for an unrelievedly flat contribution amounts to a fundamental reconstruction.

The Blanesburgh Committee regarded the principle of unemployment insurance as established:

'We have found in all quarters a general agreement that the risk of unemployment should be insured . . . It has been recognized by all who have appeared before us, and we ourselves share the view, that an unemployment insurance scheme must now be regarded as a permanent feature of our code of social legislation.'¹

The term 'unemployment insurance', however, meant very different things in different mouths.

The Committee found themselves faced by two opposed views. On the one side were those who favoured, as they put it, 'an insurance scheme, strictly so called; a scheme under which contributors receive benefits bearing some proportion to their own payments; a scheme capable of being administered in accordance with the original intention of the 1920 Act'. On the other side were those who desired a scheme to provide 'benefit for all genuinely unemployed people, no matter how long they are unemployed'; this school of thought would in principle prefer a non-contributory scheme, that is to say one financed wholly by ordinary taxation. Between these views the Committee sought a middle course. They

¹ *Report of Unemployment Insurance Committee (1927)*, § 49.

rejected the view, implicit in the 1911 and 1920 schemes, and urged upon them by the Association of Poor Law Unions, 'that the Insurance Scheme should carry a certain part only of the risk of genuine unemployment, leaving the remainder to the Guardians'. As a practical consequence they proposed the abolition of the two rules limiting the period of benefit to 26 weeks in any twelve months and to one week for every six contributions paid. Benefit to any person in the insurable field was to continue as long as his unemployment; the former distinction between covenanted and uncovenanted or extended benefit should disappear. On the other hand they thought that some automatic test was necessary 'to ensure that the benefits are limited to contributors, or, in other words, to persons in the insured field'. They proposed, as this test, the requirement that every claimant to benefit must show that he had paid thirty contributions within the past two years.

'It will be conceded that in the generality of cases persons with so poor a record of employment (as having done less than 15 weeks' work in 52 weeks) could scarcely claim still to be in the insured field; that there is grave doubt as to the genuineness of their search for work; and that the exclusion of such individuals is only fair to the general body of insured contributors.'¹

Nevertheless the Committee felt it impracticable to apply forthwith even this modest test of insurability; some 'transitional' concession must be made, to avoid cutting out large numbers of beneficiaries at the outset of the new scheme. In practice, as has been stated above, 'transitional provisions' have been in force ever since the Committee's scheme was adopted; the introduction of even the modest test of insurability proposed by them recedes continually. Investigation of a sample of the 1,092,000 claims authorized for benefit at the end of January 1929 showed that about one-ninth or 120,000 would have been disqualified by the requirement of 30 contributions in the

¹ *Op. cit.*, § 75.

past two years. A similar inquiry for 14th October 1929 gave a higher proportion—130,000 out of 940,000, or nearly one-seventh.¹

Even apart from the transitional provisions, the Committee's compromise was not half-way between the extreme opposed views, but much nearer to those who wanted unlimited non-contributory benefit. In regard to contributions they said:

'That flat rates are an unavoidable feature of any workable compulsory scheme of contributory unemployment insurance, we have been forced reluctantly to recognize. But if a scheme so comprehensive as the present is to continue to enjoy the general assent of workers who are so differently circumstanced with reference to it, it must be of its essence that the flat rate of contribution is as low as is possible.'²

In other words, the Committee, recognizing the inequity of a flat rate of contribution for unlimited benefit irrespective of all variations of risk, said that the inequity ought to be kept small by keeping the contribution small. They actually proposed a somewhat startling reduction of contributions, but on this point the Government, having regard to the facts of unemployment, could not follow them.³ Meanwhile, the answer to complaints of inequity between individuals afforded by the refund at sixty had already been abolished;⁴ the Blanesburgh Committee

¹ *Labour Gazette*, March 1929, p. 81; January 1930, p. 9.

² *Op. cit.*, § 22.

³ The Committee proposed contributions for adult men at the rate of 5*d.* a week from each of the three parties or a total of 1*s.* 3*d.*, with 1*d.* extra from each for a limited period for extinction of debt. This, in relation to the benefits proposed, assumed an average unemployment percentage of about 6. The Government kept contributions at the figure fixed in 1926, viz., for adult men 8*d.*, 7*d.* and 6*d.* from each party, making a total of 1*s.* 9*d.* With these contributions and with benefits substantially as recommended by the Committee, the debt of the Unemployment Fund increased from £22,640,000 at the end of 1926 (just before the Committee's Report was signed) to £36,850,000 on 9th November 1929. The state contribution was raised to half in place of two-fifths of the other contributions by the second Act of 1929.

⁴ The abolition of the refund at sixty was recommended in 1923 by

themselves took the final step in the direction of inequity between industries by recommending abolition of the provision for contracting out under special schemes.

It is impossible, indeed, to determine directly how much each industry is paying in, and how much it is drawing out of, the Unemployment Fund. No accounts of income and expenditure by separate industries are kept; not even the most general estimate is made by the Ministry of Labour. For practical purposes, however, it is sufficiently near the mark to assume that the contribution of each industry is in proportion to its employment, and the amount of benefit drawn is in proportion to its unemployment; in so far as this assumption errs, it must err, as a rule, by understating the inequality of experience between different industries.¹ On this assumption the table given on pp. 32 and 33 has been constructed.

an Inter-Departmental Committee on Health and Unemployment Insurance and carried out by the Labour Government of 1924. The Inter-Departmental Committee, under the chairmanship of the Government Actuary, were commissioned if possible to bring health and unemployment insurance closer together; they were impressed by arguments of a strangely academic type: 'The refund provision is an arrangement dependent on the unemployment experience of the individual and has no connexion with the question of the relative risks of different classes. It is, in fact, an attempt at mixing insurance and banking, and as such is open to the serious criticism that it attempts to embody two essentially different forms of thrift.' (Cmd. 1821, § 6.) The Committee at the same time recommended that the one-in-six rule should be replaced by one making the amount of benefit payable in a given year depend on the average number of contributions paid in a certain period prior to that year, but this recommendation was not at that time adopted. It was put forward on grounds of administrative economy.

¹ In treating benefit drawn as proportional to the unemployment, it is assumed that in different industries the same proportion of unemployment is covered by benefit. Actually, owing to the 'waiting week' at the beginning of each period of unemployment, individuals with much unemployment have a larger proportion of it on benefit than do those with little unemployment. In the sample inquiry of September 1929 (reported in the *Labour Gazette* of January 1930) the proportion of unemployment covered by benefit rises steadily from 48 per cent. for men unemployed for from 1 to 25 days altogether in the year, to nearly 99 per cent. for those unemployed for 312 days, i. e. throughout the year. This increase in the proportion of unemployment covered by benefit, as the unemployment itself increases among individuals, must apply also as a general rule between industries, since their unemployment

The table shows separately each of the 33 industries of the Ministry of Labour classification having more than 100,000 workpeople in July 1929, arranged in the order of their unemployment percentages for that year; these percentages are given in column three, and the mean percentages over the five years 1924 to 1929, without 1926, in column four. The fifth and sixth columns show how much on the basis of its numbers and percentages, in 1929, each industry contributed to the total employment and unemployment respectively of that year. The seventh and eighth columns show, on the assumptions named above, what would be the share in 1929 of each industry in £1,000 of employers' and workmen's contributions and £1,000 of benefits respectively. The last two columns give corresponding shares on the basis of the unemployment of five years 1924-9 (omitting 1926), as applied to the numbers insured in 1929. The benefits of course are paid for in part by the Exchequer contribution; the simplest way of bringing this into account is to regard the Exchequer as providing two-sevenths of the weekly rate of benefit (by its weekly payment of 6*d.* for the employer's and workman's 1*s.* 3*d.*), and the table therefore as being concerned with the way in which the other five-sevenths are provided.¹

is built up of individual cases. Casual industries might be an exception, if much of the recurrent unemployment in them was so separated by days of employment as not to be continuous for the purpose of benefit; it is arguable also that in such industries the contributions might be more than in proportion to the employment, in so far as a full contribution is payable for even one day's employment in a week. It is difficult to bring these hypothetical exceptions to the test of facts, but such evidence as there is tells against them; the sample investigation of 80,000 insurance accounts in April 1926 showed that the average of contributions per account in canal, river and dock service was lower and not higher than the average in industry generally. In any case it is certain that such doubts cannot affect the main lesson of the table given in the text.

¹ By the second Act of 1929 the Exchequer contribution has been raised to one third of the whole. No account is taken in the table of the possible effect of the first Act of 1930 in throwing directly on to the Exchequer the cost of paying benefit under the 'transitional provisions', i. e. to men who have not paid thirty contributions in the past two years.

ESTIMATED DISTRIBUTION BY INDUSTRIES OF TOTAL EMPLOYMENT AND UNEMPLOYMENT AND OF £1,000 EACH OF CONTRIBUTIONS AND BENEFITS (GREAT BRITAIN AND NORTHERN IRELAND)

Industry	Numbers Insured July 1929 ('000)	Unemployed Percentage		Share of Total		Share of every £1,000		Spent in Benefit £	
		1929	Mean 1924-9 omitting 1926	Employment ('000)	Unemployment ('000)	Raised in Contributions £	Spent in Benefit £		
									(3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Commerce, Banking, Insurance, and Finance	228.59	2.7	3.4	222.42	6.17	21	5	20	6
Professional Services	121.73	3.2	3.2	117.84	3.89	11	3	11	3
Tramway and Omnibus Service	154.74	3.2	3.3	149.79	4.95	14	4	14	4
Printing, Publishing, and Bookbinding	261.13	4.4	4.8	249.63	11.50	23	9	23	10
Laundries, Dyeing, and Dry Cleaning	135.03	4.4	4.9	129.09	5.94	12	5	12	5
Dressmaking and Millinery	103.40	4.9	5.8	98.33	5.07	9	4	9	5
Railway Service	138.39	5.8	5.9	130.36	8.03	12	6	12	6
Gas, Water, and Electricity Supply Industries	162.03	6.0	5.8	152.31	9.72	14	8	14	7
Furniture-making, Upholstering, &c.	120.34	6.2	6.1	112.88	7.46	11	6	11	6
Hosiery	105.78	6.2	6.8	99.22	6.56	9	5	9	6
Distributive Trades	1,679.09	6.3	6.1	1,573.29	105.80	145	83	146	79
Chemicals	105.89	6.5	7.4	99.01	6.88	9	5	9	6
Drink Industries	108.53	6.8	6.5	101.15	7.38	9	6	9	5
National Government	118.84	6.8	7.1	110.76	8.08	10	6	10	7

Construction and Repair of Motor Vehicles, Cycles and Aircraft	245.41	7.1	7.6	227.98	17.43	21	14	21	15
Bread, Biscuits, Cakes, &c.	144.77	7.3	7.9	134.20	10.57	12	8	12	9
Tailoring	199.35	8.2	8.6	182.99	16.36	17	13	17	13
Metal Industries not separately specified	191.37	8.3	9.5	175.48	15.89	16	12	16	14
Hotel, Boarding House and Club Services	333.70	9.2	9.8	303.00	30.70	28	24	28	26
General Engineering, Engineers' Iron and Steel Founding	586.75	9.7	11.6	529.85	56.90	49	45	48	53
Local Government	274.05	9.8	8.5	247.19	26.86	23	21	23	18
Road Transport not separately specified	182.57	12.2	13.0	160.29	22.28	15	18	15	18
Boots, Shoes, Slippers, and Clogs	135.25	13.2	10.8	117.40	17.85	11	14	11	11
Cotton	554.79	13.2	11.2	481.54	73.25	45	58	46	49
Building	825.98	13.3	11.3	716.08	109.90	66	87	68	73
Woolen and Worsted	239.03	13.8	11.2	206.03	33.00	19	26	20	21
Coal Mining	1,074.71	16.0	15.5	902.71	172.00	83	135	84	130
Textile Bleaching, Printing, and Dyeing, &c.	116.23	17.4	14.0	96.01	20.22	9	16	9	13
Shipping Service	141.42	17.8	18.1	116.25	25.17	11	20	11	20
Steel Melting and Iron Puddling Furnaces, Iron and Steel Rolling Mills and Forges	178.72	19.8	21.0	143.34	35.38	13	28	13	29
Public Works Contracting, &c.	164.43	22.7	19.3	127.10	37.33	12	29	12	25
Ship-building and Ship-repairing	204.50	24.3	27.8	154.80	49.70	14	39	14	44
Dock, Harbour, River and Canal Service	171.22	30.8	28.2	118.49	52.73	11	42	11	38
Other Industries	2,586.24	9.6	11.2	2,337.19	249.05	216	196	212	226
TOTAL	12,094.00	10.5	10.6	10,824.00	1,270.00	1,000	1,000	1,000	1,000

Remarkable differences between the experiences of the different industries are at once apparent. Looking first at the figures for 1929, we see at the top of the table industries paying in three or four times as much as they draw out, and at the bottom of the table other industries drawing out three or four times as much as they pay in. The top eight industries with 1,305,000 workpeople draw out between them practically the same amount as 'dock, harbour, river and canal service' with 171,000 workpeople, while they pay in ten times as much; for every £11 paid in by the last industry towards the cost of its unemployment in 1929, £31 was found by other industries directly, to say nothing of £17 found by the taxpayer. Between the extremes is every possible gradation of experience.

The scheme should not be judged by the experience of a single year, which might be abnormal. The last two columns, however, giving averages for five years, show substantially the same picture, with the two extremes toned down very slightly. The most important differences between the five-year averages and those for 1929 alone, are that in the latter year general engineering, and to a less extent shipbuilding and repairing, unspecified metal industries, and chemicals are better, while building, public works, boots and shoes, dock and harbour service, and most of the textile trades are worse. The improving trades show recovery from excessive war expansion. The declining trades were nearly all trades restricted during the war; presumably they drew in during the temporary boom of 1920 more labour than they needed permanently. These changes, though interesting in other connexions, do not affect the main lesson of the table. Over the five years 1924-9, as in the single year 1929, the risk of unemployment in different industries is startlingly unequal—in some industries ten times as much as in others. The employers' and workmen's contributions for insurance amount to little more than a device for taking money from one industry and giving it to another—that is to say they are a mode of taxation.

There is thus no relation between the contributions and receipts of particular industries. It need hardly be added that there is nothing like an actuarial basis for the scheme as a whole. Benefits have been fixed at whatever seemed indispensable to prevent acute distress or meet political pledges; contributions have been put as high as employers and workpeople would stand them; the resulting deficits have been met partly by increasing directly the state contribution, partly by going more and more deeply into debt to the Exchequer, and raising the borrowing limit as soon as the limit is reached.

Thus, when towards the end of 1928, the growing debt of the Fund to the Exchequer was approaching the limit of £30,000,000 then in force, an Act was passed raising the limit to £40,000,000. Until this Act could be got through, the Ministry of Labour kept doubtfully within the law by suspending the weekly payment which they were required to make from the Fund towards the cost of administration.¹

The Act of 1930 makes a new departure by putting directly on to the Exchequer, in relief of the Unemployment Fund, the cost of benefit paid or to be paid under the 'transitional provisions' to those who have not paid thirty contributions in two years. With this the income and expenditure of the Fund are expected to balance if the average number of the unemployed is about 1,160,000. Between a seventh and an eighth of those will presumably come under the 'transitional provisions' and will cost the Exchequer some £4,500,000 a year.²

¹ See the critical comments by the Comptroller and Auditor General in his report appended to the Unemployment Fund Account for 1927-8 (House of Commons Paper 28 of 1929).

² The Exchequer payment for 'transitional provisions' is retrospective and will therefore presumably reduce by some millions the debt of the Unemployment Fund which at the end of January 1930 had got perilously near the £40,000,000 limit, having risen by more than £1,000,000 in a month to a total of £38,940,000. As under the existing law no borrowing can take place after the end of 1930, unless the total indebtedness is less than £30,000,000, it is hard to see how further legislation within the year 1930 can be avoided.

From Insurance by Contract to Relief by Status

Unemployment insurance as introduced was in two senses contractual. First, it gave the insured person legally enforceable rights without ministerial discretion and without regard to his other resources or private character. Second, it gave these rights in consideration of contributions by or in respect of the insured person; though the contract was compulsory, elaborate measures were taken to make it something like a fair bargain for each industry and each individual. It was an extension of the kind of bargain which trade unions made with their own members, in giving as part consideration for the union subscription a strictly limited cover against distress through unemployment. Trade-union insurance itself carried an element of compulsion; a workman joining a union which provided unemployed benefit had to pay, as a rule, a single subscription for all purposes, fighting and friendly; pressure to join the union became pressure to insure.

During the ten-year chaos from 1918 to 1928 unemployment insurance ceased to be contractual in either sense: donation and extended benefit were discretionary grants¹ and irrespective of contributions by the recipient. Since the Act of 1927 unemployment insurance has become contractual again in the first sense, but not in the second; an unlimited benefit claimable as of right has replaced the old combination of standard and extended benefit, but is claimable, not for contributions paid, but by virtue of belonging to the insured classes. Moving from contract to status, the insurance scheme of 1911 has become a general system of outdoor relief of the able-bodied, administered by a national in place of a local authority, and financed mainly by a tax on employment.

The authors of unemployment insurance in 1909 had to justify both a novel method of relieving distress through unemployment and a novel means of raising the funds that they required.

¹ Except for a few months in 1924-5.

They had to justify on the one hand the giving of money unconditionally to men in idleness, without any attempt either to set them to work or to make them more fit for employment. They did so essentially on the ground that they were providing for temporary unemployment of men in a depression who had proved their industrial quality by working in the past, and, when the depression passed, would be needed again in their old trades and places. To give such men artificial relief work would be more costly than money payments, and as demoralizing. To train them for other occupations would be beside the point. To recondition them was not necessary.

On the other side, the new method of raising funds by compulsory contributions in respect of employment had to be defended against critics who said that workpeople would never stand deductions from their wages, or that industries which gave regular work and workpeople assured of regular employment ought not, under the name of insurance, to be made to pay for the irregularity of others. Here the scheme was defended partly as an extension of the system of trade-union benefits for which workmen did in fact contribute, partly as a spreading of wages over good and bad times, a compelling of each industry with strictly limited help from the State to pay for its unemployment and to make the upkeep of its normal reserve of labour one of its costs of production. The argument of inequity between different trades and individuals was met partly by a whole string of rebates, refunds and other devices for adjusting premiums to risks or cover to premiums, partly by a promise of differentiation of contributions later. The aim of these devices was not abstract justice alone; they had the design of interesting employers and workpeople in the solvency of the Fund and so giving motives for reducing unemployment; they were as practical as the rebates given by motor insurers to careful drivers. The Unemployment Fund was to be self-supporting; if the claims on it could be kept down, contributions would be lowered; if the

claims exceeded expectations contributions would be raised or benefits reduced. By 1920, when insurance came to be extended to industry generally, some of these fancy clauses appeared not worth the complications that they caused. But the rule proportioning benefits to total contributions, the refund at sixty and the limitation of benefit to so many weeks¹ in a year were retained and still gave each workman ample reason for avoiding unnecessary claims; the new provision, under Section 18 of the Act of 1920, for contracting out under special schemes opened the prospect of a general adjustment of contributions to risks by industries.

The rule proportioning benefits to total contributions, combined with the refund at sixty, had several distinct objects. First, it provided automatically for those who worked partly in and partly out of an insured trade, by adjusting the benefit to the insurable employment. This was essential in the limited scheme of 1911. Though less important in a generalized scheme, it was not wholly without value even there. The requirement of thirty contributions in two years, if ever it comes to be applied, must act as a discouragement both to taking uninsured work at home, and to taking employment abroad. Second, it gave an incentive to each individual to avoid claims: he could save up for when he really was in want; under the present system he will at all times take all he can get. Third, by treating working life as a whole, it provided automatically for the increasing incidence of unemployment with advancing years; in his youth the workman could accumulate a claim for his old age. The test of insurability proposed by the Blanesburgh Committee—of thirty contributions in the past two years—ignores well-known facts. How much the incidence of unemployment increases with age has been shown strikingly by a recent sample investigation of claimants to benefit at 16th September 1929.² The average unemploy-

¹ Raised from the 15 weeks of the 1911 scheme to 26 weeks in 1921.

² *Labour Gazette*, 1930, pp. 6 seq.

ment experienced in twelve months by each claimant to benefit was found to be 117 days in the age-group 18 to 24, and to rise steadily to 183 at the ages 55-59 and 182 at 60-64; of every 100 claimants in the age-group 18-24, 31, while of every 100 in the age-group 55-59, 53 had been unemployed for more than 150 working days out of the past 312. Finally the proportioning rule adjusted benefits to contributions, to some extent at least, by industries.

The provision for special schemes was double-edged. It was meant to allow industries who had little unemployment or for other reasons felt the general scheme unsuitable, to contract out voluntarily and set up their own schemes of contributions and benefits; the Departmental Committee of 1919, which framed the system of general insurance ultimately embodied in the Act of 1920, assumed that in all probability industries like coal and cotton, in which through the practice of short-time working total unemployment had been small, would prefer special schemes. It could be used by the Minister of Labour, after consultation with the interests concerned, to frame a special scheme compulsorily for any industry for which through its peculiar conditions such a course seemed desirable; thus the dock and wharf industry might have been segregated and made to provide for its own under-employment. In the memorandum introducing the Bill of 1920 it was estimated that from 1½ to 4 millions of the total of 11¾ million persons to be covered by the Bill would be dealt with by special schemes.

At the height of the post-war reaction against the State, from 1920 to 1922, the possibilities of Section 18 of the Act of 1920 providing for special schemes were fully canvassed. There was much talk of 'unemployment insurance by industries', and in February 1922 the Minister of Labour by circular invited associations of employers and workpeople in all industries to consider the desirability of special schemes. The results were negative. In November 1920 the general scheme had already come into

operation; in the catastrophic depression of trade which followed at once, Section 18 was suspended, lest all industries with low unemployment should seek to escape from paying for the others. When the embargo was lifted, employers and workpeople had got used to the general scheme, and insurance by industries, in spite of loud backing by professional critics of State action, proved to be a horse that would not run. Only two special schemes—for banking and for insurance—covering now together about 120,000 insured persons, were established. Otherwise Section 18 remained a dead letter until it was repealed in the Act of 1927.¹

With the repeal of the provision for special schemes and the making of benefit unlimited in time, following on the disappearance in 1924 of the refund at sixty, unemployment insurance has become an insurance in which every attempt to adjust premiums to risks or, conversely, to relate the cover afforded to the premiums paid, has been abandoned. The difference between the Blanesburgh Committee and the advocates of unlimited non-contributory insurance is simply a difference as to modes of taxation: the compulsory contributions have a fiscal significance alone.

The new model of 1927 cannot be defended by the old arguments of 1911. Can it be defended at all? Is it a necessary and serviceable portion of social structure, to be maintained indefinitely, or is it fraught with dangers which only drastic reconstruction can remove? That there are some dangers in unemployment insurance today no unimpassioned observer would deny. But those dangers are not to be found where the most impassioned critics of the scheme now place them.

¹ A *Report on the Administration of Section 18 of the Unemployment Insurance Act 1920*, was presented to Parliament in 1923 (Cmd. 1613). Some of the difficulties of insurance by industries were described by myself in an article published in the *Manchester Guardian Commercial Supplement*, 1 February 1923, with a suggestion for giving effect to the idea in a way that would have brought home very directly to each industry the responsibility of its own unemployment.

The main danger of the present situation does not lie in the temptation to individual malingering, that is to say in the possibility of inducing workpeople to draw benefit when they could get work. This kind of abuse could be stopped completely and at once by employers notifying vacancies promptly and universally to the exchanges; if that were done, no man could draw benefit for a single day on which suitable work was available for him. Even with their present limited control of the labour market, the exchanges as a rule are able to check individual malingering with fair effectiveness.

Through all the transformations of insurance one element endures; one weapon has been added since 1911 to the permanent armoury for dealing with distress. Administration of benefit in all its forms—standard, extended, donation—has shown the possibility through a labour-exchange system of controlling direct money assistance of the unemployed sufficiently to prevent any serious abuse. Charges that the 'dole' was helping men to live in idleness when they could get work have been made incessantly in the press, by local authorities, by public men. Whenever they have been investigated, they have been shown to be idle and irresponsible talk. The conclusions of the Committee, under the chairmanship of Lord Aberconway, which investigated the working of the donation scheme in 1919, have been mentioned already. The Blanesburgh Committee gave the critics another chance.

'Throughout the inquiry we have constantly had brought to our notice the conviction held by many that the system of unemployment insurance is subject to widespread abuses. It has accordingly been one of our principal preoccupations to ascertain how far this belief is justified . . . It is convenient to state at once the conclusion we have reached in this matter. It is true that a certain number out of the 11 $\frac{3}{4}$ millions of insured persons have received relief to which they had no claim. But it is equally true that these cases are relatively few,

and that result is, we think, due to the vigilance with which the Ministry, while dealing fairly with the genuine claimant, guards against abuse.'

The Secretary of the Charity Organization Society says that he began by thinking the abuses serious, but, on inquiry, had been unable to find them:

'When this material (i. e. that included in their memorandum) was read to our people on Monday afternoon last, they were much disappointed at the general character of almost all of it. They had hoped that many more examples would be forthcoming illustrating the criticisms passed upon the present working of unemployment insurance by almost everybody who discusses the subject. This shows the value of bringing these criticisms to the test of demanding examples, and more than one of our secretaries said that they quite expected to find from our case-papers numerous examples of abuses, but when they came to look they found very few. This does not, of course, prove that their previous impression was not a sound one; on the other hand, it may quite well prove that unfavourable instances impress themselves upon the memory, while the proper and smooth working of a scheme passes almost unnoticed.'¹

Nor does such a conclusion mean that all the expenditure under the new insurance scheme is necessary or socially desirable. Manifestly some of the benefits go to meet needs of no great urgency, and sometimes the scheme is subject to scarcely veiled manipulation by employers and workmen in concert.² But if all other

¹ *Report of Unemployment Insurance Committee (1927)*, §§ 35, 36 and 39.

² The drains made on the fund by short-time workers are one case of expenditure whose social justification is doubtful. Another case is that of the woman who, having worked till marriage, ceases after marriage to be regularly attached to industry or dependent on her earnings, but not unnaturally tries to get all that she can out of the unemployment fund, by registering as unemployed. Neither of these cases, however, is normally one in which the claimant could get work as an alternative to benefit if he or she tried for it. Each ought to be dealt with by some

critics could be got to emulate both the care and the candour of the Charity Organization Society, the way would be cleared for seeing where the real dangers of to-day's unemployment insurance scheme lie and do not lie.

Those dangers, in a sentence, lie not so much in the risk of demoralizing recipients of relief, so that they do not look for work, as in the risk of demoralizing governments, employers and trade unions, so that they take less thought for the prevention of unemployment.

Relief of unemployment is after all a very bad second best to its prevention; however the giving of money during involuntary idleness be hedged round with safeguards, the idleness itself is demoralizing, and becomes swiftly more demoralizing the longer it lasts. The arguments advanced in 1909, for insurance rather than artificial work as a means of relieving the unemployed, assumed transient depressions, not the chronic under-employment of the casual labourer or the five-year idleness of the derelict coal miner. But once it is admitted in principle that, either under the guise of insurance or in some other form, genuine unemployment can be relieved indefinitely by the simple device of giving money from a bottomless purse, prevention is only too likely to go by the board. The thoughts and time of governments and parliaments may be absorbed—as they have largely been absorbed during the past ten years—in successive extensions and variations of the relief scheme. The fear of causing unemployment may, as Mr. Rowe and Professor Clay have suggested, vanish from the minds of trade-union negotiators and open the way to excessive rigidity of wages and so to the creation of unemployment. Industries practising casual engagement or perpetual short time may settle down to batten on the taxation of other industries or of the general public in place of reforming their ways. The

specific change of the insurance scheme—e. g. to the married woman a marriage gratuity extinguishing her claims to future benefit, combined with adequate dependant allowance on her husband's unemployment and a pension on his death.

immobilizing influence of generous unemployment relief upon the recipient can be controlled by labour-exchange machinery, simply and as completely as we choose. For its immobilizing influence on the minds of governments and leaders of industry the remedies needed are stronger and may be painful.

The remedy for carelessness of governments about the causation of unemployment lies outside the special scope of this lecture. The problem to be solved is part of the general problem of persuading governments to see economic problems steadily and see them whole, and not either in the fits and starts of inexperienced cabinet committees, or sectionally through the eyes of administrative experts, concerned each with some one object, whether it be restoration of the gold standard, or avoidance of a strike of miners, or balancing the national budget or saving the local rates.¹ The problem of carelessness of unemployment in wage bargains and determinations is also too general for discussion in this lecture. The problem of how to prevent relief of unemployment from subsidizing and perpetuating industrial methods directly productive of unemployment does call for specific consideration.

One concrete case to be considered is that of industries like dock and wharf work, building, and works of construction whose methods of engagement involve the creation of large under-employed reserves of labour. All the three industries named were short of labour at the end

¹ Since this lecture was delivered a practical step towards this object has been taken by the present Government in the setting up of an 'Economic Council' with a staff of qualified economists. Those who care to may refer to two articles by myself on 'An Economic General Staff' appearing in the *Nation* of 1924. As the copyright in the idea of such a staff has been claimed by many people and by some attributed to myself, I may be allowed to add that the suggestion of an economic general staff forms the first and most emphatic recommendation in the unpublished report of a Committee of Economists appointed in 1917 to consider the probable state of industry after the war. I was not a member of that Committee and had forgotten all about it when I wrote my two articles, but I must have read the report at some time and have unconsciously plagiarized it in 1924.

of the war and had then a golden opportunity of rationalizing their methods of engaging labour. They could have brought about de-casualization without the hardship of excluding men already attached to them; they had merely to avoid attracting needless numbers to them. Instead they have gone on the old lines, building up again the old under-employed unorganized reserves of labour and throwing the cost of maintaining those reserves on other industries and the taxpayer through the insurance system. Building and works of construction, both starting with a shortage of labour and both favoured by Government subsidies, have expanded simultaneously their employment and their unemployment till in 1929 they are both worse than the average, with 13·3 per cent. and 22·7 per cent. respectively of unemployment. Dock and wharf service has now the highest unemployment of all the principal industries—30·8 per cent. in 1929.

The specific suggestion now made is that the Minister of Labour should have power to schedule such industries and any others which are marked by excessive unemployment. Scheduling should have two main effects, first, that labour should be engaged only through an employment exchange, second, that the general arrangements as to contribution for and relief in unemployment applicable elsewhere should be replaced for that industry by a special scheme. The special schemes would not necessarily be the same for all scheduled industries, but would all embody the principle that contributions should be required from employers in proportion not to the employment given, but to the tendency of their methods to cause unemployment. For a locally concentrated industry, such as that of docks and wharves, this might take the form of a substantial payment per head of each man registered as available for such work, irrespective of how much work he got; it would be desirable also, in place of giving benefit at so much per day of unemployment, to make up each week's earnings to a minimum. For a scattered industry like building, the employer might simply pay so

much each time he dismissed a man; this is the principle of the 'employment termination due' advocated by the majority of the Poor Law Commission.

It is not to be expected that a proposal of this nature will command the ready assent either of the employers or of the workpeople in the industries to be scheduled. But as the eminently conservative majority of the Poor Law Commission observed twenty-one years ago, a system of employment 'detrimental to the moral and material well-being of the community' cannot be considered solely from the standpoint of the employers and employees. As experience since those words were penned has amply shown, nothing but compulsion will change the bad habit of casual labour. The principle of regulating engagement of labour in industries with excessive unemployment has already been admitted for coal. The principle of making industries provide for the exceptional unemployment created by their methods of engaging labour represents the barest justice to other industries and the taxpayer.

Another case is that of industries such as cotton, which, from practising short time as a temporary measure during trade depressions, is tending now to practise it continually, and to keep an excessive labour force together at the cost of the Unemployment Fund. Under the scheme of 1911, the working of short time in depressions was regarded as a means of reducing claims to benefit, and was encouraged accordingly. Now employers have learnt to arrange short-time working so as to quarter the workpeople on benefit in their idle intervals, and the system represents one of the principal drains upon the Fund. Quite apart from the prominent case of cotton, it is probable that the extent to which benefit can be and is drawn by short-time workers of all kinds is one of the definite abuses of the scheme. There are circumstances in which, under the existing rules as to waiting week and continuity of unemployment, an employee may gain rather than lose by being 'stood off' for a day. It might be possible to meet some of the difficulties by a change of rules. It is probable

that for cotton something more direct like scheduling would be required.

But it is no part of my business here to set out a practical compendium of reforms. I have been carried already beyond the proper scope of this lecture—concerned as it is not with the future of unemployment insurance, but with its past and present. It may, however, be in place to point out, that sound decision as to the future of unemployment insurance depends, first, on seeing how completely its present differs from its past; second, on facing frankly the alternatives which this transformation puts before us, and all that each alternative involves. The first is the easy alternative of going further on the road already travelled—to permanent outdoor relief of the able-bodied subject to a labour-exchange test and financed by ordinary taxation. The second is the harder and better alternative of getting back to insurance as a measure of industrial organization—giving a limited cover against the industrial risk of unemployment, and supplementing insurance by a reformed poor law, which shall provide by a different agency different treatment to those who have run through their insurance claims and manifestly need something more than tiding over by money payments. But, on either alternative, measures of some kind must be taken to make trades which have excessive unemployment, as a result not of war dislocation but of their own methods, set their house in order and pay till they do so for their own reserves of labour. Without such measures, either alternative gives subsidies to the creation of unemployment.