



# Unemployment Insurance

## An International Survey

**T**HE systems of unemployment insurance which actually exist or may be devised are very varied. They may conveniently be classified according to the method on which the cost of the system is distributed. Underlying each system there is, of course, a definite theory of the nature of the unemployment risk.

In the earliest systems unemployment was regarded mainly as a personal risk, and the entire cost of insurance was borne by the workers. Those wishing to insure against this risk formed mutual insurance societies. There was, however, a certain occupational or industrial factor in the organisation of insurance, as these mutual funds were generally set up by the trade unions. The members of a fund therefore belonged to the same occupation or industry, and were liable to approximately the same risk of unemployment, which determined the amount of contribution or premium to be paid. Experience showed that risk was generally too high or too irregular; in other words, unemployment became so severe at times of depression that the mutual insurance societies were unable to cope with it unaided.

The social nature of the risk of unemployment was recognised when the public authorities, by beginning to subsidise unemployment funds, threw part of the burden of this risk on the community as a whole. The system by which the burden of insurance is shared by the workers and the public authorities is in force in the majority of countries at present.

There is, however, a very marked tendency nowadays to substitute for it a system under which unemployment is regarded as at once a personal, industrial, and social risk, to be borne by the worker (personal risk), the employer (industrial risk), and the state (social risk). The most recent theory of all treats unemployment as a purely industrial risk to be borne solely by the employer in the same way, for example, as industrial accident.

### STATE-AIDED WORKERS' UNEMPLOYMENT INSURANCE

A system of this nature was instituted in Belgium some thirty years ago, but has developed considerably since the war, owing partly to an enormous increase in the membership of trade unions with unemployment funds, and partly to energetic action by the government and state financial assistance on a much larger scale than formerly. In December 1921 there were 2,317 unemployment insurance societies in receipt of subsidies from the state or

local authorities, with a total membership of 756,000. In 1913 there were only 634 societies with 126,000 members.

The rules of these societies, which are subject to the approval of the public authorities, vary greatly, both in respect of the amount of contributions and of the amount and conditions of payment of benefits. The subsidising authority is empowered to require the maintenance of an exact proportion, fixed in the light of experience, between the amount of contributions and the amount of benefits. The main advantage of this system is its extreme flexibility. The rules of each society are adapted to the amount and nature of the risk of unemployment in the industry concerned. Thus partial unemployment resulting from a reduction in the number of hours per day or days per week in industries where this is customary is covered, as well as total unemployment in other occupations.

The state subsidies amount to 50 per cent. of the amount of contributions paid by members, and are granted to all societies approved by the state and affiliated to a local public unemployment fund. The government imposes the second condition because it relies on the local public unemployment funds to supervise the management of the societies. The local public unemployment funds, which generally cover a group of adjacent communes, grant subsidies to unemployment insurance societies proportionate to the amount of benefit paid. At the end of 1920 there were 95 local or inter-local public unemployment funds, as against 29 in 1913.

In order to cope with the present depression, the government also instituted a National Crisis Fund, which pays benefits to unemployed persons who are members of an unemployment insurance society, but are no longer entitled to receive benefit from it for any reason, such as that the period of their unemployment has exceeded the maximum provided for in the regulations, or that the society has become insolvent owing to exhaustion of its funds through the depression. The benefits paid by the National Crisis Fund are 4 francs per day for the head of the family<sup>(1)</sup>, plus 1 franc per day for the wife, if not habitually employed, and for each child, up to a maximum of 10 francs per day.

A very original and interesting regulation of the National Crisis Fund deserves special attention. In certain cases the Belgian Government extends the interpretation of involuntary unemployment to cover strikes and lock-outs. The necessary condition is that the workers affected by the strike or lock-out have previously submitted the dispute to conciliation and arbitration and have exhausted all possible means of settlement, while the employer has refused to do so. This bold innovation has stood the test of experience and seems to have produced excellent results. It was introduced into the regulations for unemployment relief immediately after the Armistice, by Mr. Joseph

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(<sup>1</sup>) 3 francs per day for bachelors, widowers, or divorced men.

Wauters, the Minister of Labour. It has greatly encouraged the application of the principle of conciliation or arbitration in collective disputes, and has helped to restore industry from the ruin due to the war, by reducing the number of strikes and facilitating the adjustment of wages to the new economic conditions.

Unemployment insurance societies in Denmark are subsidised by the State at the rate of 50 per cent. of the amount of members' contributions. In addition to this the local authorities may also grant subsidies. At first sight the conditions imposed by the state are stricter in Denmark than in Belgium. Thus approved unemployment insurance societies may not refuse to admit to membership any person working in the occupation and living in the district covered by the society. This condition does not exist in Belgium.

On 31 March 1920 there were in Denmark 65 approved unemployment insurance societies with a total membership of 313,000. On 31 March 1921 the number of insured persons was only 284,000, the result of the effects of the depression on the membership of the trade unions.

The government subsidies to Norwegian unemployment insurance societies are not calculated on the basis of members' contributions, but at the rate of 50 per cent. of the benefits paid for a maximum period of 90 days' unemployment per year. During the present depression the subsidies have been increased to 66 per cent. of the benefits paid. The number of insured persons rose from 41,000 in 1916 to 116,000 in 1920.

Finland also has a system of voluntary unemployment insurance aided by government subsidies.

The same is true of Spain, but the subsidy is equal to the amount of members' contributions.

Although government subsidies have been granted in France<sup>(2)</sup> for more than 15 years, this has not succeeded in establishing an effective system of unemployment insurance. In 1913 the membership of unemployment insurance societies in receipt of subsidies was only 50,000. Although disorganised during the war, these societies were reconstituted after the Armistice, and at the end of 1920 had 55,000 members. The cause of this unsatisfactory situation will no doubt be found not so much in the low rate of subsidy, which at the maximum is 30 per cent. of the benefit paid, as in the lack of interest displayed by the French trade unions in mutual insurance, which is so highly developed in the majority of other countries. The question of social insurance, however, is beginning to occupy the attention of the French working classes. The National Committee of the General Confederation of Labour in 1921 included among its immediate demands "the creation of a general system of social

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<sup>(2)</sup> Cf. INTERNATIONAL LABOUR OFFICE : *The Organisation of Unemployment Insurance and Employment Exchanges in France* ; Studies and Reports, Series C, No. 5. Geneva, 1921.

insurance covering all risks incurred by wage earners—accidents, sickness, unemployment, infirmity, and old age—provided that the workers' organisations are allowed to share in the management of this system". The Federation of Metal Workers, one of the most important trade unions, has recently decided that as from 1 January 1923 membership of the federal unemployment fund is to be compulsory for all members of the Federation.

In the Netherlands, voluntary unemployment insurance, subsidised in equal amount by the state and the local authorities up to a maximum of 100 per cent. of members' contributions, has developed considerably. In January 1922 the number of insured persons was 377,000.

An Act dated 17 July 1921 set up a system of state subsidies to trade union unemployment funds in Czechoslovakia.

### COMPULSORY INSURANCE AND EMPLOYERS' PARTICIPATION

In Great Britain and Ireland (3) employers were required to share the cost of insurance by the Act of 1911, which established compulsory unemployment insurance in a certain number of industries. This principle was maintained by the Act of 1920 (amended in 1921 and 1922), which considerably extended the scope of compulsory insurance. The number of workers covered by the scheme in Great Britain and Ireland at present is about twelve millions out of an approximate total of sixteen million wage earners. The chief categories of workers exempt from insurance are agricultural workers and domestic servants.

Under the 1911 Act the employer's and worker's contributions to the unemployment fund were equal, and the State's contribution was equal to one-third of the total contribution of employer and worker together. The new Act, as amended in 1922, made the employer's contribution rather larger than the worker's, the state's contribution being slightly more than one-third of the total contribution of employer and worker, as is shown below.

	Weekly Contribution		
	Employer d.	Worker d.	State d.
Men	10	9	6 $\frac{3}{4}$
Women	8	7	5 $\frac{1}{4}$
Boys	5	4 $\frac{3}{8}$	3 $\frac{7}{8}$
Girls	4 $\frac{1}{2}$	4	3 $\frac{5}{8}$

The British system of unemployment insurance has thus not only established the principle of compulsory participation by the employers in the cost of insurance, but is also tending to increase the share of the employer in this cost.

The cost of compulsory unemployment insurance in Italy (4),

(3) Cf. INTERNATIONAL LABOUR OFFICE : *British Legislation on Unemployment Insurance* ; Studies and Reports, Series C, No. 1. Geneva, 1920.

(4) IDEM. *Government Action in dealing with Unemployment in Italy* ; Studies and Reports, Series C, No. 2. Geneva, 1920.

which was established by the Decree-Law of 19 October 1919, is divided equally between the employer and the insured worker. The only share taken by the state consists in contributing to a kind of reserve fund. The Act covers agricultural workers as well as manual workers and salaried employees in industry and commerce, and only excludes home workers and domestic servants. It also excludes unemployment in seasonal industries, unless an additional contribution, of an amount to be fixed in the rules of each society, is paid. A list of industries subject to slack seasons is drawn up by the Ministry of Labour. There have been great difficulties in administering the law owing to the indifference or opposition of those concerned, whether employers or workers.

On 1 January 1922, of 542,000 totally unemployed persons, only 72,000 were in receipt of benefit under the insurance system, and 44,000 under a temporary relief system. Although compulsory insurance has been in force since 1 January 1920, 426,000 totally unemployed persons were without benefit or relief of any kind.

The Austrian Compulsory Unemployment Insurance Act of 24 March 1920 makes the state responsible for one-third of the cost involved. In the first place, however, the state advances the entire sum required for the payment of benefit; the contributions of employers and workers are fixed subsequently. The two parties concerned contribute equally to the reimbursement of two-thirds of the state advance.

A peculiar feature of the Swiss system of unemployment benefit<sup>(5)</sup>, established by the Federal Government by the Order of 29 October 1919, is that the worker bears none of the cost of the system, which in general is divided in equal parts between the employers, the cantons, and the Confederation. In cases of partial unemployment, if the ordinary hours of work are not reduced by more than 40 per cent. during one wage period, the benefits, which should be equal to one-half of the loss of earnings, are paid entirely by the individual employer. If the reduction in hours exceeds 40 per cent., the employer pays only one-third of the benefit, as in the case of total unemployment.

The employers' contributions are collected by the trade associations of which they are members. The rules of these associations in this connection must be approved by the Federal Department of Public Economy. The liability of each employer is limited to a certain maximum, fixed in the case of salaried employees at the equivalent of three months' salary, and in the case of manual workers at the equivalent of six weeks' wages. In principle each employer is required to contribute to the payment of benefit to his own employees only. If he has contributed more than is necessary for this purpose, the sum not utilised is refunded to him. As this might distribute the burden of unemployment relief too unequally between the various employers,

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(5) *IDEM. Action of the Swiss Government in dealing with Unemployment; Studies and Reports, Series C, No. 4. Geneva, 1920.*

reserve funds have been set up. Each employer pays into these funds one-third of the total contribution which he is required to pay, and the money so accumulated is to be used indiscriminately for the payment of benefit to employees of all undertakings covered by the particular fund. A minimum contribution from each employer for the purposes of unemployment insurance is fixed, in the case of salaried employees at the equivalent of one half-month's salary, and in the case of manual workers at the equivalent of one week's wages. When the reserve funds are exhausted benefit is paid entirely by the public authorities.

During 1921 the amount of benefit paid to the unemployed was 81,518,000 francs, of which 36,119,000 was paid by the Confederation, 31,467,000 by the cantons and 13,932,000 by the employers. This system is only provisional in character, however, and is to be replaced by another at present under consideration. The intention appears to be to base the new system on the principle of workers' mutual insurance subsidised by the public authorities.

The insurance system established in Luxemburg by the Act of 6 August 1921 is based on financial participation by the state, the local authorities, the workers, and the employers. The unemployment benefits are advanced by the state, which, however, only bears one-quarter of the cost. Another quarter is recovered from the local authorities, and the remaining half is to be divided between the workers and employers in proportions to be fixed subsequently by another Act.

#### PROPOSED SYSTEMS

Unemployment insurance is at present in course of development. The examples given show how its scope has been enlarged within recent years in the countries which have adopted it. There is also a tendency, no doubt influenced by the Recommendation of the International Labour Conference at Washington, to introduce unemployment insurance in other countries.

A particularly interesting Bill, based on the work of Professor John R. Commons, was introduced in the Wisconsin Legislature in 1921. By this Bill unemployment insurance would be organised on the same basis as accident insurance; the cost of the compensation would be borne exclusively by the employer. The latter, if a member of a corporation or employing not less than three workers, would be required to insure against this risk with a mutual insurance company. Unemployment benefit would be guaranteed to all manual workers or salaried employees except agricultural workers, the staff of public administrations, persons dependent on others for their livelihood, persons with an income of \$1,500 or more, and those in receipt of a pension of \$500 or more per annum. Apart from these exceptions any unemployed person would receive benefit, provided that he had worked for at least six months for the same employer,

and that he was unable to find other employment suited to his abilities. He would not be compelled, however, to accept work in an undertaking where a lock-out or strike was in progress, or where a wage below the current rate was paid.

The benefit paid would be \$1 per working day for adult unemployed and 50 cents for young persons between 16 and 18 years of age. Its payment would be guaranteed by employers' mutual insurance companies, which the employer, as has already been stated, would be compelled to join. The amount of the employer's contribution would depend in each case on the degree of stability of the industry. This system would encourage employers to regularise their production and to spread it over the whole year, so as to give their workers permanent employment. The insurance funds would be administered solely by the employers, and any dispute submitted to the Industrial Commission. An Employment Advisory Board, comprising an equal number of employers' and workers' representatives, would, however, supervise the general administration of the Act. Each mutual insurance company would appoint experts to investigate thoroughly the causes of unemployment and to assist employers to solve problems which might arise in this respect.

In South Africa and Canada the problem of unemployment insurance is under consideration by the government.

In Australia a Compulsory Unemployment Insurance Bill was brought forward in Queensland in 1919. Under this the cost of insurance would be borne exclusively by the employer.

As the Executive of the Argentine Republic has approved the Recommendations of the Washington Conference, it may be anticipated that a Bill will be introduced for the establishment of unemployment insurance. A Bill of this kind is also proposed in Brazil. Detailed provisions for unemployment insurance are included in the Draft Labour Code laid before the National Assembly of Chili by the Government. The system involves financial participation by the state, the employers, and the workers.

In Japan, as a consequence of the Recommendation of the Washington Conference, the Government has recognised the need of establishing a system of unemployment insurance, and the matter is at present under consideration.

A large number of Bills are also under consideration in Europe.

The German Government Bill makes insurance compulsory and divides the cost between employers, workers, and the Federal and local authorities.

The Bill at present under consideration in Belgium proposes to substitute compulsory for voluntary insurance. The new system will differ from the present one in that the trade union unemployment funds will be supplemented by inter-trade insurance schemes, of which all workers who have not voluntarily joined a trade union fund of the first type will be regarded *ipso facto* as members. In addition the employers will be required to

share in the cost of insurance, as well as the workers, the state, and the local authorities.

In the Netherlands the substitution of a system of compulsory insurance, in which the employers are to share, for the present voluntary system is under consideration.

In Poland, Sweden, and Switzerland insurance Bills are proposed.

#### GENERAL TENDENCY OF UNEMPLOYMENT INSURANCE

A great many countries are clearly tending to make unemployment insurance compulsory, and to require the employers to bear at least part of the cost. In some countries the workers' organisations have even expressed a desire that the workers' contribution should be abolished.

The Annual Trades Union Congress of Great Britain, held at Portsmouth in September 1920, passed a resolution stating its conviction that a better organisation of industry would lead to the abolition of unemployment, and that therefore industry, and not the workers, should be made responsible for unemployment.

The legislative programme of the Trades and Labour Congress of Canada for 1921 included the establishment of a Federal fund for the payment of benefit to totally or partially unemployed persons, this fund to be raised by a tax on industrial establishments and by grants from public authorities.

In France the system of social insurance which appears to be favoured by the workers' organisations is that laid before Parliament before the war by Mr. Edouard Vaillant. This system does not require contributions from the worker.

Nevertheless, the most usual practice, which appears to be supported by the majority of workers' organisations at present, is to organise unemployment insurance on the triple basis of contributions by employers, workers, and the public authorities. This appears the most desirable system, as it provides all possible guarantees against fraud, which it is difficult to prevent completely in this matter, and, which is much more important, it makes insurance, to a certain extent at least, a means of preventing unemployment. Any well-organised insurance institution should endeavour to reduce to a minimum the probabilities of incurring the risk which it covers. The development of insurance against industrial accident has encouraged the improvement of safety appliances in factories. The advance of health insurance has assisted the progress of hygiene. Similarly unemployment insurance should help to stabilise the labour market, and each party concerned whose action might help to reduce unemployment, whether employers, workers, or public authorities, should therefore be called upon to bear part of the cost of insurance.

The tendency to organise insurance on an industrial basis also has in view the prevention of unemployment. In addition to the general causes of unemployment, which, especially during



periods of industrial depression, affect almost all industries and occupations, there are many causes peculiar to each industry or occupation which an improvement in internal organisation might reduce or eliminate. Unemployment insurance may act as a stimulant in this direction, in so far as it is organised on an industrial basis and provides for premiums varying according to the risk of unemployment in each industry or occupation. This is not the case when the insurance system consolidates all risks and establishes a single average contribution for all industries or occupations.

In countries where unemployment insurance is left to the initiative of those concerned, encouraged by subsidies from the public authorities, the industrial nature of insurance schemes is most marked, as they are generally established by the trade unions. The preventive value of these schemes is unfortunately very slight if the employers do not contribute to them. In the British compulsory insurance scheme, established in 1911, the employers bear part of the cost, but originally no distinction was made between the various industries subject to insurance; contributions were the same in all. The Act of 1920, extending compulsory insurance to all industries, does not maintain this excessive rigidity. The new Act explicitly provides that each industry may set up a special system of its own under government control, provided that the system guarantees unemployment benefit at least equal to that provided by the Act, whatever contributions are paid.

The committee set up by the British Government, under the chairmanship of Sir Eric Geddes, to consider economies which should be affected in the administration of public finance, expressly recommended that the possibility of organising unemployment insurance on an industrial basis should be examined. The Minister of Labour, in February 1922, instituted an enquiry on the subject among the chief associations of employers and workers. Since the end of 1920 the principle that each industry should bear the cost of its own unemployment has been advocated with great vigour in the House of Commons by Sir Allan Smith, employers' representative on the Governing Body of the International Labour Office. The application of this principle is likely to give a new direction and force to the campaign for the prevention of unemployment.

Mention may well be made here of the Draft Convention adopted by the International Labour Conference at its session at Genoa concerning the payment of unemployment benefit to shipwrecked seamen and of the Recommendation concerning the insurance of seamen against unemployment in general. These two measures may be attributed to the idea of organising insurance on a different basis for each industry.

Among other tendencies at present to be observed in the organisation of unemployment insurance, attention may be called to the increase in the amount of benefit paid to the unemployed or demanded by the workers' organisations. It would be value-

less to make comparisons in this respect between the figures adopted in the different countries, in view of the differences in purchasing power of the different currencies. The general increase in unemployment benefit tends not only to maintain the existing relation between these benefits and the cost of living <sup>(6)</sup>, but also to reduce the existing inequality between wages and unemployment benefit. At present the amount of unemployment benefit is frequently limited to a certain proportion of wages, usually from 60 to 70 per cent. Mr. Seebohm Rowntree, the British employer and sociologist, recommends <sup>(7)</sup> that the rate of benefit should be 50 per cent. for single unemployed men, with an addition for married men of 10 per cent. for the wife and 5 per cent. for each child, up to a maximum of 75 per cent. of normal wages.

Insurance against unemployment should obviously enable working-class families suffering from unemployment to continue to live in conditions worthy of a human being. A relatively high rate of benefit would involve a danger of encouraging idleness only if the insurance system provided no effective measures of control for drawing a distinction between the idle and the genuinely unemployed. The important function of public employment exchanges in this respect has been indicated in a previous article <sup>(8)</sup>.

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<sup>(6)</sup> It may be noted in this connection that a fall in the cost of living in Belgium and Switzerland led recently to a reduction in the benefits paid by the Belgian National Crisis Fund and the Swiss Federal Unemployment Fund.

<sup>(7)</sup> *International Labour Review*, Vol. IV, No. 3, Dec. 1921, pp. 1 to 15; *Prevention and Compensation of Unemployment*, by B. Seebohm ROWNTREE.

<sup>(8)</sup> *International Labour Review*, Vol. VI, No. 1, July 1922, pp. 19-37; *Employment Exchanges and their Organisation*.