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NEW YORK

ARTHUR H. YOUNG  
SECRETARY

March 29, 1934

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Dear Mr. May:

Enclosed you will find a copy of the memorandum I have prepared on the proposed study "Planned Protection Against <sup>red</sup> Unemployment" which you, Mr. Givens and I have discussed. I think you know that a second meeting of the original group with which the project was discussed has been called for April 9, in Washington. After the discussion in that meeting, and in order to incorporate certain further material of my own, I shall prepare another edition of this memorandum and will forward you a copy.

Sincerely yours,

*Bryce M. Stewart*

Bryce M. Stewart

Mr. Stacy May  
Rockefeller Foundation  
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BMS:J  
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## PLANNED PROTECTION AGAINST UNEMPLOYMENT

### A Study of Policy and Administration

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## PLANNED PROTECTION AGAINST UNEMPLOYMENT

### A STUDY OF PUBLIC ADMINISTRATION AND SOCIAL POLICY

#### I. ORIGINAL PLAN FOR THE STUDY

The study here proposed was at first thought of almost entirely in terms of the more immediate measures for dealing with emergency unemployment, primarily unemployment insurance and relief. The need for constructive thinking in this field is quite evident. After four years of depression the breakdown of the regular agencies, public and private, and the disjointedness and general unpreparedness of our attack upon the relief problem of the emergency stand revealed. It has been necessary for the federal government to establish the FERA, as an emergency organization to provide adequate relief and to secure the measure of central control necessary for the administration of a national relief policy. The experience has greatly increased the demand for some form of unemployment insurance and any effort to plan for emergency unemployment in the future must have regard to both insurance and relief procedures.

Unfortunately unemployment insurance promises to develop in the same piecemeal way as relief. The state of Wisconsin has passed a law, more than one hundred and fifty bills on the subject have been introduced in other state legislatures, and proposed federal legislation which would leave a good deal of latitude to the states is now before Congress. Some code authorities and trade associations are giving thought to the establishment of industrial systems and a special scheme is being considered

for the railroads. There is a better prospect for the planning of a placement organization through which unemployment insurance must be administered. The federal-state employment service provided for by the Wagner-Peyser Act is being organized and in view of its limited coverage by reason of the tardy response of the states, a nation-wide reemployment service has been established with the federal funds to meet the needs of the emergency situation. But a special employment service is being considered for the railroads and other industries may follow, especially if they establish industrial schemes of unemployment insurance. On the one hand, the more or less unrelated phases of our current attack by the relief method must be knit together both in theory and administrative practice. On the other, if the unfortunate experience in our development of a relief system is not to be repeated in unemployment insurance, there must be better planning of insurance measures.

But improvement of unemployment insurance and relief techniques alone will not suffice. These two forms of protection must be planned together and their lines of division and coordination charted in advance. They have the same objective; each seeks in the interest of the individual and of industry to put a bottom to the decline in incomes and purchasing power during periods of unemployment. The European experience suggests that unemployment insurance should function as the first line of defense and that a well-organized relief system should be available for the uninsured and for insured persons when they have exhausted their insurance rights. Insurance and relief have a common problem of finance and the



transfer of persons and pertinent information between the two systems requires transitional procedures at the outer limits of insurance. There should be no wholesale dumping of workers by one system upon another as was the case in the recent transfer of persons from relief to civil works. The two are also linked by their mutual interest in an efficient placement organization that can prevent malingering by certifying whether an applicant is genuinely seeking and unable to find employment is willing to accept employment at a distance or take necessary training.

What division of administrative functions shall there be as between public and private agencies in both fields? Is the whole field of unemployment relief to become more and more the province of the public authorities? Are private relief and social work agencies to have a lesser place or as the treatment of the problem becomes more specialized will they balance their loss in scope with more intensive specialization on the functions allotted to them? So far as the public responsibility is concerned how shall the task be distributed at the different administrative levels - local, state and federal?

But little thought has been exercised in these directions in this country. Social workers have paid almost no attention to unemployment insurance and placement machinery, and the proponents of insurance have not concerned themselves with relief. Certainly these expedients should be studied in their interrelationships if they are to be used at all effectively.

## II. INADEQUATE SCOPE OF THE ORIGINAL PLAN

(a) Broad Content of the Recovery Program: Without doubt an intensive study of the problems of unemployment insurance, placement and relief in their broadest social aspects and in their financial, administrative and functional relationships would yield important returns but a number of considerations suggest that the scope of the investigation should be broadened considerably. European experience in the depression has made it plain that the availability of effective nation-wide unemployment insurance and relief systems and national employment services would not have been sufficient even as methods of direct attack upon unemployment. Moreover, the recovery program in the United States implies widely diversified lines of effort. Apparently it is based on the following assumptions:

- (1) That in view of the present state of technological advancement and the abundance of natural resources in this country it is now physically possible to provide a decent comfort standard of living for all of our population. We have achieved a state of potential abundance which under proper management should lead to even greater abundance;
- (2) That there is something wrong with an economic system which, in face of these possibilities, allows poverty and starvation;
- (3) That a reasonable standard of living for all members of society is a matter of public interest and to the extent that private initiative fails to provide this standard of living, it is the function of government to make it possible.

The recovery program in its original emergency phases and its growing

long-term content contemplates much more than relief, placement and unemployment insurance organizations. The PWA and the CWA were established to undertake a diversified program of public works to provide jobs and incomes for the unemployed in industry and business and the AAA to perform a like function for the agricultural community. The NRA had as a principal objective the assurance of minimum wages to employees already at work and to unemployed workers who were to be absorbed by reducing the hours of work. The NIRA and the AAA also provided for the adjustment of production to demand. All these devices sought to effect a redistribution of income that would afford the great mass of the population a higher level of consumption and a corresponding stimulus to business recovery. The extension of credit to railroads, agriculture, banks and business through the Reconstruction Finance Corporation, the inflationary aspects of the monetary program, the reorganization of the banks and the releasing of frozen deposits and assets and the provision for deposit insurance were all designed to renew confidence and increase purchasing power. Throughout the major emphasis of the program is the assuring of income through the medium of jobs in private industry and, in the measure that industry fails to do so, to provide government employment. Public works and civil works imply a flexible program of public employment that in more normal times may take up the slack due to technological or other changes. Another indirect method, the construction of low-cost houses, power and irrigation projects, seeks not only to compensate for shrinkage in private employment but to make the resulting incomes more adequate by supplying certain needs at more reasonable prices. Apparently the government plans to afford employment and supply

needs not adequately provided by private industry. It does not propose to wait for economic society to effect its own recuperation.

The Secretary of Labor has been attempting to make various forms of social insurance a part of the governmental program and thereby to give its emergency relief phase a more permanent status. In her annual report Secretary Perkins urges the states to adopt some form of unemployment insurance and old age pensions and proposed legislation on both subjects has been introduced into Congress. Certainly such expedients have a logical place in the Recovery Program. Social insurance is designed not only to spread the burden of social hazards, to provide incomes during the incidence of such hazards and so to protect the persons directly affected, but also to induce employers to eliminate the risks of industry so far as practicable and to secure a more even flow of purchasing power.

The Secretary of Labor's advocacy of social insurance is entirely concerned with the future and not with the present emergency to which much of the President's policy is necessarily directed. But the President's relief program has its long-range aspects. Whatever social insurances may be established they will be on a limited liability basis. Some persons will not be insurable and some insured persons will not have sufficient protection for their particular needs. There will remain, therefore, a residual problem of relief for the public authorities which calls for the continuance of the FERA on some permanent basis. The relief phase of the program also has implications for greater economic stability in addition to its provision of purchasing power. While the premiums for the social insurance may act as incentives to individual employers to reduce industrial hazards in their establishments, the burden of relief may prompt governmental action to put the socio-economic house in order. Until the federal government assumed its new relief responsibilities little short of a fear of serious



social disturbance seemed likely to stimulate governmental action for greater stability in the economic structure.

(b) Philosophy of the Recovery Program is the Philosophy of Social Insurance: These various governmental activities indicate that the United States has turned definitely from the view that the individual caught in the interplay of economic forces must shift for himself, to a conviction that our society must protect its members not only for humanitarian reasons but in order to assure its own survival. It is now accepted as a primary duty of the government to make such adjustments in the present economic system as will yield a better distribution of income and a production activity commensurate with demand. This new social philosophy has been accepted under the impact of a tidal wave of unemployment which has deprived one-third of the population of their means of livelihood, has depleted the incomes of another third at least, and has thereby impaired the operations of the national economy and shaken confidence in the effectiveness of our national institutions. Translation of this viewpoint into action has necessarily been mainly in the direction of relieving the enforced idleness of a national economic crisis by emergency procedures.

The social insurances are an earlier expression of the philosophy that has been borne in America of the depression. In the latter half of the nineteenth century the philosophy of laissez-faire steadily gave way. While the capitalistic economic system and its institutions were accepted as developments in an organic growth of society, there was increasing recognition that individuals through no fault of their own were bound to suffer from hazards inherent in the system and that they could not wait for the basic maladjustments to right themselves through the forces making for equilibrium. As has been said, "The forces work themselves out in the long run and the worker must live in the short run."

Increasing industrialization towards the end of the century and its

concomitant insecurity for labor brought a larger acceptance of this viewpoint. Then began a period of trial and error with various forms of social insurance and today most European countries have established insurance systems for unemployment, sickness, old age and accidents, together with some protection against long hours and sweated wages. In the United States due to a combination of circumstances the spread of this philosophy and the development of social insurance were retarded and the country entered the depression with little or no protection for its workers against unemployment or unemployability in their various forms, although a large number of bills introduced in state legislatures and in Congress in recent years indicated a rising public opinion in favor of social insurance. During the depression relief workers have not only given greater recognition to the social insurance philosophy but they have been carrying it into the relief field. Social workers are asserting that unemployment relief should be shorn of its old poor law conceptions and should be regarded as a prolongation or broad extension of unemployment insurance and as an adjunct to placement service. They urge that such a viewpoint is needed in the interest of a new psychology and greater dignity in the dispensation of relief. This seems almost identical with the position reflected in recent unemployment insurance practice in several countries which grants those who have come out from unemployment insurance a better relief or welfare provision nearer to the insurance and placement systems than is allowed to others.

Now that the administration has embarked upon a policy of providing a larger measure of economic security, the social insurances and their concomitant relief measures which have been demonstrated in several countries as agencies tending to steady individual incomes/<sup>and</sup> to regularize the wages stream in the national income must be given a place in the program.

### III. PROPOSED SCOPE OF THE STUDY

(A) Phases of the Recovery Program Germane to the Study: Accepting social insurance as within the present governmental program, that program falls into four parts:

1. The attempt to bring about a healthy functioning of the economic system.
  - a. by providing favorable conditions for private initiative,
  - b. by inducing private business to co-operate in establishing such conditions,
  - c. by regulating private business,
  - d. by supplementing private business when and where necessary for the public good.
2. Providing jobs to supplement the jobs offered by industry.
3. The provision for social insurance against hazards,
  - a. by industry,
  - b. by governmental agencies.
4. The residual problem of relief.

It is obvious that while unemployment insurance and relief are important devices for implementing such a program, they have well-marked limitations. Unemployment insurance can be utilized only for persons ordinarily employed by others and who are able to work and are genuinely seeking employment. It does not cover the needy self-employed, nor children under the working age nor any subnormal or unemployed group such as the sick, the aged, the temporarily or permanently disabled. Nor can such persons be rightly considered as within the scope of emergency unemployment relief for they are always present in the community in large numbers. In the midst of higher taxation and government borrowing for unemployment relief, we have been constantly reminded of the financial needs of the established agencies, the hospitals, clinics, homes,

and other relief institutions, public and private, that care for the poor of these classes. The financial resources available for the purpose must be spread over all the groups, employable and unemployable. The needy aged cannot be left in want while relief is provided for the able-bodied unemployed. Accordingly, it will be well to look beyond unemployment insurance and unemployment relief and their interrelations to the whole field of social insurance, especially as most of the risks of enforced idleness are susceptible to the insurance approach.

The study here proposed should take cognizance of all four parts above indicated, but only the three parts dealing with provision of jobs, social insurance and relief are properly within its limits. The monetary and financial problems, the agricultural problem, planning for industry, the international problem, all have their bearing upon jobs and unemployment. Efforts in these directions have as their purpose the smoother functioning of the economic system and a planned co-ordination of supply and demand. Successful experiments in these fields will make for fewer hazards and will facilitate the financial administration of any program for protection of the workers, but they are beyond the scope of a study such as this. It is suggested that the emphasis in the proposed study should be on provision for jobs to which should be attached contractual incomes so as to provide the necessary insurance against economic hazards and the individual worker with a high degree of security and hence of economic freedom throughout periods of unemployment as well as employment.


(B) Place of Social Insurance in the Study: In any such study the social insurances must have a large part for the advantages of the insurance over the relief procedure in promoting the ends here suggested have been demonstrated. Insurance spreads the costs in time and in society and so has generally permitted more adequate provision than relief and with more convenience to all concerned. Since the benefits are contractual they can be administered more easily, impartially and with greater dignity than relief payments conditioned



on investigation of the applicant's need. Not only are the payments larger but they can be distributed to a greater proportion of the population, a marked advantage for a policy of effecting a more even distribution of income. For these reasons insurance has proved more advantageous from both the individual and social standpoints. Accordingly, the typical evolution of treatment has proceeded from relief for all in need to one form of social insurance after another for the insurable groups. To the extent of the resources of the insurance schemes, the insured persons have been lifted out of relief coverage, but in the measure that insurance has proved inadequate in amount or duration the insured have remained in or reverted to relief. As the British Royal Commission on Unemployment Insurance said, "Relief has been the residual legatee." A policy of redistribution of income must, therefore, have regard not only to unemployment relief and insurance, but also to all the social insurances.

It is generally recognized in Great Britain that the social services have had a large part in bringing about a redistribution of income that not only has greatly mitigated poverty, but has maintained purchasing power on a relatively high level during the present depression. The Liberal Industrial Inquiry estimated that the benefits which the average working class family derives from the different forms of public expenditures add about 14.7 per cent to their income if employers' unemployment insurance contributions are taken into account. The new survey of Life and Labour in London finds a general improvement in labor conditions since Booth's survey of the nineties. It is estimated that skilled real wages have improved by 14 per cent and unskilled by 28 per cent between 1890 and 1930. The report states that: "There appears indeed to have been a general leveling up of wages with the consequence that liability to severe poverty has been reduced even more than in proportion to the increase in real wages."

The British workman seems to have fared relatively well during the depression. The Director of the International Labour Office estimates that the purchasing power of the wage-earning population shrank by 48 per cent in the United States, by 20 per cent in Germany and 19 per cent in Italy between 1929 and 1932. In Great Britain the shrinkage in money wages amounted to 7 per cent between 1929 and 1931 and probably to about 10 per cent between 1929 and 1932. There can be no doubt that in achieving this condition in Great Britain, her whole system of social insurance has played an important part.



(C) Essential Unity of the Social Insurances Precludes Separate Treatment: The different types of social insurance have developed separately and are only beginning to be considered in their interrelationships. They are all designed to give protection against some form of unemployability or unemployment; old age pensions for the unemployability incident to advanced age, workmen's compensation for unemployability due to work accidents, health insurance for unemployability on account of sickness and unemployment insurance for unemployment consequent upon the employer's inability to give work. If any one of these different risks is unprovided for, it results inevitably that a part of its cost will be thrust upon the protecting systems established for the others. When the system of sickness insurance in Germany was finally paralleled by a plan of unemployment insurance, expenditure on sick benefits was considerably reduced. This principle is evident even in the limited American experience. Latimer found in his study of industrial pensions that "the number of pensioners in some American companies rose by almost 50 per cent in the single year 1931, and in all companies by probably 14 per cent. In short, with unemployment increasing during the depression many workers were pensioned who would have been placed on unemployment benefit if such a system had been in existence.

There can be no doubt that the workmen's compensation systems of the states are burdened with costs that should be provided for by other protective schemes. Some physicians are loath to declare an injured employee as again fit for work and no longer eligible for accident benefit when his job has disappeared or the employment it offered greatly reduced during the period of his recovery, especially when there is no system of unemployment insurance to which he can be transferred.

Again when an unemployed workman seeks medical care the physician distressed by the worker's need and the absence of social provision against unemployment due to lack of work, may be inclined to give his patient the benefit of the doubt and attribute his illness to his occupation or a past accident. The Committee on Workmen's Compensation of New York State in its recent report to Governor Lehman said, "In occasional instances diseases which have occurred three or more years after an injury have been wrongly attributed to the injury or occupation." And again -- "Physicians have occasionally conspired with the injured workingman to obtain compensation for him for a longer period than his injury warranted."

If health insurance had been available many of these cases would have been shifted from the workmen's compensation to the health insurance system. It is evident that while the unemployment and unemployability have their special phases each of which should have its appropriate form of protection, some part of the burden of costs attributable to the unprotected risks will be carried by whatever insurance may have been set up. This condition points again to the inseparability of the different aspects of the problem and the necessity of a unified attack.

The public employment service has as its primary function the minimizing of the risk of lack of information or of misinformation about opportunities for workers seeking employment or employers in search of workers. It is related to all the social insurances and relief agencies, public and private, except those dealing with the permanently disabled, and they cannot be effective without recourse to an efficient placement organization. The service must receive and place workers who have been under relief treatment as they qualify for the labor market and must direct to the agencies workers



who for one reason or another are seeking insurance benefits or relief.

In all measures of social insurance and relief it has the unique function of testing the applicant's willingness and ability to work. No criteria of need may enter or the confidence of employers in the ability of the service to supply competent workers will be weakened. It is quite possible that the conception of work relief will be entirely abandoned and that capable workers for whom private employment is not available will be given employment on public works at the customary wages with the employment service responsible for testing, hiring and placement. In that case the employment service will become the agency for transferring workers from industry to insurance and relief agencies as private employment declines, then to expanding governmental employment designed to compensate for the shrinkage and finally back to places in industry as recovery takes place.

For a number of years there has been discussion of control of the flow of credit by the Federal Reserve banks as a method of reducing the swings of the business cycle, but until recently the fact that the agencies for the collection and disbursement of social insurance funds might play a similar part has been generally overlooked. Such discussion as there has been has dealt entirely with unemployment insurance. Proponents of unemployment insurance in this country have urged that contributions to an insurance system would tend to reduce the swings of the business cycle. In the prosperity phase of the cycle a proportion of the contributions collected from employers or employees or both would go into reserves and to that same extent would act as a brake on the expansion of business. In the depression phase disbursement of the reserves of the insurance fund

in the form of benefits would have a buyant influence on consumer purchasing power and employment. It was assumed until quite recently that this transfer of purchasing power from booms to depressions could be easily effected but some recent exploration of the theoretical aspects of the problem has revealed that the transfer of purchasing power in time will necessitate the development of a new technique.

If a plan of insurance were designed to give protection mainly against cyclical unemployment, and the trend of thought in this country is in that direction, large funds might be accumulated especially in the fortunate event that the plan were initiated early in the prosperity phase of the cycle. Manipulation of this body of credit might be quite as important as any federal reserve activity in the same direction. It has been estimated for one hypothetical nation-wide plan of unemployment insurance that in the seven-year period 1923-1929, a surplus reserve of \$3,900,000,000 would have been built up. As against this, the entire reserves of all banks in 1928 amounted to \$3,100,000,000 and of federal reserve member banks, \$2,300,000,000.

Accumulation of reserves for social insurance such as workmen's compensation and health insurance would be in lesser volume than in the case of unemployment insurance, since percentage of injured or sick persons in the total population does not fluctuate widely from year to year as does the proportion of unemployed. On the other hand, the reserves for a system of old age pensions would increase steadily for several decades. If the funds of the several plans could be pooled under central control, a much larger body of credit would be made available for any effort to reduce the swings of the business cycle.

Pooling of the funds of the different insurance systems would have the further advantage that the actual total cash reserve at any time could

safely be considerably less than the total of the individual cash reserves that would be necessary if the several funds were kept separate. Pooling would permit mutual accommodation among the different systems in meeting their cash requirements. From this standpoint the social insurances should be considered together. In so far as there may be effort to reduce the swings of the business cycle by control of the supply of credit, the insurances must be regarded as a single control device.

The history of social insurance abroad and our own meagre experience show that the different systems have evolved slowly and separately as public attention has concentrated on one form of economic insecurity after another. They bear the impress of the circumstances present in the different stages of their development, of changing political, economic and social conceptions and of the varying influences of conflicting interests. Accordingly there exists in any one country a number of more or less independent schemes for insurance against such risks as unemployment, sickness, old age, accidents, invalidity and death. Generally, these plans constitute a highly complicated legislative apparatus, their administration often is difficult and expensive, and usually there is much overlapping and lack of coordination between them. In Great Britain, for example, each individual insured against several risks must come in contact with a variety of organizations. Workmen's compensation is administered by proprietary insurance companies, mutual insurance companies and self insurers, old age pensions by the Post Office, health and maternity insurance by approved societies, unemployment insurance by employment exchanges, trade unions and other approved societies. It is inevitable under these conditions that persons who rightfully deserve benefits are

deprived of them because of the complexities of the procedure.

In Great Britain also compulsory health insurance functioning alongside voluntary workmen's compensation may result in lack of protection to an injured worker whose accident is not eligible for treatment under health insurance and against which he is not insured under workmen's compensation. Unemployment may so deplete a worker's income that he is unable to continue his contributions to sickness insurance upon which his right to benefit depends. If the worker is not covered by unemployment insurance he is then left unprotected against two risks. In fact, the lack of protection against one risk throws the cost on the insured risks. The relief agencies, handling the problem of cyclical depression, have without doubt been burdened with the relief of old age and illness. Moreover, it is difficult to segregate the various risks so that each may be treated independently. Just where illness becomes invalidity, or an accident becomes invalidity often cannot be discovered. Whether an unemployed person of 65 should be eligible to benefits from an unemployment fund or an old age pension system depends more upon what insurances exist than the logical of the situation. The interrelationships of the financial schemes of social insurance also constitute a problem. The burden of old age in a period of industrial unemployment may be thrown on the unemployment relief or insurance scheme and help to deplete its resources at a time when they are needed for other purposes. The lack of protection against one risk means that ordinarily the existing schemes may be carrying much of its cost.

The need for removing the defects due to the absence of a unified plan first appeared in countries where social insurance has been most highly developed. This problem has been seriously discussed in several countries, especially in Czechoslovakia, Great Britain and France, and was raised in



Germany almost immediately after the introduction of the schemes of insurance against sickness, invalidity, old age, and death. In 1889 and again in 1903, when amendments to the Invalidity Insurance Act and to the Sickness Insurance Act were being considered, the Secretary of State for Home Affairs made statements such as the following in the Reichstag:

I consider that, from the theoretical point of view, there is no doubt that the demand for the combination of the three social institutions (accident, sickness, and invalidity and old age insurance systems) is fully justified. I believe it may also be admitted that this triple subdivision of social legislation would not have taken place if it had been within the power of one man to create the legislation for this powerful organization in all three directions at once and to put it into practice. The existing subdivision is in my opinion merely the outward result of the gradual chronological development of the whole field of social legislation.

I believe, however, that the future tendency of social legislation must be towards the fusion of the laws on all three social reforms in a single workers' welfare act, and then it will also have to be decided how such a unified system for the welfare of the workers is to be organized.<sup>1</sup>

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Richard Freund, "A Plan for the Reorganization of Social Insurance in Germany" in International Labour Review, Vol.11, January, 1925, p.5.

The same disjointed development of the social insurances is under way in the United States. The lack of planning for coordination as between relief and unemployment insurance, already mentioned, is also evident with respect to other related measures. The federal-state employment service provided for by the Wagner-Peyser Act is being organized during the depression and its limited coverage has forced the establishment of a nation-wide re-employment service to meet the emergency situation. A special employment service for the railroads is being considered and other industries may follow, especially if they establish industrial schemes of unemployment insurance. In this field there must be planning for nation-wide employment service coverage and for integration of the employment machinery with the administration of unemployment insurance whether by states or industries and with unemployment relief.

A parallel situation exists with respect to old-age pensions. State laws are being enacted on differing bases and perhaps five hundred industrial pension systems are in existence. The pension procedures of the railroads are due for drastic revision and the few trade union pension plans are doomed to failure. In so far as these pension plans are ineffective the burden of needy old age must be borne by relief and the interrelations of the two procedures should be recognized.

Provision for the unemployed on account of sickness is still confined to relief so far as public action is concerned. Some voluntary schemes of sick benefits have been established by employers and trade unions but the great majority of needy sick persons must depend upon public or private relief. Specialized insurance treatment in this field is inevitable but any such procedure must be knitted to a relief technique so that sick persons beyond its borders will be provided for.

During the early years of the nineteenth century, resolutions were passed by different organizations in Germany and elsewhere, advocating the unification of social insurance. Although it appeared that there was a strong movement in this direction, little progress was made, even in Germany. The German Imperial Insurance Code and the British National Insurance Act, both passed in 1911, were attempts at unification. The German legislation united invalidity and death insurance, while the English law combined sickness and invalidity. In 1922 the Soviet government passed the first single and comprehensive social insurance law and attempts at unification were made by Yugoslavia in 1922 and Czechoslovakia in 1924. In April, 1930, the French Parliament finally passed a rather comprehensive social insurance law, but it omitted compulsory unemployment insurance.

Some measure of integration of the social services exists in various countries. In Germany, for example, the unemployment insurance institution pays the contributions of unemployed members to other social services in which they are insured. In Denmark and Germany, the sick funds collect their own and the unemployment contributions and thus decrease administrative expense. In Belgium the unemployment insurance societies, which formerly were permitted to pay only unemployment benefits, may by a recent provision also pay old age pensions to their members. Instances such as this could be multiplied; they indicate that the growing complexity of modern social institutions has already forced some measure of integration among the social services. In 1923 an interdepartmental committee in Great Britain considered the substitution of one record for the two now used by the health and unemployment insurance funds, for the same twelve million persons are insured against sickness and unemployment. It was agreed that a tremendous saving would be effected if only the records, supervision of stamps and individual records of the two systems could be amalgamated, but as yet no such reorganization has been made.

It is evident that the process of specialization that has been noted in the history of relief in older industrial countries is under way in the United States. Specialized relief treatment is being provided more and more for such groups as widowed mothers, the needy aged, homeless men and children. Specialized insurance practice has been established by most of the states and the federal government for persons injured in industry, and Wisconsin has adopted the insurance technique for the unemployed. It has been suggested that a plan of social insurance and relief for the United States should have two main divisions and two separate administrations: (1) a system of assistance supported from public funds and administered by the social work profession; (2) a system of social insurance and regulatory measures financed in large measure by the parties in industry and administered by the federal and state departments of labor. But despite the opportunity for planning presented by our limited development in this field, little or no perspective has been attained on the construction of a unified system and its administrative scheme.

While the present depression has interrupted any legislative activity designed to unify the social services, it has emphasized the interrelationships of the existing organizations. The resources of all the social insurance funds were diminished by reason of the reduction in the payrolls upon which contributions had been based resulting from unemployment and wage cuts. At the same time, the expenses of these institutions increased, for persons who had exhausted their right to unemployment benefit applied to sickness insurance for support,



while privation attendant upon unemployment diminished resistance to disease and increased the outlay for sick benefits. Workers of advanced age who had lost their employment feared they would never secure another job and made claims to invalidity insurance. Prolonged and widespread unemployment destroyed the very basis upon which all the social insurances had been built up -the active employment of the great majority of the wage-earning population during most of the year. A comprehensive and integrated system of social insurance covering all the risks to which the individual is exposed would remove many defects of the existing schemes such as several overlapping administrative bodies, high administrative expense and inadequate coverage.

It is submitted that from both the individual and social viewpoints, the proposed study must be concerned chiefly with the problem of protecting the wage earner by relief and insurance methods against all the hazards of unemployment or unemployability. The present social outlook in this country adopted under pressure of the enforced idleness of the depression and the resulting action against emergency unemployment would have been equally justified for an attack upon the continuous hazards of unemployment or unemployability attributable to accidents, sickness, advanced age, technological change, or disorganization in the labor market. However, these forms of unemployment do not normally involve a major proportion of the population at one time and hence lack the dramatic intensity of depressional unemployment in forcing social action. Enforced idleness from these miscellaneous causes, if cumulated during the span of an individual life, may exceed the more obvious lost time of depressions. The social consequences of these risks are less serious only by reason of their

greater dispersion in time. To the wage earner all types of unemployment or unemployability are identical in that they mean cessation of income and depletion of savings. The cost imposed by the incidence of any single hazard narrows the individual's margin of security against them all. These many differing factors are expressed in personal economic insecurity with its attendant fear and anxiety. From the standpoint of the common welfare, the various forms of unemployment have an essential unity in that all involve decline in purchasing power with unfortunate consequences for the economic structure and the stability of social institutions. Consideration of the individual and the general good demands an alignment which confronts all the risks of unemployment or unemployability at once.

#### IV. PERSPECTIVE OF THE STUDY

In any effort to provide greater security against unemployment it is impossible to isolate the problem of unemployment and its relief from wages, unemployment insurance and all other forms of social insurance. From the points of view of the worker, industry and society, the planning of unemployment insurance and relief must be part of a larger plan for economic security.

##### A. From the Worker's Point of View

From the point of view of the worker economic security means an assured real income. This involves not only an adequate wage in the present, but adequate income throughout his life, including periods of disability through accident or sickness, periods of unemployment, and old age.

Since security against social hazards may take the form of wages, social insurance, relief and the removal of the actual hazards, it is not only necessary to consider these remedies together, but to assign the part each should take in a well organized plan. Higher wages and lower insurance may leave more initiative to the worker in the spending of his income but also may expose him to the unforeseen hazards of the economic system or his own bad fortune. Seasonal workers may be compensated in part by higher wages than those of the workers at less seasonal jobs or they may be compensated by unemployment insurance, or by a combination of both.

Premiums on old age pensions may be paid by the workers out of their wages or by the employers, thus adding to the income received by wages, or by contributions from both. Similarly, sickness and accidents may be provided for by the worker himself, or preventive measures paid for by industry or the public may be established, or there may be social insurance or a combination of all three. How shall unemployment due to old age be distinguished from these forms of unemployment?

#### B. From the Point of View of Industry

From the point of view of industry, all payments providing for the security of the worker must be considered as part of the labor cost of production. The problem of the employer is to furnish jobs and pay the labor costs which will provide the desired standard of living; how to readjust his system of wage payments and his hours of work so as to include all the various forms of insurance and yet not increase his labor costs beyond what the industry will bear. It embraces the problem of the age of the workers already in the industry,

the age of those to be hired, and of those to be retained; the problem of greater rationalization and mechanization, the problems of administering the various forms of social insurance so far as that task may be imposed upon industry, the maintenance of adequate wage standards, maximum hours and the stabilization of industry to reduce unemployment.

The fact that unemployment insurance must be thought of as part of the wages problem makes it necessary to consider the administration and organization of social insurance in relation to the philosophy of the NRA. Since competitive conditions throughout an industry are equalized under the code by setting wage standards and hours of work, it becomes necessary to consider the effect of different plans for social insurance upon the competitive conditions within the industry. For example, should the code for coal provide for unemployment insurance and old age pensions, etc., in addition to its provision for wages and hours of work or can state or federal plans for social insurance be so organized as to preserve the principle of equalized competitive conditions? At present a unified plan is under consideration for the railroad industry, and the United Mine Workers are working for unemployment insurance and reduction of hours of work and such conditions as might well lead to the development of such a unified plan.

A number of questions are presented when the problem is considered from the point of view of labor cost. What system of administration, industrial, state, or federal or a combination of these three can best carry out the principle of equalized competitive labor costs? In a declining industry, shall the industry bear the whole



burden of this new type of labor costs or, if not, what adjustments should be made to relieve the industry? To what extent should old age pensions be considered as part of labor costs and therefore be borne by industry? How shall the insurance costs be so adjusted as to make a fair distribution of the costs between industries? These are only some of the questions that arise when the problem is considered from this point of view but they make plain the necessity of considering the problem in relation to present and future provision for minimum wages, maximum hours, collective bargaining, trade union agreements, and the like.

#### C. From the Point of View of Society

When the problem is approached from the viewpoint of the economic welfare of society it has even broader implications. Here the distribution of the national income stream both with respect to individual recipients and with respect to time is the principal concern. Presumably the aim of any plan for security should be to effect, on the one hand, a fairer distribution among the individuals composing society, and, on the other hand, a more stable flow of income over a period of time.

Allocation of the burden of insurance and relief must be considered in respect to the abilities of industry to bear the burden, in respect to the effect upon production, and the redistribution of income which it will bring about. To what extent can industry be induced or coerced to furnish incomes adequate for the desired standard of living? To what extent should the burden be borne by general taxation, by industry, and by the workers themselves? In this latter case

it serves only to make a redistribution of income among the working group for the purpose of equalizing the burden of unemployment, accidents, and other hazards.

To what extent, how and when shall government offer employment to supplement private employment? How shall such employment be financed and what parts shall be taken by federal, state and local governments? To what extent and by what methods should private relief agencies supplement the incomes provided by industry and government?

Insurance and relief funds must be considered in relation to monetary and financial policies of government which aim to bring about a stable flow of income. If reserves are built up to meet emergencies, might not the administering of these funds prove a stumbling block in the way of monetary control by some other department of government? Shall all the funds be under one control, so that they can be administered in such a fashion as to further the policies of the federal government in respect to stabilization of production and stabilization of the price level? From the point of view of productive activity, employment and industrial welfare of the nation, to what extent shall the funds be expended on public works or civil works projects, and to what extent is relief expenditure preferable? Under what circumstances is a policy of governmental borrowing preferable to taxation or to building up of reserves? What methods of taxation are to be advocated?

What limits do considerations of cost impose upon the development of a program for the provision of regular individual incomes through wages, social insurance and relief? Shall the evolution towards central government control that has been under way in this field be accepted as inevitable in view of the financial and admin-

istrative inability of many local and some state governments to cope with the relief problem? Do the tax limitations upon local and state government and their inability to greatly reduce expenditures afford little encouragement for their taking effective parts in this program? Are the costs likely to be of such dimensions as to necessitate that the major burden of the financing shall be assumed by the federal government in view of its greater freedom from tax limitation and its greater borrowing power?

If an integrated public financial policy is necessary for the success of such a program what shall be the parts of the different governmental units, what financial methods shall be adopted, and what shall be the ultimate incidence of the taxation involved? Can the problem be so broken down that the cost of one section as, for example, the unemployables, may be placed on the local and state governments and the burden of cyclical unemployment upon the federal authorities?

What system of administration should prove best for relief and insurance funds? Shall we continue the process of lifting the relief function from a local to a state and federal status, and if so what residual shall be left to the localities? Is the problem of relief of sufficient general concern to justify a highly centralized control of policy and administration, and if such is in the national interest can it be achieved against the strong states' rights tradition in these matters and the desire of state and local governments to participate in the public employment afforded? Can the state and local governments be utilized as administrative agents of a national policy in this field? Would such a procedure be feasible

unless the states and localities were required to contribute to the costs so that they would not waste federal funds ? Could the state and local governments be more effective as administrators of a national policy if the national agency were not a federal government department but a separately established nonpolitical authority as has developed in Belgium after a long and unsatisfactory co-operative arrangement with the local governments? In view of our relatively untrained civil service would it be desirable to vest administrative authority in a national organization of employer and employee representatives constituted for the purpose with no direct participation by state and local governments and with no federal government participation other than by way of supervision or minority representation?

#### D. Objectives

To formulate an integrated program designed to yield a larger measure of security against unemployment in the broadest sense of the term for the American wage earner and indirectly to other groups through wages and hours policy, social insurance and relief, and to suggest the responsibilities of the parties in industry, the federal, state and local governments, and private relief agencies.

To devise a plan of administration for such a program.