

U N E M P L O Y M E N T I N S U R A N C E
I N C A N A D A

A thesis submitted to the Faculty of
Graduate Studies and Research of Mc-
Gill University in partial fulfillment
of the requirements for the degree of

Master of Arts in Economics

by Charles R. Graham

McGill University

May 1942

ACKNOWLEDGEMENTS

In appreciation of his kind and sincere interest in this work, I wish to acknowledge the assistance and suggestions Dr. J. C. Hemmeon has offered me on many points.

To the committee controlling the awarding of the Alexander Mackenzie Fellowship in Political Science, I wish to acknowledge my appreciation for the award of that Fellowship for the Session 1941-42, during which time this study was undertaken.

To Dr. Lothar Richter I extend my thanks for the ideas ^{he} has given me upon this subject, some of which I have tried to develop more fully here.

C.R.G.

UNEMPLOYMENT INSURANCE IN CANADA

SUMMARY^{*}

The scope of economic science in dealing with existing measures of economic policy is confined to judgements, on economic grounds, of how completely and efficiently the measures attain their postulated ends. From this viewpoint, the Canadian Unemployment Insurance Act, 1940, is studied by analogy to similar Acts which exist (or have existed) in Great Britain, Germany, and the United States of America. The ends it desires to attain are carefully deduced from the provisions of the Act, and analysis and analogy, from both the short- and long-run points of view, show how ^{far} ~~completely and efficiently~~ the Act will be ^{completely and efficiently.} likely to fulfill its aims. On the basis of conclusions reached here certain recommendations are made. The study ends with a final evaluation of the Act as it now exists, and of its place in the Canadian Economy both during and immediately after the war.

* also submitted separately.

TABLE OF CONTENTS

	page
<u>CHAPTER ONE: INTRODUCTORY.</u>	
<u>A. Plan of the Work</u>	1
<u>B. The Scope and Aims of This Inquiry</u>	3
1. THE SCOPE AND AIMS OF ECONOMIC SCIENCE	4
2. THE METHODS OF ECONOMIC SCIENCE	10
3. RECAPITULATION	12
<u>CHAPTER TWO: UNEMPLOYMENT INSURANCE AND SOCIAL LEGISLATION</u>	
<u>A. A Brief History of Unemployment Insurance Measures</u>	14
<u>B. A Definition of the Term "Unemployment Insurance"</u>	27
1. VARIABLE CHARACTERISTICS OF UNEMPLOYMENT INSURANCE	29
2. THE TYPE OF UNEMPLOYMENT COVERED BY INSURANCE	32
3. THE RESTRICTION OF THE PERIOD OF BENEFIT	37
4. PREDETERMINED RELATION OF BENEFITS TO CONTRIBUTIONS	38
5. THE ACCUMULATED FUND	39
6. THE RIGHT TO BENEFITS	39
7. THE DEFINITION	40
8. UNEMPLOYMENT INSURANCE VERSUS RELIEF	41
<u>C. The Principles of Social Legislation</u>	43

<u>D. The Aims of Social Insurance</u>	45
<u>E. Unemployment Insurance as Social Insurance</u>	47
1. INDIVIDUAL JUSTICE VERSUS THE COMMON GOOD	47
2. THE ALLEVIATION AND THE PREVENTION OF UNEMPLOYMENT	51

CHAPTER THREE: NATIONAL COMPULSORY UNEMPLOYMENT INSURANCE .

<u>A. The Scope and Limits of the National Schemes</u>	53
<u>B. Contributions and Their Collection</u>	57
<u>C. The Payment of Benefits</u>	65
1. QUALIFICATION FOR BENEFIT	65
2. THE WAITING PERIOD	71
3. THE PERIOD OF BENEFIT	72
4. THE RATE OF BENEFIT	76
5. THE PAYMENT OF BENEFIT	79
6. PROVISIONS FOR UNDEREMPLOYMENT	80
<u>D. Administration</u>	81
<u>E. Employment Exchanges</u>	89
<u>F. Provisions for Promoting Employment</u>	90

CHAPTER FOUR: THE AIMS OF CANADIAN UNEMPLOYMENT INSURANCE.

<u>A. The Nature of the Scheme</u>	92
------------------------------------	----

<u>B. The Aims of Unemployment Insurance</u>	95
1. THE PLAN AIMS AT FURTHERING THE COMMON WELFARE, EVEN AT THE COST OF SOME INDIVIDUAL INJUSTICE	95
2. IT AIMS AT REMAINING FUNDAMENTALLY DIFFERENT FROM RELIEF	95
3. IT AIMS AT COVERING ONE RISK ONLY	97
4. IT AIMS AT MAINTAINING A SOUND FINANCIAL BASIS	97
5. IT AIMS AT INCREASING PRODUCTIVITY	100
6. IT AIMS AT ENCOURAGING EMPLOYMENT AND AVOIDING ANY DISCOURAGEMENT OF EMPLOYMENT	104
7. IT AIMS AT MAXIMUM ADMINISTRATIVE EFFICIENCY AND ECONOMY	105
<u>C. Specific Aims of the Scheme</u>	106
1. DISTRIBUTION OF THE COST OF THE INSURANCE	106
2. THE TYPES OF UNEMPLOYMENT AIDED BY THE PLAN	109
3. THE BALANCE BETWEEN INDIVIDUAL JUSTICE AND COMMON WELFARE	114

CHAPTER FIVE: HOW FAR, AND HOW EFFICIENTLY WILL THE AIMS OF
CANADIAN UNEMPLOYMENT INSURANCE BE CARRIED OUT?

<u>A. The Distinction from Relief</u>	121
<u>B. The Risk Covered</u>	127
<u>C. The Soundness of the Actuarial Basis</u>	129
<u>D. The Secondary Purposes of the Act</u>	143
1. THE WORKING OF THE EXCHANGES	143

2. THE QUESTION OF ADMINISTRATIVE COST	146
3. OTHER PROVISIONS IN THE ACT, ENCOURAGING EMPLOYMENT	150
<u>E. Efficiency and Economy of Administration</u>	151
<u>F. Types of Unemployment Aided</u>	157

CHAPTER VI: LONG-TERM EFFECTS OF THE UNEMPLOYMENT
INSURANCE ACT ON THE CANADIAN ECONOMY

<u>A. General Considerations</u>	159
1. THE BURDEN OF THE EMPLOYER'S CONTRIBUTION	160
2. BENEFITS CONFERRED ON THE WORKERS	167
<u>B. Effects of the Act on Technological Unemployment</u>	168
<u>C. Effects of the Act on Cyclical Unemployment</u>	170
<u>D. Effects of the Act on Frictional Unemployment</u>	178
<u>E. Effects of the Act on Seasonal and Casual Employment, and Underemployment</u>	180
<u>F. The Long-Run Effects of the Act</u>	181
1. RECAPITULATION	181
2. BENEFICIAL LONG-RUN EFFECTS OF THE ACT	182

CHAPTER VII: AND IN CONCLUSION

<u>A. Summary of Rejected Proposals</u>	184
1. CHANGES IN THE FUNDAMENTALS OF THE SCHEME	184

2. CHANGES IN THE SCOPE OF THE PLAN	187
3. CHANGES IN FACTORS DETERMINING CONTRIBUTIONS .	190
4. CHANGES IN FACTORS DETERMINING BENEFITS	191
5. CHANGES IN THE ACTUARIAL BASIS OF THE ACT . .	193
6. CHANGES IN OTHER ADMINISTRATIVE PROCEDURES . .	193

B. Recommended Changes in the Unemployment Insurance Act 194

1. ACCUMULATION OF BENEFITS TO OLD AGE PENSIONS .	194
2. THE GOVERNMENT SHOULD NOT DIRECTLY PAY ADMINISTRATIVE COSTS	197
3. PROVISION OF FREE TRAVELLING ALLOWANCES . ..	199
4. INSTITUTION OF VOCATIONAL GUIDANCE	199
5. NO BENEFITS FOR VOLUNTARY UNEMPLOYMENT	199
6. NEW WAGES NOT LOWER THAN BENEFITS	200
7. TWO KINDS OF PUBLICITY	201
8. ESTABLISH A NATIONAL SYSTEM OF RELIEF	202

C. Unemployment Insurance as a War Measure and as a

<u>Post-War Measure</u>	203
-----------------------------------	-----

D. The Canadian Unemployment Insurance Act, 1940;

<u>A Final Evaluation</u>	206
-------------------------------------	-----

LIST OF TABLES AND GRAPHS

TABLE A: SCHEDULES OF THE ST. GALL UNEMPLOYMENT INSURANCE SCHEME	24
TABLE B: CONTRIBUTIONS PAYABLE UNDER THE CANADIAN ACT .	58
TABLE C: RELATION OF RATE OF BENEFIT TO RATE OF CONTRIBUTION IN THE BRITISH <u>UNEMPLOYMENT INSURANCE BILL, 1935</u> . . .	76
TABLE D: BENEFITS PAYABLE UNDER THE GERMAN INSURANCE PLAN	78
TABLE E: RELATION OF BENEFITS TO WAGES IN THE CANADIAN PLAN	102
<u>GRAPH</u> : TRADES UNIONS REPORTS ON UNEMPLOYMENT IN CANADA .	132
TABLE F: RELATION OF CONTRIBUTIONS AND BENEFITS TO WAGES IN THE CANADIAN UNEMPLOYMENT INSURANCE PLAN	155

UNEMPLOYMENT INSURANCE IN CANADA

CHAPTER I: INTRODUCTORY

A. Plan of the Work.

In 1935, an Act was passed establishing a national scheme of unemployment insurance in Canada; but this measure was later declared ultra vires of the Dominion Parliament. Mackenzie King's government, however, initiated similar legislation after the constitutional difficulties hindering it were removed by an amendment to the British North America Act. This measure came into operation in the summer of 1941.

This brief "historical introduction" states nothing more than the fact that unemployment insurance now exists in Canada. But it is sufficient introduction to our study, which aims at being analytical in nature. It is our purpose to investigate the Canadian Unemployment Insurance Act, 1940, in an attempt to determine its probable effects on the Canadian economy. The work has been arranged within a definite structural form.

"Unemployment insurance" as we shall use it is a general term, covering almost all types of assistance for the jobless which are financed by a fund previously accumulated for this purpose. Contributions to an unemployment insurance fund may come from various sources, coverage of workers may be voluntary

or compulsory, the plan may be national, regional, confined to certain classes of workers, to certain industries, or in some instances even to a single plant. In different plans, the benefits are distributed under varying conditions and according to different criteria. In order fully to understand ~~fully~~ the problem with which we are dealing, then, we must make a brief historical study of various unemployment aid schemes which have existed in other countries throughout the world. We shall choose for study only those plans we will arbitrarily designate as unemployment insurance plans; this empirical method will enable us to induce from our study a definition of unemployment insurance suitable for our purposes.* Such a definition is vitally necessary, for since we propose to examine and criticize the Canadian Act by the method of practical analogy, we must be careful to compare it only with other true unemployment insurance schemes; confusion on this point has vitiated many other studies and criticisms.

Again, before proceeding to a detailed study of the Canadian Act, its aims and objects, a general statement of the principles and purposes underlying all social legislation is necessary, for proper orientation. We shall inquire into these, then discussing how, in certain fields, social insurance best carries out the purposes of social legislation, and concluding our general study with an inquiry into the way in which unemployment insurance, in dealing with the problem of unemployment, satisfies these aims.^x

* see Chapter II, Parts A and B, below.

x see Chapter II, Parts C, D, and E, below.

We will then be ready for our study of the Canadian unemployment insurance scheme. This study will first take the form of a point-by-point comparison with three other national unemployment insurance schemes: those of Great Britain, the United States of America, and Germany.* These three are chosen for the reason that they are analagous, in all essential respects, to the Canadian Act; a comparison with them, and a later criticism of the Canadian Act on the basis of a study of their effects, may thus be justified.

In our specific work on the Canadian Act, we now go on to a deduction (from the above, and still using analogy) of the aims, in detail, of the measure.** We must then inquire how completely, and how efficiently, the Act will carry out these aims,^x and what, on the basis of previous experience, its long-run economic effects are likely to be.^{xx} The conclusion[#] of the thesis will contain suggestions, based on criticisms made in earlier parts of the work, for improvements in the Canadian Act, together with a final evaluation of its worth and a short consideration of the effects of introducing it in wartime.

B. The Scope and Aims of this Inquiry.

Since the above is a general outline of the study, an apologia for the viewpoint dictating our method of approach should be attempted before proceeding. We can do this best by devoting a few pages to discussion of a distinction which is

* see Chapter III of this thesis.

** Chapter IV.

x Chapter V.

xx Chapter VI

Chapter VII.

obvious and commonly accepted, yet so seldom discussed that much confusion and "fuzzy thinking" occur, all through economic literature, on this point; which is, the scope, aims and methods of economic science, and the function of the economist. In its entirety, this is by no means a simple topic; but there are certain fundamentals about which there should be no argument, and these will bear re-statement here.

1. THE SCOPE AND AIMS OF ECONOMIC SCIENCE.

Professor Pigou, writing of economic science,⁽¹⁾ has said, "It is a positive science of what is and tends to be, not a normative science of what ought to be."* This is an acceptable ~~description~~ ^{definition} of economic science; but the scope of the science cannot be dissociated from its methods, nor, more especially, from its aims -- and he goes on to say,

If it were not for the hope that a scientific study of men's social actions may lead, not necessarily directly or immediately, but at some time and in some way, to practical results in social improvements, then not a few students of these actions would regard the time devoted to their studies as time misspent. This is true of all sciences, but especially true of Economics. For Economics 'is a study of mankind in the ordinary business of life'; and . . . when we elect to watch the play of human emotions that are ordinary -- that are sometimes mean and dismal and ignoble -- our impulse is not the philosopher's impulse, knowledge for the sake of knowledge, but rather the physiologist's, knowledge for the healing that knowledge may help to bring. (2)

(1): Pigou, A.C., The Economics of Welfare, p. 5. (In all cases, pages referred to are those of the editions specified in the bibliography to this thesis.)

* underlining here, AND BELOW IN ALL CASES WHERE IT IS NOT OTHERWISE STATED, is my own.

(2): idem, pp. 4-5.

On these grounds, Pigou goes on to construct his "Economics of Welfare"; and yet I cannot accept that great work as being, primarily, a work of economic science. Though Pigou's definition of the scope of economics brands it as a positive science, his idea of its aims involves a moral judgement -- a judgement on grounds not strictly economic of what ought to be -- thus making his book a work of normative science, which cannot be economic science. We must be careful in this criticism of Professor Pigou to record that he does justify "welfare" on purely economic grounds; but nevertheless, his method requires a judgement of what economic ends are good, which is an ethical judgement.

As long ago as 1891, Mr. John Neville Keynes⁽³⁾ tried to point out the fact that economic science, by its very nature, could form no ethical judgements. The function of economic science, as he saw it, was to investigate facts and discover truths, not to prescribe laws of life. He drew a distinction that few later writers, save Mr. Lionel Robbins,⁽⁴⁾ have had the acuteness to see and the courage to state. Economic science, he felt, must stand neutral between competing social schemes. The economist, it is true, is equipped by his knowledge to turn his attention to practical applications of economic science, but "not in his character as a pure economist, but rather as a social philosopher."⁽⁵⁾ And ". . if this distinction is drawn, the social and ethical aspects of practical problems -- which may be

(3): Keynes, J.N., The Scope and Methods of Political Economy.

(4): Robbins, L., The Nature and Significance of Economic Science

(5): Keynes, op. cit., p. 13.

of vital importance -- are less likely to be overlooked or subordinated."(6)

What is the significance of this? Simply, that the economist, qua economist, may not criticize what is commonly known as economic policy. That policy is set by the government, or by powerful organizations acting through (or perhaps in spite of) the government. It is set in view of ethical as well as economic factors, political considerations of expediency as well as economic considerations of long-run effect. The scope of "Applied economics consists of propositions of the form, 'If you want to do this, then you must do that.' 'If such and such is to be regarded as the ultimate good, then this is clearly incompatible with it.'"(7) Robbins, too, recognizes the economist's function as a social philosopher, advancing another reason for the advisability of this:

Nor is it in the least implied that economists should not deliver themselves on ethical questions, any more than an argument that botany is not aesthetics is to say that botanists should not have views of their own on the lay-out of gardens. On the contrary, it is greatly to be desired that economists should have speculated long and widely on these matters, since only in this way will they be in a position to appreciate the implications as regards given ends of problems which are put to them for solution. (8)

However it is our aim to function solely as an economic scientist in this study. We may thus define its scope in terms of the above: Perhaps the chief limitation under which this work is carried out is the fact that unemployment insurance now

(6): Keynes, op. cit., p. 13

(7): Robbins, op. cit., p. 149.

(8): idem, pp. 149-50.

exists in Canada. Thus, a discussion of other schemes -- voluntary rather than compulsory, based on other fundamental principles -- which could have been adopted by our Dominion legislature has no utility here. We need make no judgement as to whether the scheme adopted was the one best suited to Canadian conditions -- the government has already decided that it is. We need make no judgement, that is to say, regarding the value of the specific ends of the Act. Our task is rather to attempt a clear analysis of these ends, and then inquire how completely, and how efficiently, the Act will carry them out. We may question whether certain changes in the Act might not make the carrying out of its aims more likely, and whether other changes might not carry them out with less economic waste; we may suggest certain modifications, but it is completely futile to suggest an entirely new and different type of organization. For the place of the economist in practical affairs is as a constructive rather than a destructive critic. Far-flung webs of theory are, too often, of value only as an exercise in logic; it is not for the economic scientist, with his neglect of -- rather, inability to deal with -- the spheres of ethics and political technique, to say what should be done. Instead, he should give advice on how best to do what is being done.

Our task, again, is to determine the most effective and efficient ways of carrying out the given aims of the Canadian Unemployment Insurance Act. In our role as an economist, this obviously necessitates an inquiry into the question of whether the long-run economic effects of the Act will vitiate any of

its declared aims. R.S. Meriam, writing on a subject similar to our own,⁽⁹⁾ said,

The scope of this paper has been limited to the economic theory of unemployment reserves, in order to deal exclusively with those problems of logical analysis where the economist's specialized logic is peculiarly appropriate. The importance of other parts of the problem is not to be minimized; the trend of political events and opinions, the ideals of justice and fairness, administrative expedients in all their legal and technical aspects, all must be considered in forming a final judgement. There is at least some truth in the claim that we should consider the logic of events rather than the logic of academic theory. However, even when we face the insistent demand that something be done at once, we remember the after-effects of the emergency expedients adopted in the past. There is still need for the economist's specialist technique in formulating those questions of principle which must be faced squarely. There is still need, in other words, to look beyond the obvious and consider the long-run influences so belittled by the adherents of myopic economics. The purpose of theoretical analysis is not to raise artificial issues but to clarify those speculative questions which we encounter inevitably when facts are ambiguous.

It will be noted that this paper was written at a time when national measures of unemployment insurance were yet to be introduced into the United States. Dr. Meriam could thus, justifiably, consider the pros and cons, economically speaking, of different schemes -- lumped under the general term "unemployment reserves" -- for assisting the jobless. The existence of the Canadian scheme prevents our doing this, but gives us greater freedom along other lines; we may concern ourselves with the question of whether "the ideals of justice and fairness" as we deduce them to be set down in the Act, are prevented from operating by any of its economic effects. And since "administrative

(9): Meriam, R.S., "Unemployment Reserves; Some Questions of Principle." The Quarterly Journal of Economics, XLVII (1933), p. 312.

expedients in all their legal and technical aspects" have been laid down by the Act, we are justified in criticizing their efficiency. But in a later part of this thesis* we will be following Dr. Meriam's stated method quite closely. To take an example: one of the problems to be considered under "Long-Run Effects of the Canadian Act"* is the effect of the Act in increasing or diminishing the ravages of the trade cycle. We need not consider, for reasons stated above, whether consumption-subsidization in general, **or** different forms of unemployment insurance, will affect the trade cycle. But applying a process of economic analysis directly to the Canadian Act, we may try to discover what effect it will have on the cycle. Because we deduce (below) that one of the aims of the Act must necessarily be the mitigation of the cycle, we are justified in making this study.

If the scope of economic science is delimited as above, what particular ends may it serve? In particular, what may this thesis hope to accomplish? We have quoted J.N. Keynes^x as saying that the scientific approach allows the economist full scope while ensuring that no other aspects of any given problem will be neglected. For another general statement, we turn again to Robbins:

There is nothing in economics which relieves us (i.e., as individuals) of the obligation to choose (between different ends). . . . (But) it can make clear to us the implications of the different ends we may choose. . . . It makes it possible for us to

* see Chapter VI

x above, p. 5.

select a system of ends which are mutually consistent with each other . . . this (rational choosing) will not be the case unless . . . citizens . . . are fully conscious of the step they are taking. And in an extensive modern society it is only as a result of intricate economic analysis that they may be placed in possession of this knowledge. (10)

Working still under the disadvantage of discussing a measure already in operation, we may be able to contribute something of value if, having deduced the aims of the Canadian Act correctly, we can make a purely economic judgement as to how far those ends are being carried out, and how ~~economically~~ ^{efficiently}. Finally, if we find that any of "the implications of the different ends" are such as to defeat their own purpose, we may be able to find modified ways of achieving these ends which will avoid this. We may make similar suggestions when we find any ends "mutually inconsistent with each other."

2. THE METHODS OF ECONOMIC SCIENCE.

In common with formal logic, Economics has three general methods of solving problems and investigating phenomena. They are the methods of analogy, deduction, and induction. The third mentioned, the highest type of analysis, will be used hardly at all in this work, for as in most works on "institutional" economics no broad general principles may be induced from what we will say, nor is it our purpose to search for any.

Much has been written on the limitations of the method of analogy (which we purpose to use extensively) when used in analyzing economic problems. That need not be repeated here. Suffice to say that we realize the difficulties and dangers of
(10): Robbins, op. cit., pp. 152-53.

drawing analogy between phenomena occurring at different points in time and space, and that we will observe all reasonable care in drawing our comparisons. Wherever possible, determinacy will be ensured by allowance for differing local conditions and historical factors. Where such determinate analogy is impossible, none will be attempted.

Again, a definite example will show, better than further discussion, the exact way in which deduction and analogy will be used. It has been charged that the British Unemployment Insurance scheme acted, after the war, to rigidify money wages; and that this rigidity prevented wage reductions which were necessary to ensure maximum employment; some writers go so far as to blame the post-war depression in Britain, through this sequence of events, on unemployment insurance.

We must consider the possibility of a similar consequence of the Canadian plan, below.* The method used will be of this nature: first, deduction from the provisions of the Canadian Act, and the declared policy of the Canadian Government in regard to it, of whether the Act is designed to avoid any causation of unemployment. If we decide that it is so designed, we must apply the method of deduction in another way: from economic data, we must deduce whether the British unemployment insurance scheme was causal in rigidifying money wages. Third, if we so decide, we must again turn to economic data to deduce whether this rigidity prevented maximum employment. If so, fourthly, we turn to the method of analogy: could a similar state of the economy arise in Canada? if so, would the effects of unemployment insurance

* Chapter VI.

be the same? With the answering of all these questions, our study of that particular problem would be complete.

3. RECAPITULATION.

In the practical sphere, the economist qua economic scientist may not determine the ends of economic policy, nor may he criticize those ends. But once an end is decided upon by those in authority, he may recommend the most economic way of attaining that end. When a measure in operation aims at achieving certain ends, he may criticize it -- not from an ethical nor political expediency standpoint, but -- on economic grounds, as to whether or not it carries out those ends, and carries them out in the most economically sound way. In studying such phenomena he may use most profitably the methods of analogy and deduction. His criticism should be constructive rather than destructive.

On the basis of this, we have laid out our thesis along the following lines: after the elucidation of the plan of the work and statement of the general attitude underlying it, we proceed to a brief historical ^{survey} ~~outline~~ of unemployment insurance measures. This outline is used in the formation, by induction from it, of a definition of unemployment insurance. For the purpose of generally orientating ourselves to the study, a statement of the aims underlying social ^{legislation} ~~insurance~~ is followed by a discussion of how social insurance, and in particular unemployment insurance, best carries out certain of these aims. We are then ready to proceed with our comparative, non-critical study of the British, American, German and Canadian unemployment insurance schemes. The aims of the Canadian scheme are then deduced from all available data,

and by analogy with the first three plans mentioned (whose similarity to the Canadian Act is first established) the extent and efficiency with which it will carry out its aims is decided. By deduction from the general body of economic theory, together with a further use of analogy, the long-run effects of the scheme are discussed from the viewpoint of their effect on the carrying out of its aims. The thesis concludes with certain suggestions based on the criticisms made of the Act.

The above section is wordy and repetitious; we can only plead that it was a difficult section to write. If it conveys some idea of the scope of this thesis, and the methods employed, it will have achieved its full purpose; for it is our contention that no piece of economic literature is of practical value unless the viewpoint dictating its form and choice of analytical methods, and determining its scope and aims, is made clear.

CHAPTER II: UNEMPLOYMENT INSURANCE AND SOCIAL LEGISLATION

In this Chapter we first employ a brief history of unemployment insurance measures to induce a satisfactory definition of unemployment insurance. We proceed to a general study of the aims underlying social legislation, seeing how in certain cases social insurance best carries out these aims, and finally which of the characteristics of social insurance are displayed by what we have defined as unemployment insurance.

A. A Brief History of Unemployment Insurance Measures.*

Such schemes as are generally known, in European and British terminology, as "unemployment insurance" and in the United States as "unemployment reserves" or "unemployment compensation" will be discussed here. No definition of unemployment insurance will be attempted until the section immediately following; it may be well to repeat what we have said** in that connection: "We shall choose for study (i.e., in this "Brief History") only

* General references for this section: Wolfenden, Hugh H., Unemployment Funds; Stewart, Bryce M., "Some Phases of European Unemployment Insurance Experience," Proceedings of the Academy of Political Science, XIV (1930-32), p. 493; Gibbon, I.M., Unemployment Insurance; Schloss, David F., Insurance Against Unemployment; Rubinow, I.M., Social Insurance; Stewart, Bryce M., Unemployment Benefits in the United States.

** above, p. 2

those plans we will arbitrarily designate as unemployment insurance schemes; this empirical method will enable us to induce from our study a definition of unemployment insurance."

With this purpose in mind, this section has been made a selective rather than an exhaustive study. An attempt has been made to arrange historically a limited number of schemes, each differing from the others in some optional matter of principle, method, or administrative expedient. From such a study the essential characteristics of all unemployment insurance -- if such there be -- should emerge, and form the basis for a definition.

The first unemployment insurance schemes were instituted in the 1890's, and were for the most part voluntary, small-scale ventures. In ^egeneral, trade unions and fraternal orders were the first associations to enter this field, with the provision of benefits for their own jobless members. Few generalizations regarding these schemes may be made, since they varied from country to country, from union to union. Where the mere fact of unemployment was sufficient, without a "means test", to establish right to benefit, they may be considered unemployment insurance of one type.

Usually, no fund was specially set up for the payment of benefits under these schemes; they were distributed out of general trade union funds. Though there was a definite scale of benefits in most cases -- sometimes with dependents' allowances -- the period of benefit was seldom limited except by the duration of the period of unemployment. The schemes were most common where

trade unions were strongest -- notably, in Great Britain and Germany. "In Great Britain, the principal trade unions in ten years (1898-1907) distributed nearly \$20,000,000 in unemployment benefits out of a total budget of over \$86,000,000 . . ."(1)

The decision of trade unions to insure unemployment meant that they had to solve problems which beset all such schemes. Obviously, unemployment insurance benefits are payable upon the occurrence of only one contingency: unemployment. Yet it has always been true that an objective test of involuntary unemployment is difficult to find; "malingering" results in a dangerous wastage of unemployment insurance funds. Again, in schemes operating on a small scale, "bad risks" are apt to predominate. Rubinow tells us briefly how trade union schemes solved such problems as these:

The moral hazard of malingery is naturally reduced to a minimum. A trade union knows the conditions of its labor market as no one else can know them. Often it takes an active part in placing the unemployed; it also knows the conditions of employment so as to be able to see the difference between a reasonable and an unreasonable offer. It is almost impossible for a refusal of an reasonable offer to remain a secret. And as to an offer of work for sub-standard wages, it is the direct policy of a trade union to prefer the payment of an out-of-work benefit to a permission to accept such employment.

Not only these broad difficulties but even the technical ones also vanish. There is no unfavorable selection of a few trades because each union organizes its unemployment benefit system within the limits of one well-defined trade or group of closely related ones, where the risk of unemployment is fairly uniform. Nor can there be a personal selection of bad risks because, though from the point of view of general law voluntary, these out-of-work benefit systems are

(1) Rubinow, I.M., Social Insurance, p. 458.

usually compulsory within the limits of the trade organization. Thus, the financial strength of the benefit fund is not undermined by only poor risks assuming insurance. (2)

Nevertheless, these schemes were not without their difficulties. Because special funds were seldom set up for the payment of benefits, the finances of the plans were poor. Where placement services did exist to find jobs for the beneficiaries, these were inadequate, unsatisfactory. Funds were commonly used up for strike benefits, leaving no reserves for the more serious contingency of depression. And from the social point of view, the plans could contribute little to solution of the general problem of assisting unemployment. Their scope, though in some cases considerable, could not extend beyond the limits of the trade unions themselves.

In the United States, trade unions took almost no part in providing unemployment benefits. Privately-instituted schemes, which trailed European developments by many years, took a different form.

In some cases plans which Wolfenden classifies* as compensation were set up for philanthropic reasons, or as part of labor policy, by a few individual employers. Such plans gave (a) benefits for temporary unemployment or (b) dismissal compensation. Funds were set up by the employer ~~only~~ (the worker did not contribute), who made a definite, periodic contribution in the name of each employee; and upon

(2): Rubinow, op. cit., pp. 458-59.

* see below, page 28.

dismissal or temporary laying-off ~~of~~ a definite amount -- often 50 to 74 per cent of wages -- was paid for a predetermined length of time.

If the employee also contributed to such a fund, it became a reserve fund. These voluntary plans were similar to the compulsory State plans introduced in later years.*

With the gradual awakening of the state to its responsibility in the social sphere, governments began to look about for some organized method of aiding unemployment. In many cases they turned to unemployment insurance as the "best" way (according to the ends they postulated) of doing so.

Two methods were open to them. They could work through the organizations already set up by the trade unions, or they could, for various reasons, set up their own plans. A further choice was open to them in that they might institute voluntary or compulsory plans.

A typical way of utilizing existing plans was for those public authorities who decided that unemployment insurance was worthy of support to subsidize trade union schemes. Two classic cases will illustrate the principles and methods used.

In the year 1900 the communal council of the city of Ghent established a subsidy for unemployment insurance schemes. It granted monies to all approved schemes operated by trade unions or other organizations, the scope of the grant being so wide as to include even recompense to those who used up their private savings in times of unemployment. This liberality is

*see below, pages 25-6; also see p. 32, footnote.

commented upon by Mr. Gibbon:

The provision (i.e., against unemployment) which is subsidized may be made . . . through an organization which provides insurance against unemployment. In practice, all such organizations are trade unions. The fullest freedom is left to the associations in determining the conditions on which they will provide insurance from their own funds. Some authorities which have established schemes on the model of that at Ghent have fixed conditions which must be fulfilled by the organizations, if the subsidy is to be received by their members -- conditions, for instance, as to the kind of association, as to separate administration of the unemployment insurance funds, as to minimum number of members, and so forth. At Ghent a very liberal policy toward the affiliated associations has been followed; restrictions have been limited so far as possible to the conditions on which subsidy is granted. Not a little of the success of the scheme has been attributed to this liberal policy. (3)

The conditions on which subsidy was granted were indeed liberal. Though it was not to exceed 100 per cent of the benefit paid from the private source, was not to exceed 19¢ per day, and was not to be paid for more than sixty days to any person in any one year, it is worthy of note that there was no actual supervision over the manner in which the private funds were set up, nor over the conditions under which benefit was paid. In practice, it is astonishing that the subsidies demanded did not bankrupt the municipal authorities in the first week of operation. The saving grace of the scheme seems to have been the fact that affiliated (subsidized) associations included trade unions of differing political convictions, who were only too anxious to check mutually on unjust claims and unfair practices. The scheme worked well in Ghent, but it seems impossible that conditions favourable to the operation

(3): Gibbon, I.G., Unemployment Insurance, p. 84.

of such a "liberal" plan could exist in many other places.

In 1903 the town of Liege set up a subsidy scheme which contained more effective checks on the type of fund assisted. The scheme differed from that operated in Ghent in that the subsidies were paid directly to the trade unions, instead of to insured persons in receipt of benefit. "The payment of subsidies directly to the trade unions themselves has been defended as a more liberal policy toward institutions which are of social benefit and should therefore be encouraged," says Gibbon;⁽⁴⁾ ~~but~~ ^{and} he admits that a more effective check on the type of assistance offered was possible: "Subsidy is paid only . . . in respect of unemployment due to causes beyond the will of the workman, except sickness and accident; it is not paid therefore when the unemployment is due to a strike, but ~~is~~ paid when the unemployment is due to a lock-out."⁽⁵⁾ The second essential difference from the Ghent plan was the provision that subsidy should be paid to the unions partly as a per cent of benefits distributed by them, and partly as a per cent of contributions collected. The raising of individual contributions high enough to put individual schemes on a sound actuarial basis was thus encouraged.

Such subsidy schemes, in their full development, had many advantages. The administration of such schemes by the workers, who paid for a large part of their own benefits, ensured an almost complete absence of "malingering"; the attraction of "bad risks" only, a common reason for the failure of voluntary schemes,

(4): Gibbon, op. cit., p. 151.

(5): idem, p. 151.

was largely avoided -- since insurance usually was compulsory within each subsidized organization. But from the community point of view, the worth of these schemes is doubtful. It is quite possible that the subsidizing of a certain class of workers -- organized workers, in most cases belonging to skilled trades -- and, in effect, subsidization, through faulty control, of one class of the community (labor) in its struggle against another class (capital) -- true because, there being little restriction, benefits were often paid to strikers -- was economically harmful. And the lack of supervision over the trade union funds themselves must often have been the cause of considerable waste of community funds.

The general problem of unemployment assistance could never be solved by these plans. But another type of scheme, in which community control was absolute -- voluntary unemployment insurance, set up by public authorities -- was of little more value. Here the advantages of the trade union subsidy plans were made obvious by the failure of the voluntary community plans; and compensating advantages of the latter, impossible under trade union control, were not recognized nor made use of.

The municipality of Cologne established a fund to provide voluntary unemployment insurance in 1896. Any able-bodied worker resident in the municipality for at least one year, over sixteen years of age and following a definite occupation, could be insured; casual laborers and women were excluded. Benefits were paid only for unemployment occurring between December 1 and

March 1, as the primary object of the plan was to assist winter unemployment. And as it was found easier to place unskilled than skilled workers in the wintertime, rates of contribution were respectively 9¢ and 11¢ per week. Other sources of revenue were grants from the municipality, and gifts; a gift of \$45 or over by an individual to the scheme made him a patron and gave him a voice in its administration. Many of the details of the scheme were similar to those of the compulsory insurance schemes which will be examined in the next Chapter; for instance, involuntary unemployment only was to be assisted; contributions had to be paid for a definite length of time (34 weeks) before the insured was eligible for benefit; a waiting period of three days had to elapse between the time unemployment was reported and the day on which benefits commenced; labor exchanges endeavoured to find work for the beneficiary, who was required to report to them daily, and was required to accept any suitable job they offered him. A worker who habitually applied to the fund each year received less in the way of benefits than did one who had applied seldom. Total benefit payable in one year was distributed over a period of eight weeks, and was a payment of about \$27.00; since this was paid after minimum contributions of \$3.06 (9¢ for thirty-four weeks) or \$3.74 (11¢ for thirty-four weeks), the advantage of belonging to the voluntary fund seems obvious. In spite of this, the fund attracted only "bad risks". The average percentage of members of the fund applying for benefit, yearly between 1896 and 1909, was 79 per cent. On an average, total

contributions paid into the fund over the same period were only 47 per cent of total benefits distributed. The chief defect of all voluntary schemes is at once clear. The steadier workers, those less liable to unemployment by virtue of their work in a "stable" occupation, or because of their personal efficiency, will not insure themselves under such a scheme. By the numerous expedients given above -- essentially the same ones used by present compulsory schemes -- the danger of malingering, and kindred dangers, were eliminated. But the scheme, due to its attraction of bad risks, could not operate without a subsidy amounting to 53 per cent of the benefits paid; it seems useless to hope that such a provision would be possible on, say, a national scale.

One further European scheme is worthy of mention. The ancestor of all compulsory, community-controlled unemployment insurance schemes was set up in the Canton of St. Gall, Switzerland, in 1894. The Grand Council of the Canton passed an Act enabling municipalities to set up compulsory unemployment insurance plans within their own boundaries, and the town of St. Gall actually did so. Those compelled to insure were workers earning less than 96¢ per day. Table A on the following page shows the rates of contributions and benefit. Benefits were payable only if work "suitable" to the worker could not be found. They were payable only after contributions had been steadily paid for six months. Administrative costs were to be borne (Heaven knows why) by the Fund of the Police Force; all other expenses would be covered by the contributions, by gifts, and by

TABLE A*

SCHEDULES OF THE ST. GALL UNEMPLOYMENT INSURANCE SCHEME.

Weekly Earnings (\$)	** "Representative Wage" ^X (\$)	Weekly Premium (\$)	Premium as % of "Represent- ative Wage".	Benefit (per day) (\$)
up to 3.46	3.46	.028	0.8%	.346
3.46 - 4.61	4.06	.038	0.9%	.404
4.61 - 5.76	5.22	.058	1.1%	.460

* data taken from Schloss, David F., Insurance Against Unemployment, Chapter II. Monetary unit converted from shillings (as given by Schloss) to dollars at the rate 1/- 24¢.

** assuming six working days to the week

^X calculated as the mean between the two extremes of wages given in each wage group (except, of course, the first).

grants from the municipality, the Canton, and the state. The benefits were payable for a maximum of sixty days in any one year and were not payable to men who were (a) discharged for misconduct; were unemployed due to (b) strikes or (c) sickness or accident, or (d) refused to accept work offered, without reasonable grounds for refusal.

The scheme outlined above is even more similar to the Canadian, German and British schemes than was that of Cologne, for it combines with the other similar features of the Cologne plan the element of compulsion. The St. Gall plan was a model, on a small scale, of the national schemes in force in many countries today. The St. Gall scheme, however, failed after a brief life of three years. Its failure could be attributed largely to ad-

administrative faults -- faults which have been corrected in more recent schemes, no doubt partly as a result of the St. Gall experience. We are not enough interested in historical analysis to go into these corrective processes.

Another reason for its failure was the fact that it was a purely local scheme; the "good risks" migrated from the town rather than submit to compulsory insurance which, because of the many abuses which crept into the scheme, was squandering the money they contributed.

The national compulsory schemes of four large countries will be treated in the next Chapter, fully enough to permit omission of national schemes here. But some mention should be made of the compulsory plans instituted by various States of the United States of America. These fall into two general groups:

1. Pooled Reserves Plans (Alabama, California, Massachusetts, New York, and others): Each employer covered by these Acts (usually, all "industrial" enterprises employing more than a small minimum number of men) pays to a central State fund a definite percentage of his payroll, ranging from one to three per cent in different States. In many States the worker must also contribute up to one per cent of his wage. Benefits are payable upon the occurrence of involuntary unemployment, after a waiting period ranging from three to six weeks, for a certain maximum period of time. They are in every case a percentage (usually 50 per cent) of the wage the worker received prior to his discharge, but must not exceed a maximum which in different States

varies from \$15 to \$18 weekly. Contributions must have been paid for from ten to twenty-six weeks before benefits are payable.

2. Company Reserves Plans, typified by the Wisconsin scheme: in these plans, the only feature unlike the pooled reserves plans is that the contribution made by each employer and his workers is kept in a separate account. The worker becoming involuntarily unemployed may draw only upon the fund set up in the name of his previous employer, and the usual provision that he may draw no further benefits when his legal right to them is exhausted is further limited by the provision that he has no recourse when the fund held in the name of his employer is exhausted. The advantages claimed for this plan are greater actuarial soundness, and placing of the responsibility for preventing unemployment on an individual employer basis. The employer is encouraged to stabilize ~~an~~ employment by being exempted from further contributions when the fund set up in his name has reached a certain level in relation to the number of his employees.

It may be said in criticism of the above section that we have stepped from the path of inquiry which was laid down so definitely in the introductory Chapter. Not content merely to examine different schemes of unemployment insurance, we have elaborated the difficulties encountered by "subsidized" and voluntary plans. As we have said, we are dealing primarily with the Canadian plan which, since it is compulsory and universal*,

* universal should be construed as meaning the coverage of a large proportion of all workers throughout the country.

should not be subject to such troubles. We have admitted our limitations in dealing with a plan already in operation; was it, therefore, a waste of time to consider these matters?

Not entirely. For though the elements of compulsion and universality solve many of the problems we mentioned, others remain. We were not exclusively interested, above, in showing that compulsory and universal unemployment insurance is the best type of plan. We are not concerned with whether it is, or not. But we pointed out some of the difficulties of other schemes, which it solves, so that it might later be easier to make clear the problems it does not solve, and even more, those it raises in the very process of eliminating the worse features of voluntary, particular and local unemployment insurance schemes.

B. A Definition of the Term "Unemployment Insurance".

"Unemployment insurance" is a term which may be used in a variety of extended or restricted senses. Everyone having occasion to use the term -- be he actuary or president of a private insurance company; civil servant, economist, or sociologist -- defines it according to his own convictions and the use he wishes to make of the term. We see no reason why we should be an exception to this rule, especially since our plan to compare the Canadian unemployment insurance scheme with others makes essential a complete understanding of the nature of (what we shall call) unemployment insurance.

Our survey immediately above, of plans which may for the moment arbitrarily be called unemployment insurance plans, shows

us that they may vary in many respects. But on further consideration, characteristics common and essential to all emerge, and it is these that we must specify in our definition of unemployment insurance. But first of all, it will be as well to have a brief classification of all schemes for dealing with unemployment. Hugh H. Wolfenden has given⁽⁶⁾ a clear classification of which we may profitably make use, if it is understood that his definition of "insurance" need not be the one we adopt:

1. A plan of real "Insurance" . . . implies simply the co-operative association of a large number of persons, who agree to share among themselves the burdens resulting from . . . unemployment . . . by the payment of the necessary contributions into a common fund from which benefits, related strictly to these contributions, are distributed . . .

2. In "Saving" plans the return receivable by any individual . . . is always the precise equivalent of the total contributions plus interest and after the direct or indirect deduction of expenses . . .

3. Under "Compensation" plans the payments are made to the beneficiary without any prior contributions on his part, and the condition for their receipt is the establishment of **previous** injury for which the beneficiary has the right of recompense.

4. . . . "Relief" means in effect charitable assistance, for which the beneficiary has not paid money in advance as in "insurance" and "savings" plans, and need not, as in "compensation" plans, have furnished labour or any other effort as the result of which a claim to benefit has been established. The reasonable . . . condition for the receipt of such "relief" must, of course, be something in the form of practicable tests of "means" and "need".

And two hybrid types, often used because neither "insurance", "savings", nor "compensation" plans in their pure form are entirely satisfactory:

(6): Wolfenden, Hugh H., Unemployment Funds, pp. 1-7

5. "Employer Reserve" plan . . . funds accumulated by or on behalf of the employees of each separate employer . . . shall be used for the payment of benefits . . . to (his) own employees.

6. "Pooled Reserves". . . by pooling all the contributions of the employees of the several employers, provide that the available funds shall be used to pay benefits to any eligible employee of any eligible employer.

The distinction between these plans (i.e., Nos. 5 and 6) and true "insurance" methods is . . . that under a "reserve" plan the benefits, although prescribed and ~~entire~~ anticipated in accordance with contributions which are supposed to be sufficient, will definitely be discontinued upon exhaustion of the "reserve," without any breach of contract being caused thereby, whereas under a true "insurance" plan, the payment of certain specific benefits is undertaken without any such provision for their discontinuance. The so-called "reserve" method is therefore, in reality, a kind of "limited liability insurance."

1. VARIABLE CHARACTERISTICS OF UNEMPLOYMENT INSURANCE

It will be sufficient to list these characteristics and explain briefly their significance. We wish to note and dismiss them to clear the path for a consideration of essentials.

(a) Unemployment insurance plans may be "provided" or self-established; that is to say, they may be provided, as so many schemes are, by some public authority -- municipal, regional, or sovereign -- or by some philanthropic organization, or by employers (as in the case of some American schemes we have mentioned). On the other hand, they may be established by the workers themselves; the outstanding example of this type being trade union plans.

(b) They may be community-sponsored or private; under the former ^{classification} ~~class~~ would come all publicly subsidized or instituted schemes, under the latter all schemes -- whether provided or

self-established -- set up by other than governmental agencies.

(c) The schemes may be local, regional, or national. Such local plans as those of the municipalities of Ghent, Liege, Cologne and St. Gall have been mentioned, as have the schemes started by individual plant-owners in the United States. Regional (e.g., in Canada, Provincial; in the United States, State) schemes may be those set up by the regional legislature; also, some trade union schemes may be regional, or even national. The large-scale compulsory schemes now in force in many countries are national in scope.

(d) They may be particular or general; that is, they may be confined to one industry or may cover the entire working population of a country (in the latter case, within limits ~~to be~~ noted below). Many trade union plans are confined to one industry, though extending throughout a country; many local and regional schemes are more general, when set up under governmental sponsorship -- for instance the State schemes in the United States. The Canadian, British and German plans are what we have termed universal in scope.

(e) They may be voluntary or compulsory. Employer-sponsored plans in the United States were for the most part voluntary; on the other hand, trade union schemes though not compulsory in the eyes of the law, were often compulsory within the unions. Several of the municipal plans we have mentioned have been voluntary, while the national plans yet to be considered are compulsory for all workers coming under the provisions of the Acts.

(f) Workers only, employers only, the public authorities, any two, or all three of these classes may be contributors to the

scheme. Trade union schemes, for instance, were supported by workers alone where the employer was not forced to contribute by a collective agreement, and where the public authorities did not subsidize the scheme. But plans set in operation in the United States by employers were often supported solely by them, as are several of the State schemes there. In other State schemes workers and employers contribute jointly, while in the British and Canadian plans the national government pays a share as well. Sometimes the state's share is contributed indirectly through its payment of administrative costs -- part of the Canadian Government's share in the expenses of its scheme is paid thus. No cases of unemployment insurance have been brought to our attention in which the public authorities were the sole contributors.

(g) The schemes may or may not be associated with employment exchanges, and rehabilitation, technical training, or vocational guidance schemes.

(h) The relation of benefits to contributions may vary. Here we may profitably refer to Mr. Wolfenden's classification* of unemployment assistance schemes. In what he calls pure "insurance" schemes there would be no relation between the amount of contributions paid and the amount of benefit payable. The benefits would continue as long as the contingency -- involuntary unemployment -- against which the beneficiary was insured continued, no matter how many nor how few had been ^{his} ~~the~~ contributions. Some reserve schemes operate on this principle, with the proviso that no more benefits were to be paid out when the fund

* above, page 28.

was exhausted*. The more common type of scheme, however, stipulates that no person may draw more than a certain maximum of benefits in any year; within the limits of this provision, many schemes have the savings principle that benefits should be in ^{relation} direct/to the number of contributions paid.

(i) The plans may vary through an almost infinite variety of administrative set-ups, depending upon who initiates the fund and what principles and aims it is designed to carry out.

This listing, by no means exhaustive, may give some idea of the many ways in which unemployment insurance schemes vary. Some idea of the principles dictating choice between these variable characteristics, in different schemes, will be given in a later section**. But it is clear that we cannot look to them for the essentials which will lead us to a definition of unemployment insurance.

2. THE TYPE OF UNEMPLOYMENT COVERED BY INSURANCE

We have indicated that unemployment insurance may be either

* Here again is a statement of this attitude: "An unemployment reserves plan does not contract or guarantee to pay any given number of benefits to an individual. Reserves are accumulated for the purpose of paying out benefits to unemployed persons in so far as the funds permit. Should it be found that the rate of unemployment exceeds that which had been contemplated in the plan, the number of benefits paid to any individual might be reduced so as to spread the benefits among a larger number of unemployed. In the event that an unexpectedly large volume of unemployment should occur and that even with such reduction of benefits the fund should become depleted, no contracts would be violated and no employer would be obliged to pay a single cent.

---Hansen, Alvin H., and Murray, Merrill G.,
A New Plan for Unemployment Reserves, p. 28.

** below, Section E of this Chapter.

"particular" or "general" in respect of the number of occupations it covers. But there are limits to the type of employment which even a general scheme may cover.

There are several considerations here. First of all, for purely administrative reasons, there are some types of work in ^{there} which/cannot be insurance against unemployment. Farming, though it may be assisted under some schemes, is usually considered to be an uninsurable occupation. The administrative difficulties are (1) that the incidence and extent of unemployment are hard to estimate in such an occupation even if, as is usually not the case, figures for past years are available; (2) the collection of contributions is difficult and costly; (3) the existence of unemployment actually entitled to compensation under the provisions of an insurance scheme is difficult to ascertain.

A second, and more important consideration, is based on recognition of different types of unemployment which exist*. We may approach a classification of unemployment from several directions; the cause of unemployment, from the point of view of business conditions in the economy as a whole; the cause from the point of view of its probable effect on the worker; the cause from the point of view of individual reasons for unemployment.

Consideration of the economy as a whole allows us to subdivide unemployment into: (a) That of a frictional nature. Constant slight shiftings and readjustments are ~~continually~~ taking place in the economy, resulting continually in the temporary

* "For purposes of scientific investigation or preventive organization [or, we may add, insurance] the analysis must be not of the numbers unemployed, but of the causes of unemployment, and the extent to which they are essential or accidental in the existing economic order or in human nature."

unemployment of a certain number of men. (b) There is also that unemployment caused by long-term, technological changes -- supplanting of old productive methods by new, cessation of demand for certain products, permanent stoppage of supply of raw materials required in certain manufactures. The general problem of technological unemployment and the increasing replacement of men by machines has caused a few economists to ask whether unemployment will not be a phenomena of progressively greater occurrence in our economic life, but we are not concerned with such large questions as ~~these~~; we must recognize it as a type of unemployment, in which the worker is usually left with a skill no longer required in industry, and see what unemployment insurance can do to assist it. (c) Business conditions are also responsible for cyclical unemployment. A direct result of the business cycle, this classification contains huge numbers of unemployed when the cycle is in the depression phase. (d) The fact that, because of variations in demand, long-standing custom, or climatic conditions, some industries employ more workers at one time of the year than at other seasons, produces seasonal unemployment.

But these types do not entirely exhaust this classification. We may have under-employment, occurring when a manufacturer, in time of depression or of seasonal slackness for his trade, tries to maintain the whole body of his workers to a certain extent, by limiting the number of hours per day, or the number of days per week that each works, to a lower figure than is usual. Lastly we have casual labor. Industrial conditions are responsible for this phenomena in the cases where men are

employed only by the day; then a large working population is often supported meagrely on work which is sufficient to employ only a fraction of the men each day.

From the point of view of its effect on the worker, Sir W.H. Beveridge⁽⁷⁾ has classified unemployment:

(a) the unemployed with a presumption that, within a period not too long to cause demoralization through idleness, they will be able to find work again in their own trades and places

(b) the unemployed with the ability and desire to work, but with a presumption that they will not again (within a period . . . as above) find work in their own trades and places.

The first effect on the worker is caused by unemployment arising from seasonal or cyclical causes; the second is the effect of what we have called technological unemployment.

Personal causes of unemployment are given their simplest classification by Commons and Andrews⁽⁸⁾:

. . . unemployment may be defined as the failure to make a labor contract. This failure may be traced to one of three causes: (1) cessation of work arising from labor disputes; (2) unemployability, or disability, owing to sickness, old age or other personal conditions; and (3) inability of men who are willing to work to find employment.

If unemployment may be classified in these different ways, which categories may be covered by unemployment insurance schemes? First,

A man to have an insurable interest must be subject to the loss of his employment, and consequently to the loss of income earned during employment. This implies that employment and income therefrom exist. The chronic

(7) quoted in Wolfenden, Hugh H., Unemployment Funds, p.

(8) Commons, John R., and Andrews, John B., Principles of Labor Legislation, p. 4.

idle have no employment subject to loss, and, to a large extent, part time or temporary workers are in the same category. There will always be some who have little or no employment income, and consequently cannot lose income. (9)

Consequently, these have no insurable interest and thus cannot be insured. This fact is recognized by all unemployment insurance schemes, forming the first of their essential characteristics. A condition for the receipt of benefits by any individual is his prior contribution to the scheme, or contributions made to the fund, in his name, through virtue of the fact that he was employed, for a certain minimum period. Such a requirement definitely excludes casual labor and unemployables -- and may be designed to exclude part-time or under-employed workers.

But there is a further restriction. We wish to make the point that all the schemes we considered were designed to cover one specific risk: involuntary loss of employment by persons continuing willing and able to work. We take this, for reasons which will be seen more clearly later, as one of the prime essentials of unemployment insurance. True insurance, that is to say, leaves to other measures the providing of compensation for loss of work due to sickness, accident, or old age. In most countries schemes are specifically designed to cover these risks which are, in any case, outside the scope of unemployment insurance. In so far as certain trade union schemes paid benefit for loss of employment due to strikes, sickness, or accident, those schemes were not true insurance. For unemployment ~~coverage~~

(9): Craig, James D., "Is Unemployment Insurance Feasible and Practicable?" p. 6.

insurance covers one risk, and one risk only. There must be an insurable interest, and in cases where unemployment is incurred voluntarily, or through causes not compatible with continued desire and ability to work, that interest does not exist.

3. THE RESTRICTION OF THE PERIOD OF BENEFIT.

Granted that unemployment insurance is designed to cover only involuntary unemployment*, is there any limitation to its coverage of frictional, seasonal, cyclical and technological involuntary unemployment? This question is tied up with that of the limitation of the period of benefit, both in relation to the contributions paid, and absolutely. Wolfenden's classification shows us that the relation between benefits and contributions varies in each type of plan, according to the fundamental principle involved. In compensation plans, for instance, where the employer is the sole contributor, there can be no relation between the amount paid by, and that paid out to, the insured. In reserves plans, too, the relation of contributions to benefits is set at some arbitrary figure compiled with a view to keeping the fund solvent. In plans having more of an insurance nature (in Wolfenden's use of the term), there is usually some definite and logical relation between the contributions and the period of benefit; ~~for~~ ^{but} a pure insurance plan, paying benefits to each insured person for the complete period of his involuntary unemployment, cannot exist. The incidence and extent of unemployment cannot be calculated with sufficient accuracy to permit this; and

* henceforth, to avoid repetition, the term involuntary unemployment should be construed as meaning "involuntary unemployment of persons continuing able and willing to work."

that is what actuaries mean when they brand true "insurance against unemployment" as impossible.

It follows that there must be a predetermined maximum period of benefit. And from this follows the fact that unemployment insurance, though it may assist frictional, seasonal, cyclical, and technological unemployment, is unable to assist any of them for longer than a specific period. It is the essence of insurance that it must have an actuarial basis, and only in the above way may the maximum possible amount of demand upon the fund be determined.

4. PREDETERMINED RELATION OF BENEFITS TO CONTRIBUTIONS.

For this reason -- that the actuarial basis of the plan must be determinate, or it is not insurance -- the demands upon the fund must be made predictable by the establishing of a definite relation between benefits and contributions. In compensation and reserves plans, this requirement is in effect side-stepped by the limitation of total benefits to the total amount contained in the fund. But though this makes it less necessary, in practice, to exercise care in setting the schemes on a sound actuarial basis, some definite ratio is usually set up with the expectation that the fund will be able to assist unemployment on the scale it indicates. With national plans, definitely committed to pay benefits for a certain period of time following involuntary unemployment, the ratio of benefits to contributions must be predetermined so carefully that no possible contingency will make the demands upon the fund exceed the amount it contains.

5. THE ACCUMULATED FUND

We have assumed that the fund should be based upon actuarial calculations without as yet giving any reasons for this. Since the schemes are to be insurance schemes, they must be paid entirely from an accumulated fund. The worker is entitled to benefit because, having been employed, he has devoted a certain~~part~~ of his wages -- or his employer has set aside a certain portion of the wage fund -- to provide for the contingency of involuntary unemployment. There can be no other basis for unemployment insurance payments -- relief, on the other hand, being distributed on the basis of need alone. If payments are to be made, then, solely from an accumulated fund, the fund must be so set up that it will be able to meet the demands made upon it. The actuarial basis of unemployment insurance, and the above expedients to ensure actuarial determinacy, are thus justified.

6. THE RIGHT TO BENEFITS

One further essential of unemployment insurance need be considered. If the worker is insured under such a scheme, then upon the payment of contributions he helps build up a reserve fund. From this, under the provisions of the scheme, he is entitled to receive benefits when the specific contingency against which he is insured occurs. The sole criterion for receiving benefits must then be the question of whether that contingency has or has not occurred. Benefits are payable as of right, in contrast again to non-contributory unemployment relief, where the chief criterion is that of need. There must be

no "means test" attached to the receipt of benefits in a true unemployment insurance scheme.

7. THE DEFINITION

Having seen, in the preceding five subsections, the essential characteristics of unemployment insurance, we may state our definition*:

Unemployment insurance is a scheme by which funds are accumulated¹ by or in the name of the insured² to provide benefits, received as of right³, at a predetermined rate⁴ and for a definite maximum period⁵, upon the proved⁶ occurrence of involuntary unemployment to insured persons continuing able and willing to work⁷.

The reasons for these various provisos being:

1: as we have said, the fund must be accumulated in advance of the contingency, so that only those with an insurable risk will be insured, and because only payment into such a fund can establish a right to benefit.

2: this requirement is necessary so that only bona-fide workers will be insured.

3: there may be no means test.

4: we have seen that this is necessary to put the scheme on a sound actuarial basis.

5: no matter what the type of unemployment, it cannot be assisted for an indefinite period by insurance.

6: if proof or disproof of involuntary unemployment is difficult in any occupation, that occupation is uninsurable.

7: this being the specific risk that unemployment insurance is designed to cover.

* this definition is in effect an extension of the following:
"Unemployment insurance is a scheme by which reserves are

8. UNEMPLOYMENT INSURANCE VERSUS RELIEF

It has been very difficult to discuss independently the various "essential" characteristics of unemployment insurance, because in fact these characteristics are all interdependent. For example: the prerequisite to the payment of benefits as of right is the existence of an accumulated fund set up on an actuarial basis; this entails limiting benefits to compensation for a specific contingency; and to ensure that benefits are paid for this contingency only, contributions from (or on behalf of) the insured must be exacted; this results in the accumulation of a fund, and implies the payment of benefits as of right. We have therefore been indulging in what Professor Marshall termed "circular reasoning", and have arrived at our definition of unemployment insurance without exploring what may be called the essential nature of the phenomena, the independent factor upon which all these interdependent factors depend. It is hoped that this essential nature will become more apparent as we continue with the later sections of this Chapter, but we may at least touch on it at this stage by a reference to the distinction between unemployment insurance and relief. By this latter term is meant unemployment assistance paid out of public funds to the needy jobless -- charity to those who, through loss of work, are without means for sustenance.

First we must make clear the point that the title of this

accumulated in order to make payments to unemployed persons in a systematic manner without resort to tax funds."

---Hansen, Alvin H., and Murray, Merrill G.,
A New Plan For Unemployment Reserves, p. 24.

subsection ("Unemployment Insurance versus Relief") does not imply any conflict between these two types of unemployment aid. On the contrary, relief must almost always co-exist with insurance in any country, since the latter cannot assist all unemployment. This section is not intended to be a discussion of factors determining the choice between these two methods, but rather a glimpse of the fundamental differences between them.

Unemployment relief has come to be a heavy drain on fiscal monies in our depression-ridden age. The usual criterion for the payment of relief proper is the existence of need, resulting from loss of employment through any cause -- voluntary or involuntary, due to strikes, sickness, old age, or actual inability to find work. The money paid out comes from general tax funds.

In most countries unemployment insurance was conceived as one part of a social welfare program; it was to systemize unemployment assistance and force the worker to provide for bad times in days of plenty. A mixture of saving, risk-spreading and compensation, it is not insurance in the pure sense of the word; but neither is it relief. The essential nature of unemployment relief is its aid to the needy for humanitarian reasons. The essential nature of unemployment insurance is its building up of a fund, upon which workers may draw when they suffer involuntary unemployment. Here, humanitarian motives are not directly involved.

This distinction between insurance and relief is a vital one, which must be kept in mind. We will return to the point several times, in later Chapters.

C. The Principles of Social Legislation.

Any consideration of the rise of social legislation, and the motives underlying it, must commence with at least a brief discussion of the outstanding phenomenon in recent economic history. In the field of economic policy, every nation in the world has been gradually but inevitably forced to abandon the old policy of laissez-faire.

More and more our leaders have come to understand that, in our complex modern economy, individual enterprise -- liberally allowed full freedom -- did not follow Adam Smith's precepts. The system did not work out so that each person's self-seeking in the economic sphere totaled up to the maximum good for all. On the contrary, with the growth of large-scale capitalism came large-scale abuses -- monopolistic competition; exploitation of classes with little economic power -- which only the state had the authority to control. Gradually, the state began to realize that it must use that authority. As it tried "welfare" to atone for the blunders of capitalism, we had the "law of increasing government expenditures." But this was not enough, and such devices as anti-trust laws and minimum wage regulations were brought in to further eliminate social conflicts.

Dr. Richter⁽¹⁰⁾ summarizes the new attitude as follows:

Man has always lived in groups; these groups grow in number as civilization progresses -- family, tribe, province, state, then nation. The smaller groups

(10): Taken from notes on Dr. Lothar Richter's lectures on Modern Economic Problems given in Dalhousie University.

retain their primary functions as the larger ones grow up; and other groups, such as labor unions and church congregations, which are not totally in harmony with the purposes of the state, may continue to function or may come into being. When groups or classes clash we have conflicts, and a social problem arises. The groups face each other, or defy the state, threatening to destroy the whole community. Ironing out the differences is necessary, and the groups should be integrated into the community while still retaining their identity.

Social legislation aims at safeguarding all classes of society and minimizing conflicts so that the purposes of the state as a whole will be furthered. When we observe these class clashes and disharmonies we should try to remove the causes rather than merely the symptoms of the discontent. For instance, we should remedy wage and working conditions rather than attempting to dissolve trade unions. The real aim of social legislation is to achieve the true purposes of the state.

This sociological approach to social legislation is a good starting point, though it lacks emphasis on certain parts of these measures. Dr. Richter will not attempt a guess as to the "true purposes of the state," considering this supposition, and out of the field of economic analysis. But we may say that social legislation is usually initiated because of a desire to maximize economic welfare and security for every member of the state.

The question of achieving economic security is one which has received great emphasis from writers on social legislation. Though, in the early days of growth of demands for economic democracy, stress was laid on establishing a certain minimum income for every member of the state, today's troubled economic life has added to that a demand for economic security. If the purpose of the state be to ensure, for all, the maximum economic welfare compatible with the existence of present institutions, the first problem it must consider is this: it must provide

funds to care for the economically weak when they are faced by contingencies against which, because of their slim means, they are unable to provide in advance.

For reasons into which we are about to inquire, social legislation has often been judged the best way of providing this economic security.

D. The Aims of Social Insurance.

We may assume that the state holds the following view: so far as it is possible, every member of the community in good standing should be assured of a certain minimum standard of living. This necessitates, first of all, a minimum real income for those engaged in productive activity. But it further necessitates some provision for the times when, through no fault of his own, the worker is unable to earn income. The most common causes of loss of income are accident, sickness, old age, and inability to find employment. All these contingencies may be covered by social insurance. A further field is protection of the wage-earner's family when he dies, is unable to earn, or earns insufficient income to maintain them in health and decency. In general, it may be said that the state has made a policy of providing such insurance for those whose income is too low to let them provide it for themselves. Granted that providing economic security was good, social insurance promised more returns for each contribution from the worker than could ~~any~~ other schemes, such as the only likely alternative -- individual savings. Those who could afford only the cheapest method of

insurance were given it by the state -- the risk was spread on the broadest possible base, and as a general rule the schemes were heavily subsidized.

But it may be asked, why did the government not go the whole way; why did it not provide these insurance benefits free of all cost to the worker? All the remaining elements of liberalism in the community thunder "No!" to such a proposal. They can give a hundred reasons against it -- it would degenerate into support of a class not economically self-supporting, it would break down the moral fibre of the assisted classes; in other words, it would be a wicked waste of public money. In truth, where actual need has forced the support of members of the community without any prior contribution on their part -- unemployment relief, non-contributory old age pensions -- such social diseases as pauperization have occurred. The criterion of need is the only one which present-day societies are willing to recognize as a prerequisite for free help, and it is to be hoped that the encouragement of individual self-help through social insurance schemes, no matter how heavily subsidized, will prevent prevent the worker from sinking to this low ebb of existence -- where actual lack of food and shelter for himself or his family forces him to apply to the community for aid. If people are to build up reserves against contingencies, then, social insurance, spreading the risk throughout the whole insured population, is the cheapest way of accomplishing this. If there is a certain class of men who wish to make no provision for the future social insurance, in forcing them to do so, prevents the later occurrence of actual need.

E. Unemployment Insurance as Social Insurance.

Unemployment insurance was a late-comer to the social insurance field because for a long period of time many held the view that unemployment was not an insurable risk. As we have seen, the addition, to the insurance nature of unemployment insurance, of savings and compensation principles, made unemployment insurance actuarially possible. Since experience proved that large portions of the population could be unemployed at one time, and the mere sharing of risk could not provide benefits for all in times of deep depression, the savings element along with the limitation of the benefit period was required; but the final result was actuarially sound unemployment insurance.

We have discussed briefly the differences between unemployment insurance and relief. Now, in the light of the above section, the chasm between them becomes clear. The criterion of right, and the criterion of need, as bases for benefit payments, are completely irreconcilable and no scheme can combine them. We will remember this when we see some of the difficulties the British and German unemployment insurance schemes got into.

1. INDIVIDUAL JUSTICE VERSUS THE COMMON GOOD

We have not emphasized the fact that social insurance implies some compromise between the concepts of individual justice and of the common good or welfare. Individual injustice involved in such a scheme may be of two classes -- subjective or objective. Subjective injustice is a feature of any compulsory insurance

scheme, since the exact degree of "insurable interest" to be protected in each case can only be a matter for subjective decision. The discrepancy between the premium exacted and the psychic benefit received is apt to be greater than the objective discrepancy -- and even this is great.

Objective injustice, arising from a difference between the cost and the benefits of compulsory unemployment insurance to any individual, may occur in two ways. First, the risk of unemployment to which a person is subject depends to a marked extent upon his occupation. This is readily seen in cyclical unemployment, for instance, some industries being severely affected by the cycle while others are scarcely touched. And yet, national unemployment insurance schemes seldom grade contributions as between different occupations.

Second, the risk of unemployment is obviously dependent upon personal factors; when the working force of a plant must be cut down, the inefficient are the first to be discharged. Since all workers within a given wage group pay the same premium, this has led to the charge that unemployment insurance means saddling efficient workers with the burden of providing relief for the inefficient.

Many phases of this individual injustice arise from the administrative difficulties inherent in a large-scale, compulsory insurance scheme. Even if the efficiency of each worker could be estimated in determining his contribution, there is no reason to believe that his risk of unemployment could be accurately calculated from this -- in today's economy, unemployment may arise from so many other different factors that it is impossible

to attribute it to any single one. The average risk of unemployment throughout the whole body of the insured is the only one which may safely be used in calculating contributions.

In connection with this whole question of classifying the unemployed according to efficiency or according to occupational risk of unemployment, we may return for a moment to the nature of unemployment insurance. In an attempt to show that such insurance is not true insurance, the President of the Metropolitan Life Insurance Company has written:

To be sound scientifically and fundamentally, it is essential to an insurance plan that:

1. A fund be accumulated, in advance of the event, out of which definite payments can be made upon the occurrence of the contingency against which insurance is provided.

2. The insured must have a definite interest in the contingency against which he is insured, which need not be monetary, but which must be capable of approximate measurement in money, computed by the law of averages.

3. The rate of occurrence must be predictable within reasonable limits and be beyond individual control, and those insured must be placed in homogeneous groups.

4. It must not be possible for the contingency to happen to too large a proportion of the group at one time.

5. The actual occurrence of the contingency must be easy of verification and of proof that it falls within the scope of the insurance contract. (11)

Now, unemployment can comply with certain of these requirements, and side-step others by the introduction of savings principles (since experience proves that the contingency of unemployment can "happen to too large a proportion of the group at one time") and by the postulation of a limited liability type

(11): Ecker, Frederick H., "Is Unemployment Insurable?"; Proceedings of the Academy of Political Science, XIV, No. 4, pp. 24--32.

of insurance. But the fact that, in contravention of Mr. Ecker's third requirement, the rate of unemployment -- either in the general or in the particular -- cannot be accurately predicted from past experience, and the fact that administrative difficulties will not permit placing the insured in homogeneous classes, makes perfect individual justice impossible.

And there is a deeper factor than mere administrative difficulty. For unemployment insurance must involve some sacrifice of the principles of individual justice in the interests of the common welfare. The fact that the insured cannot be "placed in homogeneous groups" according to their risk of unemployment, need not delay a social insurance scheme. If the common good is to be benefitted by the plan such things need not be considered too seriously.

In so far as ^{savings} principles are involved in the plan, individual justice is considered to some extent; for though ~~these~~ principles ^{are} introduced to aid actuarial soundness, ~~it does~~ ^{they do} help ensure that the worker will receive from the scheme benefits in some measure proportionate to the amount he has paid in.

But the insurance principle compells spreading risk on the widest possible base -- insuring a large portion of the state's workers, in order to provide against the highly variable contingency of unemployment. To this end contributions must be exacted from all. If unstable industries are benefitted at the expense of stable ones, of inefficient workers at the expense of the efficient, the end of insurance against unemployment is enough socially desirable to compensate for this.

It will be one of our more important tasks, below, to attempt

an estimate of the exact balance between individual justice and common welfare aimed at by the Canadian Act, and see just how well the Act achieves the desired balance.

2. THE ALLEVIATION AND THE PREVENTION OF UNEMPLOYMENT

The primary purpose of unemployment insurance is always the provision of an efficient scheme for the alleviation of unemployment. But obviously such a scheme would be defeating its own ends if it resulted in an increase in unemployment. Secondary aims of the insurance must therefore always be the encouragement of employment, and avoidance of any causation of increased unemployment by the scheme. Many different expedients are used in connection with the schemes to encourage employment; and non-discouragement of employment as well as encouragement of employment must be considered in relation to the long-run effects of the schemes. Here, again, is a major problem to be considered later in relation to the Canadian Act.

CHAPTER III: NATIONAL COMPULSORY UNEMPLOYMENT INSURANCE.

This Chapter is a comparison of

The Unemployment Insurance Act, 1940 (Canada)

with

The Unemployment Insurance Bill (Britain), 1935.

The Employment Exchanges and Unemployment Insurance Act of 1927 (Germany).

The Social Security Act (United States), 1935.*

The comparison will be point-by-point. The aims of the Chapter are (1) to show the extremely close resemblance between these plans; (2) to build up a **fund** of knowledge regarding the Canadian Act, for use in the later deduction of its aims; (3) having shown the likeness of the British, German and American plans to the Canadian Act, to use them (by analogy) in the deduction of the aims of the Canadian Act, and (4) the analysis of its probable efficiency, and short- and long-run effects.

The provisions to be considered may be grouped under the following general headings: (1) the scope and limits of the schemes, (2) contribution- collecting procedure, (3) benefit

* the complete text of which is given as an Appendix to
Douglas, Paul H., Social Security in the United States.

procedure, (4) administration, (5) employment exchanges, (6) provisions for encouraging employment.

The discussion of the German scheme is based largely on the authoritative account of its provisions given by Miss Carroll⁽¹⁾, and concerns that scheme as it existed before the advent of the Nazi regime. It is entirely unlikely that any such scheme exists in Germany at the present time.

A. The Scope and Limits of the National Schemes.

The first point to claim our attention in connection with the national schemes is the occupations covered. Section 13 (1) of the Canadian Act states that

. . . all persons who are employed in any of the employments specified in Part I of the First Schedule to this Act, not being employment specified as excepted employments in Part II of that Schedule shall be insured against unemployment in manner provided by this Act.

employment being, according to Part I of the First Schedule, "Employment in Canada under any contract of service or apprenticeship" Part II of the Schedule lists nineteen excepted employments, of which the most important are agriculture, forestry, fishing, lumbering and logging, hunting and trapping, transportation by water or air, stevedoring, domestic service, service in hospitals or charitable institutions, and employment for which "no wages or other money payment is made."

(1): Carroll, Mollie R., Unemployment Insurance in Germany.

The British Act says,

1. Subject to the provisions of this Act, all persons of either sex, whether British subjects or not, being persons who have attained the maximum age for entry into insurance under this Act and are employed in insurable occupation, shall be insured against unemployment in manner provided by this Act.

Here again, the First Schedule to the Act contains the list of uninsured employments. The list is similar to the Canadian one -- agriculture, domestic service, nursing, teaching, and again employment for which "no wages or other money payment is made," are excepted employments. Aside from this (the similarity of language strongly supports a belief that the Canadian Act is modeled after the British one), "employment in Great Britain under any contract of service or apprenticeship . . ." is insured.

Carroll says of the German Act,

The occupational groups compulsorily insured in the health and salaried employees insurance funds comprise: (1) laborers, journeymen, apprentices, and domestic apprentices; (2) the administrative staff of industrial or commercial establishments, foremen, and other employees of similar occupation, if this work constitutes their main occupation; (3) clerks in stores, offices and drug stores, and apprentices in the last named occupation; (4) actors and musicians, regardless of the artistic value of their performances; (5) teachers and instructors, and persons employed in connection with education, instruction, nursing and welfare work, if these are their main occupations and main source of income; (6) domestics; (7) crews of German seagoing ships; (8) industrial home workers, who are included within the health insurance law. . . (2)

And of excepted occupations,

Exception from compulsion to insure is granted to

(2): Carroll, op. cit., p. 50 n.

certain agricultural, forestry and fishery workers . . . Certain casual workers, who are regularly employed less than 26 weeks in twelve months, may, upon application, be excused if the job is only their secondary occupation. (3)

Evidently a different criterion as regards exception of occupations is the rule here; unstable employments are not excluded for the reason that their inclusion would ruin the actuarial basis of the Act -- they are rather "excepted from compulsion to insure," presumably, Miss Carroll concludes, because exacting contributions in these employments would discourage workers from engaging in them. Despite the fact that the Act covers only a specified number of occupations, it appears to have fully as broad a base as the Canadian and British and Canadian Acts, which include all occupations except those specifically exempted, rather than enumerating occupations to be included.

Because of constitutional difficulties, the American plan took a peculiar form which may be briefly indicated. The Social Security Act exacts contributions from any "employer . . . (in regard to whom it is known that) on each of some twenty days during the taxable year . . . the total number of individuals who were in his employ . . . was eight or more."⁽⁴⁾ But this amount was not to be used directly in the payment of unemployment benefits; its actual purpose is to stimulate the setting up of unemployment insurance schemes in every state -- for the amount paid to such schemes by the employer may be credited against the amount owing under the above Act, up to 90 per cent of the total tax. The money actually collected as above, together with

(3) Carroll, op. cit., pp. 50-51.

(4) The Social Security Act, Sec. 907, subsection (a).

subsidies granted by Congress, is granted to the States to cover the administrative costs of their schemes, if approved.

The result of these provisions has been that unemployment insurance schemes have been set up in every State of the Union. The Act imposes no restrictions on the occupations covered under these schemes, but generally they cover those industries which would otherwise be taxed under the Federal Act. This Act after December 31, 1937, imposed a three per cent payroll tax on all wages paid in respect of employment; and Section 907(c) states

The term "employment" means any service, of whatever nature, performed within the United States by any employee for his employer, except---

the most important exceptions being agricultural labour, domestic service in a private home, service in the employ of the United States Government or the Government of a State, or service in the employ of a charitable organization.

A further provision in these Acts is the limitation of insurance coverage to those earning less than a certain amount. In Canada, those earning more than two thousand dollars a year are not insured; in Great Britain the Maximum income covered is 250 pounds sterling (say, \$1200) and in Germany 6,000 marks (say, \$1500). There appears to be no such limitation in the Social Security Act, although various State schemes limit coverage to persons earning less than \$2500, or in other cases \$2000, a year.

The British, Canadian and German plans provide for exclusion of seasonal occupation. But aside from the fact that certain

obviously seasonal employments are entirely excluded from coverage, and the requirements for benefit exclude other seasonal workers, the onus for obtaining exemption from coverage rests on the seasonal worker. Section 16(1) of the Canadian Act says,

Where any employed person proves to the satisfaction of the Commission that he is . . . employed in any occupation which is seasonal and which does not ordinarily extend over more than twenty weeks in any year and is not ordinarily employed in any other occupation which is insurable occupation . . . the Commission shall grant him a certificate exempting him from liability to contribute under this Act and the holder of such certificate shall not be insured under this Act.

The provision in the British Act is much the same, as is the German provision.* The American situation is again hard to generalize.

In discussing the scope of these plans, we may label them "national" in that they cover workers of the insured categories throughout the nations concerned. The American scheme in effect does this, since it has induced the setting up of State plans in every State.x

B. Contributions and Their Collection.

In the Canadian, British and German schemes contributions are collected from all insured workers, and from their employers. The American Federal plan imposes a tax upon employers only, though many of the state schemes exact contributions from employees as well.

In the Canadian scheme the workers are classified into groups according to the wage earned, and each group pays a specified

* see above, page 54.

x in this thesis State (capitalized) always refers to a State of the American Union.

contribution. The Table given on this page shows how the employer's and the worker's contributions both vary with the wage paid, and gives a rough idea of the proportion of wages paid, in each case, as benefit.

TABLE B

CONTRIBUTIONS PAYABLE UNDER THE CANADIAN INSURANCE ACT.*

Weekly Wage (\$)	"Representative Wage" \$	Contributions Worker Employer (weekly) \$		Contributions as % of "R.Wage" Worker Employer	
less than 5.40	5.40	0	0.27	0	5.0 %
5.40 - 7.50	6.45	0.12	0.21	1.9 %	3.3
7.50 - 9.60	8.50	0.15	0.25	1.8	2.9
9.60 - 12.00	10.80	0.18	0.25	1.7	2.3
12.00 - 15.00	13.50	0.21	0.25	1.55	1.85
15.00 - 20.00	17.50	0.24	0.27	1.4	1.5
20.00 - 26.00	23.00	0.30	0.27	1.3	1.2
26.00 - 38.50	32.00	0.36	0.27	1.1	0.85

* figures from the Second Schedule to the Canadian Unemployment Insurance Act, 1940.

In Britain, in contrast to the Canadian scheme, the workers are classified for collection of contributions, only according to age and sex. No matter what wage he earns, a male worker "who has attained the age of 21 years" is required by the Third Schedule to the Act to pay contributions of 10d. per week. Men between the ages of 18 and 21, women over 21, women between 18 and 21, boys between 16 and 18 and girls between 16 and 18, form other classes paying progressively lower rates of contribution.

In both the American and German plans the contributions exacted from insured workers are an exact percentage of wages; in Germany the contribution from the worker is not to exceed $1\frac{1}{2}$ per cent, and this contribution may be decreased when the national fund has reached a specified level, in any district where income to the national fund exceeds demands made upon it for three consecutive months. Many of the States of the American union have, in addition to the three per cent levy on employers induced by the Federal Act, imposed a tax of one per cent, to be paid by the worker, upon his pay check.

In these schemes the employer's contribution usually bears a definite relation to the worker's contribution. In Canada, as Table B shows, the employer's contribution, like the worker's, is scaled according to the wage group into which each worker falls. In Britain, where a flat rate of workers' contributions prevails, the employers' contributions are also paid at a flat rate. The employers' contributions in respect of each individual **worker** are equal to the contribution which that worker pays, and thus vary only with the age and sex classification of that worker.

The German plan also collects from each employer a contribution, in respect of each worker, equal in amount to that paid by the worker. Since the latter's contribution is $1\frac{1}{2}$ per cent of his wage, the employer's contribution is also $1\frac{1}{2}$ per cent of his payroll. An exception is any district where the contribution levied against both employers and workers may have been reduced owing to a low incidence of insurable unemployment.

The American plan, as we have seen, exacts from the employer at least three per cent of his payroll; for if the State

levy is less than this -- in many cases it is 2.7 per cent -- the balance is collected under the Federal Act. Those States which impose a three per cent tax on the employer render him liable to a total contribution of 3.3 per cent, since only 90 per cent of the Federal tax is offset by contributions to State funds.

Governmental contributions to the fund vary in the four countries we have been considering. The most liberal provisions are the Canadian and British; under the former plan, the government adds to the Unemployment Insurance Fund one-fifth of the total funds paid in by employers and employees, and in addition bears all costs of administering the scheme -- the Sections of the Act specifying this make it clear that no charge except benefit payments is to be levied against the Fund:

11. The cost of administration of this Act including remuneration of Commissioners, officers, clerks and employees; shall be paid out of moneys provided by Parliament.

77. (1) There shall be a special account in the Consolidated Revenue Fund called the Unemployment Insurance Fund . . . to which the Minister of Finance shall from time to time credit all moneys received from the sale of unemployment insurance stamps and all contributions paid otherwise than by means of such stamps. . .

(2) The Minister of Finance shall also credit in like manner from time to time out of moneys provided by Parliament an amount equal to one-fifth of the aggregate credits from time to time made as aforesaid . . .

78. (1) . . . the Minister of Finance may, subject to the provisions of this Act, on the requisition of the Commission or its authorized officers, pay out of the Fund claims for insurance benefit and refunds of contributions . . . but no other payments shall be made a charge on the Fund.*

* underlining here, as before, is my own.

In the British plan the administrative expenses are paid directly from the insurance fund, but here the Government makes a larger contribution -- one-half of the total contributions paid by employers and workers. That is to say, in respect of a male worker over 21 years of age, the worker, his employer, and the state each pay a contribution of 10d.

Carroll⁽⁵⁾ writes that the administrative costs levied against the British unemployment insurance fund amounted to as much as 12.5 per cent of that fund. Making the assumption, perhaps justified, because of the resemblances between the two schemes, that Canadian administrative expenses will not rise above this amount, then the total percentage of cost of the scheme borne by the Canadian Government will be $16 \frac{2}{3}$ (direct contribution) plus $12\frac{1}{2}$ per cent of the fund, which totals $29 \frac{1}{6}$ per cent; this is slightly lower than the British government's direct contribution to its fund of $33 \frac{1}{3}$ per cent.

In the German scheme, "while the contributions of employers and workers cover the normal charges of unemployment and allied services, special assistance is granted from public funds."⁽⁶⁾ Emergency unemployment benefits, which will to be referred to later, were paid by the state; but all strictly insurance benefits, and all administrative costs were borne by the fund alone; the fund was not subsidized by the state. "Industry's obligation for financial support of unemployment assistance and allied services was taken for granted,"⁽⁷⁾ and the government made no contributions to the cost of the insurance. Even the Health Insurance

(5): Carroll, op. cit., p.87.

(6): idem, p. 49.

(7): idem, p. 48.

scheme, which collected unemployment insurance contributions, charged the latter fund a fee for this service.

In America, the situation is much the same. The States pay no direct contribution to any of their schemes, nor do they pay the administration costs of their unemployment insurance boards or offices, since these are **paid** by the Federal Government. The money used for this is paid out of funds granted by Congress, but whether it exceeds the 0.3 per cent (minimum) payroll tax collected from employers by the Federal Government, is doubtful. There is probably no net government subsidization of the United States schemes, any more than there is subsidization in Germany.

In all cases the worker's contribution is collected as a payroll tax -- that is, the amount of his contribution is deducted from his wages, by his employer, before he receives them. The employer is responsible for paying the worker's share in the expenses of the scheme, as well as his own. Provisions of the Canadian Act are detailed on this point:

18. Except where regulations under this Act otherwise prescribe, the employer shall in the first instance be liable to pay both the contributions payable by himself . . . and also, on behalf of, and to the exclusion of, the employed person, the contribution payable by that person.

19. (1) Where the employed person receives any wages or other pecuniary remuneration from the employer, the amount of any contribution paid by the employer on behalf of the employed person shall . . . be recoverable by means of deductions from the wages of that person or from any other pecuniary remuneration due from or payable by the employer to that person and not otherwise;

21. Notwithstanding any contract to the contrary, the

employer shall not be entitled to deduct from the wages of, or otherwise recover from, the employed person, the employer's contribution . . .

23. (1) Any sum deducted by an employer from wages or other remuneration under this Act shall be deemed to have been entrusted to him for the purpose of paying the contribution for which it was deducted.

The provisions of the British Act on these points are almost identical. In the German and American schemes, also, the employer is responsible for the collection of his workers' contributions as well as his own. In Germany, "the employer forwards to the health insurance fund both his own and the workers' contributions to unemployment insurance."⁽⁸⁾ In the United States the contributions are forwarded to the States' Insurance Boards, and the employer forwards the Federal levy directly to the Federal Government. The provisions to ensure that payroll deductions will not be greater than intended under the law are, in the German and American plans, similar to the Canadian.

In regard to the employer's actual payment of contributions the Canadian and British schemes are again similar. Except as may be specially provided in a few cases, the Canadian employer buys from the Post Office, Unemployment Insurance stamps, which he pastes into each worker's Unemployment Insurance book. The stamp affixed in each case represents the sum of one contribution by the worker and the employer. The book remains in the possession of the employer -- though the worker has the right to inspect his own book -- until the worker becomes ^{un-}employed, when it is returned to him and he deposits it with the Employment Exchange.

(8): Carroll, op. cit., p. 48.

The book will contain the complete record of contributions made by or on behalf of him, and will be used in calculating his benefit period. The funds obtained by the Post Office from the sale of Unemployment Insurance stamps are placed to the credit of the Unemployment Insurance Fund.

Under the German Act, as we have seen, the contributions are forwarded to the Health Insurance fund, which acts as the collecting agency; Carroll does not give the exact administrative procedure set down to ensure that the contributions paid by, or in the name of, each employee, are credited to him. The American plan does not use unemployment insurance books or stamps, but each worker is assigned a Social Security Number which he retains through life, and which is used in recording his contribution total.

Some further administrative details of the Canadian scheme may be recorded for future reference. Where the worker, having proved himself a seasonal worker within the meaning of the Act, is exempted from contribution, the employer is none the less required to pay the appropriate contribution in respect of him. A person earning less than 90¢ per day, or a young worker less than 16 years of age, is not required to contribute to the Fund, but the employer must make contributions in respect of him. When a worker works the full working week for any employer, no other employer is required to pay contributions in respect of him; if he works for each of two employers for less than the full working week, in any one week, both employers are liable to pay contributions in respect of him at a daily rate which is exactly proportionate to the weekly one, for the number of days

he is employed by each respectively. Contributions made in error by either employers or workers are recoverable under the provisions of the Act.

C. The Payment of Benefits.

The conditions under which benefit is payable under the provisions of the Canadian Act are somewhat complicated, and the Act must be quoted at length to make them clear. Comparison with the other Acts will also be lengthy; benefits and their payment are perhaps the most important parts of the schemes, and the features which it is most essential that we understand.

1. QUALIFICATION FOR BENEFIT.

Under the Canadian Act,

27. Every person who being insured under this Act is unemployed and in whose case the conditions laid down by this Act . . . are fulfilled, shall, subject to the provisions of this Act, be entitled to receive payments . . . so long as the statutory conditions continue to be fulfilled and so long as he is not disqualified under this Act for the receipt of benefits

28. The receipt of insurance benefit by an insured person shall be subject to the following statutory conditions, namely, ---

- (i) that contributions have been paid in respect of him while employed in insurable employment for not less than one hundred and eighty days during the two years immediately preceding the date on which a claim for benefit is made;
- (ii) that he has made application for insurance benefit in the prescribed manner, and proved to have been unemployed on each day on which he claims to have been unemployed;

- (iii) that he is capable of and available for work but unable to obtain suitable employment; and
- (iv) that he proves either that he duly attended, or that he had good cause not to attend, any course of instruction or training approved by the Commission which he may have been directed to attend by the Commission for the purpose of becoming or keeping fit for entry into or return to employment.

31. Any insured person shall not be deemed to have failed to have fulfilled the third statutory condition by reason only that

(a) he is attending a course of instruction or training approved by the Commission in his case; or

(b) he has declined

- (i) an offer of employment arising in consequence of a stoppage of work due to a labor dispute; or
- (ii) an offer of employment in his usual occupation at wages lower, or on conditions less favourable, than those observed by agreement between employers and employees, or failing any such agreement, than those recognized by good employers; or
- (iii) an offer of employment of a kind other than employment in his usual occupation at wages 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 . . .

Provided that after the lapse of such an interval from the date on which an insured person becomes unemployed as, in the circumstances of the case, is reasonable, employment shall not be deemed to be unsuitable by reason only that it is employment of a kind other than employment in the usual occupation of the insured person, if it is employment at wages not lower and on conditions not less favourable than those observed by agreement between employees and employers or, failing such agreement, than those recognized by good employers.

32. Notwithstanding anything contained in this Act no insured person shall be disqualified for receipt of benefit by reason only of his refusal to accept employment

if by acceptance thereof he would lose the right---

- (a) to become a member of, or
 - (b) to continue to be a member and to observe the lawful rules of, or
 - (c) to refrain from becoming a member of
- any association, organization or union of workers.

37. An insured person who has in any benefit year exhausted his benefits shall not thereafter be entitled to benefit for any day in that benefit year, nor shall he become entitled to benefit in his next benefit year before there is paid in respect of him the last of the contributions specified in paragraph (b) of subsection one of section forty.

Which contributions are, according to the above-mentioned paragraph, the requirement that

. . . sixty days' contributions have been paid in respect of him since the last day for which he received benefit for his benefit year immediately preceding.

43. An insured person shall be disqualified for receiving benefit---

- (a) if he has lost his employment by reason of a stoppage of work which was due to a labor dispute at the factory, workshop or other premises at which he was employed, . . . but this disqualification shall last only so long as the stoppage of work continues, and shall not apply in any case where the insured proves
 - (i) that he is not participating in, or financing or directly interested in the labour dispute which caused the stoppage of work, and
 - (ii) that he does not belong to a grade or class of workers of which immediately before the commencement of the stoppage there were members employed at the premises at which the stoppage is taking place any of whom were participating in or financing or directly interested in the dispute . . . or
- (b) if on a claim for benefit it is proved by an officer of the Commission that the claimant---

- (i) after a situation in any employment which is suitable in his case has been notified to him by an employment office or other recognized agency or by or on behalf of an employer as vacant or about to be come vacant, has without good cause refused or failed to apply for such a situation, or refused to accept such situation when offered to him, or
- (ii) has neglected to avail himself of an opportunity of suitable employment, or
- (iii) has without good cause refused or failed to carry out any written direction given to him by an officer of the employment office with a view to assisting him to find suitable employment . . or
- (c) if he has been discharged from his ^{employment} ~~misconduct~~ by reason of misconduct or if he voluntarily leaves his employment without just cause; or
- (d) while he is under sixteen years of age; or
- (e) while he is an inmate of any prison . . . or . . while he is a resident . . . out of Canada; or
- (f) if more than half of the number of contributions made in respect of him in the one year immediately preceding a claim for benefit are at the lowest rate of contribution specified in the Second Schedule.

44. A person shall not be deemed to have been discharged from his employment by reason of his own misconduct if he is discharged on account of membership in, or of lawful activity connected with, any association, organization or union of workers.

45. Where any claim for benefit by an insured person is disallowed by the court of referees or the umpire, on the ground that

- (a) that the third statutory condition is not fulfilled in his case; or
- (b) that he is disqualified for receiving benefit under paragraphs (b) or (c) of section forty-three of this Act,

the court of referees or the umpire shall declare the insured person to be disqualified from receiving benefit for a period not exceeding six weeks beginning from such date as may be determined by the court of referees or the umpire, as the case may be.

The British Act in its provisions is, again, extremely similar to the Canadian. The four "statutory conditions" which the insured must comply with before qualifying for benefits -- payment of 180 days' contributions, application for benefit in the prescribed manner, ability and willingness to work, attendance at training courses -- are the same. Here, too, the insured is not considered voluntarily unemployed if he refuses a position because of his attendance at an approved training scheme, or because the position offered is vacant as result of a labour dispute, or because he is offered a job at substandard wages in his own or another occupation. The clause specifically protecting trade union membership is not included in the British Act; but as in the Canadian scheme, a person exhausting his benefits in any benefit year must pay sixty days' contributions before again becoming eligible for benefit. Persons becoming unemployed as result of a strike in which they are directly interested are ineligible for benefit, as are inmates of prisons or charitable institutions. Workers discharged for misconduct, or quitting voluntarily without good reason, may be disqualified as in the Canadian scheme for a period of six weeks.

The German plan specifies that to draw benefits

The worker must have fulfilled the occupational requirements. He must be able and willing to work and involuntarily unemployed. He must not have exhausted his claim.

Eligibility for benefits obtains only after a person has, during a year, worked 26 weeks in a compulsorily insured occupation. It may not be gained through mere payment into the unemployment insurance fund. Employment itself is a prerequisite . . .

A person who voluntarily leaves an insured occupation to work independently or without pay is ineligible for

benefits. An unemployed person receives no benefits during the period when he accepts wages or compensation in lieu of them . . .

The foremost condition for eligibility is ability and willingness to work. Unemployment must be involuntary . . . A person is not considered able to work if he is sufficiently ill or incapacitated to draw benefits from the health or invalidity insurance funds . . .

There are legally justifiable bases for refusing a position. An unemployed person is not required to take up a position that is prohibited by law or that is against good morals. Seemingly self-evident, this maxim has important consequences. The unemployed need not accept a position under conditions contrary to the laws protecting labor. He may refuse work that pays a wage or salary that is lower than the legal or customary rate. He may not, however, decline a position because its remuneration is lower than that to which he is accustomed. For nine weeks, employment that is unsuitable to his training, previous occupation, vocation, future, or physical condition can be rejected. After that time only the last consideration excuses him. During the existence of an industrial dispute he can decline a position thereby made available. Work that is physically or morally unsuitable may be rejected. He may refuse a position that offers insufficient remuneration to provide for his dependents.

Inability to keep a job is a measure of one's ability and willingness to work. The person who gives up his job without "weighty" or "justifiable" reasons, or has lost it because of his conduct, forfeits claim to benefit for four weeks, although the penalty may be reduced to two. The term may cover utilization of vocational training or reeducation offered free of charge. An individual who rejects such instruction loses title to benefits for four weeks . . . Unemployment because of a strike or lock-out is not considered involuntary, and is therefore not covered by insurance. (9)

According to the Social Security Act, State schemes must comply with certain regulations pursuant to the insured person's qualification for benefits. Again we quote:

Sec. 903. (a) The Social Security Board shall approve any State (unemployment insurance) law submitted to it, within thirty days of such submission, which it finds

(9): Carroll, op. cit., pp. 51-55.

provides that

(1) All compensation is to be paid through public employment offices in the State or such other agencies as the Board may approve.

(2) No compensation shall be payable with respect to any day of employment occurring within two years after the first day of the first period with respect to which contributions are required;

(5) Compensation shall not be denied in any such State to any otherwise eligible individual for refusing to accept new work under any of the following conditions: (A) if the position offered is vacant due directly to a strike, lock-out, or other labor dispute; (B) if the wages, hours, or other conditions of the work offered are substantially less favorably to the individual than those prevailing for similar work in the locality; (C) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization.

2. THE WAITING PERIOD

Another requirement for receipt of benefits in these schemes is that a certain period of time must elapse between the day on which the insured makes application for benefit, and the day on which payment of benefit begins. This period allows the employment exchange a short time to attempt to find a job for the unemployed person, and also ensures that the schemes will not assist very temporary unemployment. Under the Canadian Act,

36. An insured person shall not be entitled to receive benefit

(a) for the first nine days of unemployment which occur in any benefit year . . .

and the term unemployment is explained by Section 30:

. . . a period of unemployment shall be deemed to

begin on the date on which the insured person makes application for benefit in the prescribed manner: Provided that regulations may be made authorizing some earlier date to be substituted for the date of an application where good cause is shown for delay in making application.

Under the British Act the waiting period is six days:

31. (6) Benefit shall be payable in respect of each week after the first week of a period of continuous unemployment.

Miss Carroll's statement in regard to the waiting period under the German Act reveals several peculiar features:

After he reports to the labor exchange that he is unemployed, a person must wait six days. Then, if all efforts to place him are unavailing, payment of benefits begins. Concessions may be made, however, to the person's decreased earning power during the time immediately preceding unemployment. The waiting period may be eliminated if he has held a job less than six weeks. The same holds true if he has been only partly employed for two weeks or more and has been paid at least one-third less than his usual wage. Also if he has been incapacitated for work or has been incarcerated in a public institution for at least a week the rule may be waived. The waiting period may, under certain conditions, be reduced to three days. It may be lengthened in case of widespread unemployment in a particular occupation in order partially to counter-balance special risks. (9)

Each of the State schemes in the United States lays down a waiting period. These periods are in general longer than those described above; for instance, in Massachusetts the period is four weeks, in Washington six, in Utah two, in New York State three.

3. THE PERIOD OF BENEFIT

(9): Carroll, op. cit., pp. 55-56

Under the Canadian Act,

34. An insured person shall . . . be entitled to receive benefit in any benefit year for a number of days equal to the difference between

- (a) one-fifth of the number of days for which contributions have been **paid** in respect of him in the prescribed period of five years preceding the benefit year for which the computation is made, and
- (b) one-third of the number of days, if any, for which benefit has been paid to him in a prescribed period of three years preceding the benefit year.

Above and beyond this, we have already in another connection quoted Section 37 as saying that no person, having exhausted his benefits in any benefit year, may draw further benefits in that year, nor in a following year unless sixty days' contributions have first been paid in respect of him. But we have not quoted the Act's official definition of the term benefit year:

40. (1) For the purpose of this Act, the expression "benefit year" shall mean, in relation to an insured person, the period of twelve months beginning on the date on which, in application for benefit, he proves

- (a) that the first statutory condition is fulfilled (i.e., at least 180 days' contributions paid in the last two years) in his case; and
- (b) except for his first benefit year, that sixty days' contributions have been paid in respect of him since the last day for which he received benefit in his benefit year immediately preceding;

and every twelve months commencing on the date on which that insured person proves the matters aforesaid after his benefits rights in his last preceding year have either lapsed or been exhausted.

A hypothetical example may help show how these somewhat complicated regulations will work out. Suppose a man to have

worked steadily in an insured occupation, full-time for fifty weeks a year, during three years. Nine hundred days' contributions would then have been paid in respect of him.

At the end of these three years, the man becomes involuntarily unemployed and proves himself eligible for benefit. After waiting nine days, he is paid benefit for four full weeks, at the end of which time he regains his old job. He works a further one hundred days, then again becomes unemployed. Note that this second period of unemployment is in the same benefit year as the first period. In this benefit year, he is entitled to a total of 180 days benefit (one-fifth of 900 days). Of this, during his first period of unemployment, he had drawn benefit for twenty-four days. His second period of unemployment continuing, he draws the 156 days' benefit to which he is still entitled.

Just as he exhausts his benefits, he is able again to return to his former employment, and before the beginning of his second benefit year, he works and pays contributions for sixty days. Should a third period of unemployment now ensue, he is again entitled to draw benefits. The total number of days for which he may draw benefit in this, his second benefit year, is one-fifth of the total number of days he has contributed in the past five years ($\frac{1}{5}$ of (900 plus 100 plus 60), i.e. $\frac{1}{5}$ of 1060, or 212 days) minus one-third of the number of days' benefits received in the last three years ($\frac{1}{3}$ of 180, or 60 days) which is 152 days.

The provisions of the British Act in regard to the benefit period have less of a savings, more of an insurance character.

An unemployed insured person is entitled to receive 156 days' benefit in a year, with an additional day of benefit for every ten days' contributions paid in the last five years; one-fifth the number of days' benefits paid in the last five years to be subtracted from the added days under this provision. The provision requiring sixty days' contributions to be paid before the insured is qualified for benefits in any benefit year following one in which benefits have been exhausted, and the definition of the term "benefit year", are identical with the Canadian Act.

In the German Act,

Title to benefits normally lasts 26 weeks. After that time further benefits may be paid when the individual has established a fresh claim. However, a person who takes a position after he has drawn insurance is not required to work 26 weeks at a stretch before he again becomes eligible to benefits. It is only necessary that work total 182 days within the space of a year preceding his loss of the job. (11)

As we noted before, the ordinary requirement for receipt of benefit is that the insured must have worked 26 weeks in a compulsorily insured occupation.

Requirements in the various State schemes vary. Usually the worker must have worked from ten to twenty-six weeks in an insured occupation in the previous year to qualify, and the benefits are paid as of right for a definite period, which is sometimes increased in proportion to past contribution. The Alabama plan for instance pays 16 weeks benefit, plus one week for every twenty weeks' contributions made in the past 260 weeks. The Massachusetts plan pays 16 weeks plus one week for each 18

(11): Carroll, op. cit., p. 56.

TABLE C

RELATION OF RATE OF BENEFIT TO RATE OF CONTRIBUTION
IN THE BRITISH UNEMPLOYMENT INSURANCE BILL, 1935.*

Age and Sex Group	Workers' weekly contribution	Weekly benefit	<u>Benefit Contribution</u>
Men, 21 years and over	10d.	17/-	20.4
Women, 21 " " "	9d.	15/-	20.0
Men, 18 - 21 years	9d.	14/-	18.7
Women, 18 - 21 "	8d.	12/-	18.0
Boys, 16 - 18 years	5d.	9/- ^x	21.6
Girls, 16 - 18 "	4½d.	7/- ^x	18.7
Boys and Girls under 16	2d.	boys 6/- ^x	36.0
		girls 5/- ^x	30.0

* figures taken from the Third and Fourth Schedules to the Act.

^x these benefits are payable to boys between the ages of seventeen and eighteen, girls between seventeen and eighteen, boys under seventeen, and girls under seventeen, respectively.

benefits which may be received is fairly constant except in the case of very young persons -- see Table C on this page. The provisions in respect to allowances for dependents are somewhat different:

36. . . benefit . . shall be as the rates set out in (the Fourth Schedule to the Act). . .

Provided that young men and young women who are between the ages of eighteen and twenty-one years and are in receipt of an increase of benefit under either of the two next following Sections shall be entitled to benefit at the same rate as men and women respectively who have attained the age of twenty-one years.

37.--(1) Where an insured contributor who is entitled to benefit has a dependent child or dependent children, the weekly rate of benefit shall be increased by two shillings in respect of each child . . .

38.--(1) Where the insured contributor is entitled to benefit the weekly rate of benefit shall be increased by nine shillings in the following cases, that is to say:--

- (a) where the insured contributor has residing with him or is wholly or mainly maintaining his wife; or
- (b) where the insured contributor is wholly or mainly maintaining her husband who is prevented by physical or mental infirmity from supporting himself; or
- (c) where the insured contributor has residing with him and is wholly or mainly maintaining --
 - (i) his father or step-father . . . or
 - (ii) his widowed mother . . . or
 - (iii) a female person who has the care of the dependent children of the insured . . .

It will be seen that the British Act is much more liberal in the granting of dependents' allowances than is the Canadian; benefit under the latter plan is increased by two shillings in respect of each dependent child of the insured person, as well as the large increase of benefit, similar to the only dependents' allowance granted under the Canadian Act, for a dependent wife or parent.

The rates of contribution in the German Act were set as

TABLE D

BENEFITS PAYABLE UNDER THE GERMAN UNEMPLOYMENT INSURANCE PLAN.*

Wage Class	Average weekly wage rate for three months previous to unemployment (in \$) ^x	"Representative Wage" (weekly) for the class (in \$) ^x	Benefits, according to number of dependents, as a percentage of the "Representative Wage."					
			0	1	2	3	4	5
I	2.50	2.00	75	80	80	80	80	80
II	2.51 - 3.50	3.00	65	70	75	80	80	80
III	3.51 - 4.50	4.00	55	60	65	70	75	75
IV	4.51 - 6.00	5.25	47	52	57	62	67	72
V	6.01 - 7.50	6.75	40	45	50	55	60	65
VI	7.51 - 9.00	8.25	40	45	50	55	60	65
VII	9.00 - 10.50	9.75	37.5	42.5	47.5	52.5	57.5	62.5
VIII	10.51 - 12.00	11.25	35	40	45	50	55	60
IX	12.01 - 13.50	12.75	35	40	45	50	55	60
X	13.51 - 15.00	14.25	35	40	45	50	55	60
XI	over 15.00	15.75	35	40	45	50	55	60

* taken from Carroll, Unemployment Insurance in Germany, p. 58.

^x marks converted to dollars at the rate 4 mk. equal \$1.00

a percentage of wages; benefits were determined in a peculiar way which can best be made clear by the Table, D, above. Note that here again, the dependents' allowances were much more liberal than those granted under the Canadian Act.

The State schemes in the United States provide, for the most part, that benefit shall be a certain percentage of the wages received immediately prior to unemployment, but weekly benefit payments shall not exceed a certain maximum amount to any individual; sometimes there is the further proviso that they shall not be less than a certain sum. In the California Act benefits are to be 50 per cent of wages, but must not be more than \$15 nor less than \$7, per week, to any beneficiary. Most other States set benefits at 50 per cent of former wages, although the more liberal District of Columbia pays 65 per cent, and is also one of the few schemes to grant dependents' allowances. Most States specify a \$15 maximum weekly payment, and where a minimum benefit is set this ranges from \$5 to \$7 weekly.

5. THE PAYMENT OF BENEFIT

In Canada the approved benefit claims are to be paid through the Employment Exchanges, and in fact this is a common feature of all the schemes we are considering. The Employment Exchanges, to fulfill properly their primary function, must have many local branches, and this makes them suitable for the payment of benefits. This method of payment also enables the plans' officials to keep a closer check on the legitimacy of claims than they could if, for instance, claims were paid by mail. In places where there are no Employment Exchanges the beneficiary may collect his payments at the Post Office. This provision in the Canadian Act is phrased in much the same

way as Section 50 of the British Act:

Regulations may be made by the Minister under this Act, with the concurrence of the Postmaster-General, providing for the payment of benefit through the Post Offices and for enabling claimants for benefit to make their claims through the Post Office.

Carroll, giving details of the German Act, mentions some further provisions under this Act to ensure, by use of the exchanges, that legitimate claims only will be paid. The same detailed provisions will probably be fixed by administrative regulations under the Canadian Act, as they are under the British:

The unemployed person must personally report to the labor exchange in his place of residence. He may not apply by letter or through another person. The unemployed must himself give evidence of the fact and the duration of his employment . . . During the period in which a person receives benefit he is required by law to report to the employment office at least three times a week. More frequent attendance may be exacted. In some cases daily reporting is expected. However, exceptions to the rule demanding three reports a week may be granted if they benefit the unemployed person and do not violate the purpose of the rule. Failure to comply with this provision without due cause results in loss of benefit for the days on which the unemployed person fails to report. (13)

The sole restriction placed by the Social Security Act on the payment of benefits is, as we have noted, the requirement that benefits be paid "solely through public employment offices in the State or such other agencies as the Board may approve."

6. PROVISIONS FOR UNDEREMPLOYMENT

Though the British Act specifies (Section 31(6)) that

(13): Carroll, op. cit., p. 55.

"Benefit shall be payable in respect of each week after the first week of a continuous period of unemployment," it further states that

35.--(1) Any three days of unemployment, whether continuous or not, within a period of six consecutive days, shall be treated as one continuous period of unemployment, and any two such consecutive periods separated by a period of not more than ten weeks shall be treated as one continuous period of unemployment, and in this Act the expression "continuously unemployed" shall be construed accordingly.

The Canadian provision regarding underemployment is slightly more liberal:

35. An insured person who is unemployed for six full days in any calendar week . . . shall receive benefit . . . and for any calendar week during a portion of which he is unemployed, he shall receive benefit days in that week at the daily rates prescribed in that Schedule.

provided only that he shall not be entitled to receive benefit for the first nine days of unemployment in any benefit year, nor

36. (b) for the first day of unemployment in any calendar week,

- (i) unless the insured person is unemployed for the whole of that week, or
- (ii) unless the first day of unemployment in that week immediately follows a period of continuous unemployment of not less than one full week;

D. Administration.

The Canadian Act sets up an Unemployment Insurance

Commission, Insurance Officers, Referees, Umpires, and an Unemployment Insurance Advisory Committee as administrative bodies in connection with the scheme.

The duties of of the Commission, which consists of a Chief Commissioner, a Commissioner representative of labor and one representative of employers, all appointed by the Governor-in-Council, include the general administration of the Act:

4. (1) This Act shall be administered by a Commission to be called "The Unemployment Insurance Commission" . . .

The powers of the Commission are wide -- it may employ or appoint persons to carry out the provisions of the Act, make regulations in spheres delegated to it by the Act -- for the removal of anomalies which may arise in the payment of contributions or benefits, or in connection with employments covered by the Act; to ensure that the Act carries out its true purposes; to clarify administrative procedure. For instance:

14. (1) Where it appears to the Commission that the terms and conditions of service of, and the nature of the work performed by, any class of persons employed in any excepted occupation are so similar to the terms and conditions of service of, and the nature of the work performed by, a class of persons employed in an insurable employment as to result in anomalies in the operation of this Act, the Commission may, by regulation, conditionally or unconditionally provide for including---

- (a) the class of persons employed in insurable employment among the classes of persons employed in excepted employment; or
- (b) the class of persons employed in excepted employment among the classes of persons employed in insurable employment.

A different power of the Commission is specified in almost every

subsection of every Section of the Act. It is the body in control of the carrying out of the Act, and in order to prevent undue rigidity in the scheme, many of the administrative details are left to its discretion and for its exact regulation. It is an autonomous body in the sense that it is not under control of any government department, but rather directly under the control of Parliament. Subject to the authority of the other administrative bodies set up in connection with the Act, and subject to review by Parliament, it has control over the carrying out of the measure.

The Commission has the power to appoint, along with many other officers, Inspectors whose duty is to ensure that no evasion of the provisions of the Act occurs; and these Inspectors have legal right to enter private premises and make inquiries.

The appointment of Insurance Officers, Referees, Courts of Referees, and Umpires, is laid down by the Act:

52. (1) The Commission may in each regional district established under this Act authorize such of its officers or employees as the Governor in Council may approve, to be insurance officers for such division.

(2) the Governor in Council may appoint such number of persons as are deemed necessary to be chairmen of courts of referees in each division.

(3) the Governor in Council may, from amongst the judges of the Exchequer Court of Canada, and of the Superior Courts of the provinces of Canada, appoint an umpire and such number of deputy-umpires as he may deem necessary for the purposes of this Act, and, subject to the provisions of this Act, may prescribe their jurisdiction

53. (1) A court of referees for the purposes of this Act shall consist of one or more members chosen to represent employers, with an equal number of members chosen

to represent insured persons, and a chairman appointed as provided in subsection two of section fifty-two.

Except for the Insurance Officers, who are appointed by the Commission -- with the approval of the Governor in Council -- the powers of these above-mentioned bodies impose certain limitations upon the powers of the Commission.

The main duties of the Courts of Referees and the Umpires are to act as courts of appeal, for the insured, from decisions of the Commission or its officers. This duty is detailed in sections fifty-six to sixty-six of the Act, under the heading "Claim Procedure," and the reader should refer to these sections for a complete understanding of this function. In the main, the Insurance Officer must refer to the courts of referees, for allowance or disallowance, all claims where he feels the insured has not proved himself willing and able to work, where he believes that the insured has been discharged by reason of his own misconduct or has voluntarily quit his job, or where the insured has refused to attend recommended training schools. If a claim is disallowed by the Insurance Officer on other grounds -- grounds which are within his authority to judge -- the insured may himself appeal to the Court of Referees, if he does so within 21 days. An appeal from the Court of Referees to an Umpire is permitted in any case at the instance of an Insurance Officer, or of a working-men's organization of which the insured is a member; and at the instance of the insured in any case where the decision of the Court of Referees was not unanimous, or where the chairman of the Court gives permission for the appeal. The decision of the Umpire is final in any case.

The courts of Referees and the Umpires have thus been set up under the Act primarily to ensure justice in the payment of benefits.

The final administrative body in connection with the Act is the Unemployment Insurance Advisory Committee. This committee consists of a chairman and from four to six members, appointed by the Governor in Council. the duties of the committee have to do with safeguarding the financial soundness of the Act, and are laid down in Section 84:

84. (1) The Committee shall, not later than the end of February in each year, make a report to the Governor in Council on the financial condition of the Unemployment Insurance Fund as of the thirty-first day of December last preceding, and shall also make a report to the Governor in Council on the financial condition of the Fund whenever the Committee considers that the Fund is or is likely to become, and is likely to continue to be, insufficient to discharge its liabilities, and may make a report of the financial condition of the Fund at such other times as the Committee may think fit.

(2) If the Committee at any time reports that the Fund is or is likely to become, and is likely to continue to be, insufficient to discharge its liabilities, the report shall contain recommendations for the amendment of the provisions of this Act, or of any regulation made thereunder, either generally or in its relation to special classes of insured persons, concerning any matters relating to the financial condition of the Fund, and, without restricting the generality of the foregoing, to---

- (a) the statutory conditions for the receipt of insurance benefit and the provisions relating to the right to benefit;
- (b) the disqualification for insurance benefit;
- (c) the meaning of "unemployment", or "unemployed", and of "benefit year";
- (d) the rates of insurance benefit, the periods for which such benefit may be paid and the computation thereof;

- (e) the payment of benefit pending appeals; or
- (f) the rates of contribution.

(3) The amendments recommended shall, if the Committee considers the Fund insufficient, be such as in the opinion of the Committee are required to make the Fund sufficient; or if the Committee considers the Fund more than reasonably sufficient to discharge its liabilities, such as in the opinion of the Committee, may appropriately be made in the circumstances; and in either case the report shall contain an estimate of the effect which the amendments recommended will have on the financial condition of the Fund.

The sole function of the Advisory Committee thus becomes clear; its duty is to act as a check on the financial soundness of the Fund.

The administration of the British unemployment insurance plan is under the control of the Minister of Labour rather than under the control of an independent commission. The Act however provides that

56.--(1) There shall be constituted a committee to be called "the Unemployment Insurance Statutory Committee" to give advice and assistance to the Minister in connection with the discharge of his functions under this Act and to perform the duties specified in this Act.

and it goes on to order that this Statutory Committee shall consist of four to six members appointed by the Minister of Labour; one Chairman, one member appointed after consultation with representatives of labor, one after consultation with representatives of employers, one to represent North Irish interests; at least one member shall be a woman. The duties of this Committee correspond roughly to the duties of the Advisory Committee set up

by the Canadian Act; the Minister fulfills the duties which in Canada are performed by the Unemployment Insurance Commission. The British Act sets up Insurance Officers, Umpires and Courts of Referees with exactly the same constitution and powers as those set up in Canada.

The administration of the German Act was placed in the hands of a Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung. Miss Carroll translates this term as "The National Placement and Unemployment Insurance Service," and of its status she says,

The term Reichsanstalt is difficult to translate. It is not exactly a federal bureau, for it is autonomous. It is not exactly an Institute, though often so translated into English. The word Reichsanstalt will be used throughout this discussion . . . (13)

Perhaps Miss Carroll was not familiar with the connotation of the term "Commission" when used in Canadian and British legislation. In any case the Reichsanstalt appears to correspond so closely with a Commission in this sense that we may be justified in translating the term with this word.

The German Commission is subdivided into "(a) the governing bodies; (b) the officials and their staffs who conduct the work of the (employment) offices; and, (c) the courts of reference or appeal." (14)

The two national "governing bodies", the Board of Directors and the National Council, each made up of a chairman and equal numbers of employers' and workers' representatives, share between

(13): Carroll, op. cit., p.60 n.

(14): idem, p. 61.

them in slightly different division the duties of the Canadian Insurance Commission and Advisory Committee. The Board fixes the boundaries of local districts and has other such powers, while the Council, under the provisions of the Act, has broad regulative powers concerning the setting of contributions and rates of benefit, which it is expected to use not only to maintain the Reserve Fund at a safe level but also to "regulate the labor market." (15)

German Courts of Reference or Appeal set up under the Act have essentially the same constitution and powers as the corresponding Canadian courts.

The Social Security Act, as we have seen, pays the administrative costs of all State Unemployment Offices if the State insurance plans conform to certain standards set by the Act. The requirements of the Act in regard to administration of the schemes entail the setting up of bodies which will administer the plans satisfactorily, permit appeals, and ensure financial soundness:

Sec. 303. (a) The Board shall make no certification for payment to any State unless it . . . includes provisions for---

(1) Such methods of administration . . . as are found by the Board to be reasonably calculated to ensure full payment of unemployment compensation when due; and

(3) Opportunity for a fair hearing, before an impartial tribunal, for all individuals whose claims for unemployment compensation are denied;

(15): Carroll, op. cit., p. 62.

E. Employment Exchanges.

For the purposes of placing the unemployed insured, and to provide local administrative offices for the payment of contributions, the payment of benefits, and the investigation of claims, the schemes we are considering have associated with them employment exchanges.

No general statement may be made regarding the actual set-up of the United States schemes in this respect, but in the Canadian, British and German plans, the local offices of the Unemployment Insurance commissions are also the employment exchanges. One staff performs both functions, which are harmonized as much as possible. There is no restriction of the placement function to only the insured unemployed; any person may apply for a position through the exchange.

Later we will discuss in detail the consequences of this association of exchanges and unemployment insurance schemes; here we must examine briefly the measures setting up this association. Under the Canadian Act,

88. (1) The (Unemployment Insurance) Commission shall organize and maintain an employment service for Canada in the manner provided in this Act.

(2) It shall be the duty of the Commission in organizing and maintaining such employment service to collect information concerning employment for workers, and workers seeking employment, and to the extent that the Commission considers it necessary, to make such information available at the employment offices, with a view to assisting workers to obtain employment for which they are fitted and assisting employers to obtain workers most suitable to their needs . . .

89. (1) The Commission shall establish such regional divisions as it may deem expedient and desirable

and there shall be a regional office in such division at such place as the Commission may select . . .

(2) The Commission shall establish employment offices within each division at such places as it may deem expedient and desirable for the purposes of this Act.

The German Act is evidently, as usual, more detailed on specific matters of administration which are left for ordering by regulations under the Canadian Act. We have mentioned above the fact that the unemployed person is required by law to report to his local employment office, in person, to present his claim. Then,

The placement officer searches his file of available positions and tries to secure work for the applicant in his own occupation . . . If nothing turns up in his locality . . . (and) if something is found elsewhere, he is **likely** to be sent there . . . If there are no openings, if he is in good physical condition, and if he is not at fault for losing his last position, he is given an unemployment card. It is stamped for that day . . . the process is repeated on alternate working days until employment is finally found for him.

One week after his first application to the exchange, the unemployed person becomes eligible to benefits . . . On the next Saturday he applies to the pay window of the local labor office. He presents his card, which has been stamped according to code, and draws the benefits to which he is entitled for that week. (16)

F. Provisions for Promoting Employment.

There is a special part of the British Act headed as above, which is not paralleled by the other Acts we have considered. It should be noted here for future reference:

(16): Carroll, op. cit., p. 66.

100.--(1) Where any scheme for promoting greater regularity of employment in any industry is, on the joint application of any organization representing workers and an organization representing employers in the industry, approved by the Minister, the Minister may in accordance with arrangements made by him with the consent of the Treasury, assist the administration of the scheme by attaching officers of the Ministry of Labour to help in the administration thereof and by any such other means as he thinks fit.

(2) The Minister may, in accordance with such arrangements as aforesaid, issue on behalf of employers to persons to whom any such scheme applies, sums by way of wages or additional benefits in respect of unemployment or compensation for loss of employment . . .

101. The Minister shall, so far as practicable, make arrangements with employers for the notification by employers to employment exchanges of situations in their employment which are vacant or about to become vacant . . .

102. With a view to promoting employment, the Minister may, on such terms and subject to such conditions as may be determined by schemes made by him with the approval of the Treasury, make provision by way of grant or loan or otherwise for the purpose of facilitating the removal of workers and their dependents from one place to another and . . . for assisting toward their resettlement.

The Canadian Act has no such sections as the above, except in the case of Section 102, which is duplicated therein.

After this Chapter-long comparison, we feel justified in saying here that the above four schemes are in all essential respects similar. Even the United States plan, forced into a peculiar form by constitutional difficulties, resembles the others. We believe that the plans are enough similar to safely permit analogy between their aims and effects.

CHAPTER IV: THE AIMS OF CANADIAN UNEMPLOYMENT INSURANCE

A. The Nature of the Scheme.

Many aims of such a scheme as the Canadian Unemployment Insurance plan follow logically from the very nature of the plan itself. We need not cover again ground which we have carefully gone over -- the characteristics of the Canadian scheme were considered in detail in the Chapter preceding this. It will take but a few lines here to show how in all its details the plan conforms to what we have defined as unemployment insurance. In the words of that definition,

Unemployment insurance is a scheme by which funds are accumulated, by or in the name of the insured, to provide benefits, received as of right, at a predetermined rate and for a definite maximum period, upon the proved occurrence of involuntary unemployment to insured persons continuing able and willing to work.

Now, the Canadian scheme pays benefits from a Fund formed by insurance contributions, and from that Fund only; furthermore, the Fund is to be used for no other purpose. The benefits are payable as of right, and the rate and maximum duration of benefits are predetermined. The unemployed person must prove "that he was unemployed on every day on which he claims to have been unemployed" and this unemployment must be from causes not

within his own control. Finally, to receive benefit the insured must prove "that he is capable of and available for work but unable to find suitable employment." Thus the conditions called for in our definition are fulfilled.

The Canadian scheme is the usual hodge-podge mixture of insurance, savings, and compensation that composes most "unemployment insurance" schemes. The various principles are introduced for several reasons, perhaps most notably to achieve the desired purposes of the measures while retaining a sound financial base.

In a way, following Wolfenden, we might consider the Act a sort of "limited liability insurance plan" (this is his connotation of the commonly used phrase, popular in the United States, "unemployment reserves plan") -- but that term is also applicable to all other unemployment insurance schemes. Because they guarantee benefits, in set relation to contributions, for a limited period of time, upon occurrence of the contingency for which coverage is provided, they are insurance of this type. The accumulated fund, the sharing of an actuarially-estimated risk, are insurance characteristics. Perhaps most important is the stipulation that the contingency to be insured must not be under individual control. Decidedly an idea borrowed from private insurance plans, this closely limits the type of unemployment which may be insured; but for obvious reasons it is a necessary provision. Exclusion of the sick or injured unemployed is also necessary, for slightly different reasons.

As we have seen before, it is probable that the primary reason for the addition of savings elements to unemployment insurance is the fact that, since unemployment may occur to such a large percentage of the insured population at one time, the mere spreading of risk would not result in spreading of enough funds to provide subsistence for all the unemployed. The total income received by all workers during the depression phase of the cycle would not be enough to support both employed and unemployed workers. The solution then is to save ~~some~~ income received when total income to workers is high, for days when many will be unemployed. The principle is simple, but it brings with it annoying corollaries. If savings principles are instituted, each person's right to ^{withdraw} sums proportionate to those he has invested is automatically acknowledged. Thus, under the Canadian scheme, we have the "rule of five" for determination of the benefit period.

Compensation characteristics are included in the plan because the Government evidently places upon employers, and upon itself, some of the responsibility for unemployment -- and therefore some of the financial burden of its relief. If, by reason of a person's having become employed, he is entitled to certain payments from others when laid off -- the implication being that whoever is forced to make these payments (employer or government) "owes" him a job -- he is receiving compensation. Thus the Canadian plan, to which both employers and Government contribute, may be held to have at least some compensation characteristics.

B. The Aims of Unemployment Insurance.

However, these characteristics of savings and compensation are common to the Canadian, British, American and German plans. They present no reason for denying that the Canadian plan is unemployment insurance, but rather a stronger reason for affirming that it is. Then if the Canadian scheme is unemployment insurance, tautological as it may sound, its first and by far its most important duty and aim must be to provide insurance against unemployment. From this simple statement follow all the aims we must consider in this section -- the aims of the Canadian Act implied, and even impelled, by the fact that it is an unemployment insurance plan.

1. THE PLAN AIMS AT FURTHERING THE COMMON WELFARE, EVEN AT THE COST OF SOME INDIVIDUAL INJUSTICE. This has been discussed in detail in Chapter II, and need not again be stressed. It is however very important that we try to obtain some estimate of the exact balance between individual justice, and the common good, aimed at by the Canadian Act; this will be attempted in section C of this Chapter.

2. IT AIMS AT REMAINING FUNDAMENTALLY DIFFERENT FROM RELIEF. This as we have seen is essential to unemployment insurance, and those who instituted our Canadian scheme seem to have been aware of this fact. The benefits under the scheme are payable as of

right, and the Honourable N. A. McLarty, speaking in the House of Commons said

The next amendment* is to Section 43(f). This paragraph provides that a person shall be disqualified from receiving benefits while he is in receipt of benefit under the Old Age Pensions Act. The committee was impressed by the soundness of the argument . . . that a man who had paid his contributions should receive his benefits under this legislation as a right and should not be precluded from exercising and enjoying that right because of some other benefit he might be receiving by what might be regarded more or less as an act of grace. (1)

This single fact, that the criterion of right rather than that of need is to be considered as qualification for benefit, establishes a fundamental distinction from relief -- if the provision is strictly observed. But we may call upon more definite statements than that to prove the Government was cognizant of the fact that insurance could not, and should not be forced to, take the place of relief payments. Mr. McLarty told the House that the Act

. . . is not an unemployed aid or assistance act. In other words it does not intend by any means to cover the field of unemployment. . . Both the national employment commission and the dominion-provincial relations commission have recommended that to supplement the national unemployment insurance bill there should be passed what was called by one a national assistance bill and by the other a national aid bill . . . This bill . . . will remove at least a certain number of our population from the necessity of receiving unemployment aid. (2)

* recommended to Parliament by the Special Committee of the House of Commons on the Unemployment Insurance Bill, which reviewed the bill before it was brought up in the House for third reading.

(1): Debates, House of Commons, Canada, 1940; p.1986.

(2): idem, pp. 1987-88; underlining mine.

No clearer statement from an authoritative source, of the Canadian Act's recognition of the distinction between insurance and relief, could be desired.

3. IT AIMS AT COVERING ONE RISK ONLY, that being the risk of involuntary loss of employment by insured persons continuing able and willing to work. When members of parliament inquired whether loss of employment due to illness would be covered by the Act, Mr. McLarty replied that it would not:

. . . this is an unemployment insurance act.
It is not a health insurance act. It pays no
benefits for sickness. (3)

And indeed, the phrasing of several sections of the Act itself -- the third statutory condition for the receipt of benefit, requiring the beneficiary to be capable of and available for work, but unable to find it; and other sections -- support fully our belief that the insurance is not designed to cover unemployment which is voluntary, or which leaves the unemployed person unfit for work. Workmen's compensation, sickness and old age insurance must all be part of a well-balanced social insurance program; unemployment insurance cannot be a blanket measure to take the place of these other measures where they do not exist.

4. IT AIMS AT MAINTAINING A SOUND FINANCIAL BASIS: This, perhaps the most truly fundamental requirement of unemployment

(3): Debates, op. cit., p. 1987.

insurance, is a marked feature of the Canadian Act. The question of whether or not the Act would prove financially sound was one which occupied the attention of Parliament for the larger part of the time it spent in discussion of the measure. Obviously, if an unemployment insurance plan is to be divorced from any suspicion of being a mere relief measure, it must be on an actuarial basis strong enough to preclude borrowing from the Government to meet its obligations. In Great Britain, the debts of their insurance scheme became so great that in 1931 there was

. . . probability of a deficit of some 12,000,000 pounds in the public finances, due largely to the insolvency of the Unemployment Benefit Fund. (4)

Certainly, such a deficit -- which is named as one of the contingencies powerful enough to influence Britain in abandoning the gold standard -- must not be allowed to occur in Canada. And on the other hand it would be futile -- even harmful -- to accumulate a huge reserve, far beyond the limits of what would ever be needed. The Canadian Fund then had to have an actuarial basis. This necessitated many restrictions in the measure. For this reason (as well as for others) a certain disregard for individual justice was imperative; for this reason certain occupations and types of employment had to be excluded from coverage by the Act; for this reason was necessary a benefit period of definite maximum duration, set by the number of past contributions made; and the benefit payments had to be actuarially predetermined in relation to contributions. We may quote several

(4): Day, J.P., An Introduction to World Economic History, p. 98

statements made by Mr. McLarty:

The rates of contributions in the present bill have been recommended by the chief actuary of the Department of Insurance, and he has furnished a comprehensive report showing in detail how the rates of contributions are arrived at . . . (5)

And further, again regarding the way in which rates of contribution have been set to attain financial soundness in face of possible demands upon the Fund:

An examination of Mr. Watson's (the chief actuary's) report shows that his report in 1935 and his report on the present bill were founded on the data of unemployment for the eleven years from 1921 to 1931, the average rate of unemployment over which period, as shown by data used in making the calculations, having been 12 per cent . . . the average number of benefit days for insured persons, as computed on that basis of 12 per cent, was increased by 30 per cent, with a view to making provision in part for higher unemployment than that shown by the period of 1921 to 1931. In addition, a number of other adjustments were made with a view to computing rates which might reasonably be considered sufficient. (6)

The scheme is to be kept on a sound basis by the continual scrutiny of the Advisory Committee, whose chief duty, as we have seen, is to check periodically the financial soundness of the plan and recommend to Parliament any needed changes. Though the final authority in amending the Act will of course rest with Parliament, it is likely to be influenced by the findings of the Committee, for it is the declared intention of the Government that the Committee's chairman shall be an actuary of recognized ability. It will be instructive to quote again the specific

(5): Debates, op. cit., p. 1988.

(6): idem., p. 1989.

matters regarding which the Committee may recommend changes, for these are bound to be the important considerations determining the actuarial soundness of the Act, the financial safeguards built into the scheme. Under Section 84, the Committee may recommend changes in

- (a) the statutory conditions for receipt of insurance benefit, and the provisions relating to the right to benefit;
- (b) the disqualifications for insurance benefit;
- (c) the meaning of "unemployment," or "unemployed," and of "benefit year";
- (d) the rates of insurance benefit, the periods for which such benefit may be paid, and the computation thereof;
- (e) the payment of benefit pending appeals; or
- (f) the rates of contribution.

5. IT AIMS AT INCREASING PRODUCTIVITY. Any social legislation has as one of its aims the increasing of the total productive capacity of the community. The theory is that

. . . such insurance would remove the spectre of fear which now haunts the wage earner and make him a more contented and better citizen. (7)

And, being more contented, he would increase his productive efforts, to the advantage of the community as a whole. Advocates of social legislation claim that this effect is also achieved in so far as social measures, in giving more power to the worker, help equalize power and smooth out industrial conflicts.

(7): Mr. McLarty, quoting from the Report of the Mathers Committee on Industrial and Labour Conditions. Debates, p. 1647.

These claims cannot easily be gainsaid. The only question which may be asked is whether **such** measures as unemployment insurance do not decrease productivity in other ways. Does the power granted by insurance enable the worker to obtain from his employer wage scales and working conditions not economically justifiable? If so, production would surely suffer; here is a question to be carefully considered later in our analysis. Does productivity suffer because the worker, knowing his periods of idleness will be provided for, strives less diligently than before to obtain employment -- or, while employed, strives less diligently than he might to please his employer? To this very real danger, the Canadian insurance scheme has found several answers. First, workers discharged because of their own misconduct, or those quitting their employment without good cause, are disqualified from receipt of benefit for a certain length of time. Second, great care has been taken to ensure that the benefits paid unde^r the Act shall never approach the amount the worker would ordinarily earn while in employment. This was the main reason why wage earners were classified in the Act into eight groups, according to the wage earned, each group having its own rate of contribution and benefit. Granted the desire to keep benefits below wages, and the desire to maintain a constant ratio between contributions and benefits, a flat rate of contributions and benefits, no matter what the wage -- as under the British Act -- would mean that maximum benefits would have to be lower than the wage of the lowest-paid insured person. In a

such as Canada, with widely varying conditions and wages for labour, such a "flat-rate" system might bring great hardship in many cases. And since one purpose of the Act is (to quote Mr. McLarty) "to protect the normal standard of living of the worker," graded contributions and benefits had to be introduced to achieve this, while still maintaining benefits below wages in each individual case.

This consideration was also responsible, at least in part, for the fact that dependent's allowances in the Canadian plan are not as generous as in some other schemes. As shown in Table D*,

TABLE E

RELATION OF BENEFITS TO WAGES IN THE CANADIAN INSURANCE PLAN*.

Wage Group	Benefit (no dependents)	Percentage of Benefit to Wage	Benefit (with dependents)	Percent Benefit to wage
5.40 - 7.50	4.08	76 - 54%	4.80	89 - 64%
7.50 - 9.60	5.10	68 - 53%	6.00	80 - 63%
9.60 - 12.00	6.12	64 - 51%	7.20	75 - 60%
12.00 - 15.00	7.14	59 - 48%	8.40	70 - 56%
15.00 - 20.00	8.16	54 - 41%	9.60	64 - 48%
20.00 - 26.00	10.20	51 - 39%	12.00	60 - 46%
26.00 - 38.50	12.24	47 - 32%	14.40	55 - 37%

*Figures from the Second and Third Schedules to the Canadian Unemployment Insurance Act, 1940.

*above, page 78.

benefits under the German Act, for those in the lowest income brackets and with numerous dependents, might be as high as 80 per cent of normal wages. Benefits under the Canadian Act can be as high as 89 per cent under similar conditions (see Table E) and this high ratio of benefits to wages prevents giving more liberal family allowances.

Production will suffer in spite of this if the unemployed person, in receipt of benefit, prefers his reduced income, obtained without labour, to a return to employment, and thus makes no genuine effort to find work. It is to combat this that an employment exchange is associated with the Canadian scheme. The task of the exchange is to find work for all those unemployed who can possibly be placed.

It is true that the employment exchanges will not perfectly take the place of individual effort in finding jobs for the insured -- though they may be almost as efficient in the long run. But it cannot be denied that the worker will lose some of his fear of unemployment if he knows his income will to some degree be continued during his period of idleness. Even should the danger of "malingering" during unemployment be entirely overcome, the danger of slackening of effort during actual employment is a serious one which must be balanced against the incentive to production, provided by increased security, before a final evaluation of unemployment insurance's effect on production may be made. But enough has been said to show that the intention to aid production is present. This, then, stands as another of the aims of the scheme.

6. IT AIMS AT ENCOURAGING EMPLOYMENT AND AVOIDING ANY DISCOURAGEMENT OF EMPLOYMENT. This aim is akin to that stated above, and might perhaps be recognized as a particular case of the general aim given there. In another connection, we have said that the primary aim of unemployment insurance must be to assist the unemployed, but that its secondary aim must be encouragement of employment, for otherwise it would be defeating its own ends. Increasing productivity is a general aim of all social insurance; encouraging employment is a general aim of all unemployment insurance.

The provisions we discussed above -- benefit rates below normal wages, disqualification from benefit because of discharge for misconduct, use of the employment exchange -- are instances of the Act's desire to avoid any diminution of the will to work on the part of the employee. To prevent any diminution of the quantity of employment offered by employers, care was taken to keep the employer's contribution low enough that -- even assuming no portion of it is shifted -- production costs would not be increased to a point which would threaten to cause a decrease in production. Other duties imposed on employers -- the obligation to calculate and pay contributions for both himself and his employees, for instance -- were limited by the same factor.

At the same time, the Act seeks to encourage employment by rendering workers more fit for their jobs; the fourth condition for the receipt of benefit requires the unemployed person to attend training courses, if the Commission considers he should do so, and the intention to make full use of this provision is clear.

Mr. McLarty told the House of Commons* that while the Insurance Commission would not at present set up any training schemes of its own for the rehabilitation of workers, it would send unemployed workers, under this provision, to training schemes already in operation.

The existence of employment exchanges should also tend to reduce frictional unemployment by making a large body of workers available to any employer needing labour; and this as we have said should counterbalance any tendency for frictional unemployment to increase because of slackening of individual effort in job-hunting.

7. IT AIMS AT MAXIMUM ADMINISTRATIVE EFFICIENCY AND ECONOMY. Any government-subsidized measure, and especially one such as the Canadian Unemployment Insurance scheme in which administrative costs are borne directly by the Government, will make every effort to attain maximum efficiency and economy of administration. But the Act compells employers, as well as the Government, to undertake certain administrative tasks; it is necessary that the cost of these should also be minimized. These statements, which can hardly be questioned, will form the basis of several of our criticisms and recommendations in regard to the Act.

The above are the chief aims imposed upon the Canadian unemployment insurance scheme by virtue of the fact that it is unemployment insurance. But we must also consider

* Debates, op. cit., p. 2017.

C. Specific Aims of the Scheme.

Who are intended to bear the real cost of this plan, and in what measure is each taxed? Exactly what types of unemployment are to be assisted? What is the precise balance between individual justice and common welfare the Act aims at striking? Those are the most important questions which must be answered here.

1. DISTRIBUTION OF THE COST OF THE INSURANCE SCHEME.

We have deduced above* that the Government will pay roughly 29 per cent of the cost of unemployment insurance. There seems little reason to doubt that this money will be appropriated, without redress, from general tax receipts. The Act states specifically that the moneys for administrative costs, and those paying the Government's share of the Fund, are to be paid over from the Consolidated Revenue Fund^x. Whether the funds so paid out will be indirectly recovered by new taxation of special groups is a matter for conjecture, but nothing of the sort seems indicated. Even were this done, it could not be openly recognized without occasioning a change in the fundamental principles of taxation; so that no really definite pronouncement on this matter may be made.

With regard to the employer's contribution, a difficult question is again encountered. There are two possible theories: first, that the Government sincerely expects and believes that

* page 61 X: sections 11 and 77 of the Act.

employers will bear the full burden imposed upon them by the Act; second, that the Government realizes employers' contributions will not be borne by them, but will be passed on indirectly to consumers or workers; and that the collection of contributions from employers is a mere expedient. Discussion of whether or not the contribution actually is shifted must be deferred to a later Chapter; but we may ask here whether the Government expects or does not expect that it will be shifted.

The Act definitely prohibits any direct collection of the employer's contribution from his workers. It cannot, however, effectively prevent a lowering of wages or a raising of product prices which would pass the cost of the employer's contribution to the worker, or, in the second instance, the consumer. It seems likely, considering the relative economic strengths of the groups involved, that this will occur -- although proof one way or another, even on the basis of previous experience by other insurance plans, is difficult -- and it is unlikely that the Government was ignorant of this. One employer, giving evidence before the Special Committee of the House of Commons which examined the bill, stated quite frankly,

The manufacturer cannot stand all these taxes; he has to do something with them. They reduce wages or else add it to the price. (8)

The general feeling in the House appeared to be that this would probably occur, but that the Act could do nothing further

(8) Mr. C.E. Johnson, quoting in the House of Commons evidence given by Mr. Norman J. Dawes before the Special Committee. Debates, op. cit., p. 1997.

to prevent it. If the contribution was not likely to prove a real burden on the employer, why was it levied at all? Although this was not admitted -- nor even suggested -- reasons of expediency could be the only excuse. It is a popular foible to blame employers at least partly for the occurrence of unemployment, and to feel that they should bear some part of the cost of its relief.

Working seriously through the Government with this belief, some of the State plans in the United States (Wisconsin is an example) graded contributions from each employer according to the use his employees were forced to make of the fund ("merit rating"). Thus, stabilization of employment was to be encouraged. Such plans have been criticized on the basis of their unfairness, those who have studied the question declaring that the individual employer can do little to influence the incidence of most types of unemployment. And, it is said, contributions of the size required are so small a proportion of production costs that they furnish little incentive to stabilization, even so far as it is possible. Further, if it be granted that the contribution might be shifted, it could then provide no stabilization^{incentive} for the employer.

Exaction of contributions from the employer cannot increase employment; it may even discourage employment by lowering the marginal productivity of labour. In any case, the individual employer is not to be held responsible for most unemployment. How very sensible, then, is the Canadian method of collecting from the employer contributions which the Government realizes will be

shifted, thus satisfying the public's demand for some employer-compensation for unemployment, without laying any burden on industry. Who can suggest a way to avoid laying a slight extra burden on the worker, or the consumer? Who cares*?

Last to be considered is the worker's contribution. This analysis, at least, is straightforward enough. The reasons why contributions must be exacted from the insured have been considered, and there is no ambiguity in the Act, no weaker economic group, permitting the worker to shift his contribution. The worker is classified into a certain wage group, his contribution is set, and except possibly in a few cases when there is evasion, that amount at least is exacted from him and placed to the credit of the Insurance Fund. His further support of the Fund may be indirectly compelled by shifting of the employer's contribution to him, but it is certain that he pays at least this much.

2. THE TYPES OF UNEMPLOYMENT AIDED BY THE PLAN.

We have classified unemployment in four main groups: technological, cyclical, frictional and seasonal. We must determine which of these types the Canadian Act intends to aid; and this brings first the question: what are the reasons for excluding certain persons from coverage by the Act?

First, those earning over two thousand dollars each year are excepted. The obvious conclusion is that the Act intends to aid only those whose income is so low that they may be presumed unable to provide for themselves funds against unemployment.

* This whole question is re-opened in Chapter VII.

We may say that the Act intends to insure against unemployment only those persons generally covered by the term "workers" -- Marx's phrase was "wage-slaves" -- whose earnings are enough to provide for subsistence but not enough to leave a margin for savings.

Second, persons employed in occupations where the rate of incidence of unemployment cannot be accurately estimated or determined, are excluded to protect the actuarial basis of the Act. This was apparantly one of the chief reasons for excluding persons engaged in agriculture from coverage.

Third, and one of the more important administrative difficulties causing exclusion of certain workers, is the fact that in some industries conditions of employment are so indefinite and employers so irresponsible that collection of contributions is difficult and costly. Mr. McLarty gave this as one reason why persons employed in lumbering and logging industries were excluded in Canada. Where lumbering is covered in Oregon, he said, "the administrative costs in that state are 38 per cent higher than the average costs throughout the United States."⁽⁹⁾ Mr. McLarty stated that domestic servants were excluded for the same reason. It is also the reason for exclusion of workers employed by employers who hire less than a ^{certain} minimum number of men, in many State Acts, but there is no such general provision in the Canadian Act.

Fourth, and another administrative difficulty, is the fact that in many occupations the occurrence of involuntary unemployment is difficult of proof. Many of these occupations are the

(9): Debates, op. cit., p. 2050.

same as those excluded for one or both of the reasons given just above; in agriculture and lumbering, for example, involuntary unemployment would be difficult to prove or disprove.

Fifth, a few occupations are excluded because involuntary unemployment is unlikely to occur in these employments. A person employed in the Canadian Civil Service, for instance, is never discharged except for cause. Coverage by the plan would be of no benefit to him, and hence is not extended to him.

Sixth may be mentioned a reason for exclusion stated several times by Mr. McLarty. Employment which cannot be secured through the Exchanges cannot be insured:

Certain industries do not lend themselves to the application of the employment office system. Take for instance the case of school teachers. If a teacher is seeking employment, naturally he or she would not go to an employment office, but to the secretary of a board of education or some other employment agency of that board. (10)

If these are the more important reasons for exclusion of certain classes of workers, can we conclude that any specific types of unemployment are excluded from the scheme? It is true that because of the nature of unemployment insurance, the plan cannot aid any person who is unemployed for a protracted period of time; but whether his unemployment results from technological, cyclical, or frictional causes, he will receive the total amount of benefits to which he is entitled. Indeed, we might well claim that the Act is clearly intended to assist technological unemployment, because of its provisions for the rehabilitation

(10): Debates, op. cit., p. 1988.

of workers; that it aims at assisting cyclical unemployment, because of the attempts to ensure that it will be financially sound throughout the entire cycle; and that it is designed to aid and minimize frictional unemployment, because of the close association of employment exchanges with the scheme.

But do the provisions of the Act specifically, or in effect, bar seasonal workers from insuring under the scheme? If so, in what manner, and for what reasons? It is clear that the requirement of 180 days' contributions in the past two years as a condition for the receipt of benefit will not exclude seasonal workers. Turning to the list of excepted occupations contained in the First Schedule to the Act, we find there some employments which are clearly seasonal, but for the most part they are excluded for one of the reasons, one of the administrative difficulties, given above. It may be that, in some cases, the consideration that inclusion of certain seasonal occupations would upset the actuarial basis of the plan, influenced the decision to exclude them; but this, if true, was passed over lightly. The members of the opposition in the House, especially those representing British Columbia -- in which province lumbering and shipping are important industries -- urged strongly that forest workers and stevedores should not be excluded merely on the grounds that they were seasonal workers. Though Mr. McLarty was careful not to deny that these classes were excluded specifically because their employment was seasonal, he at no time admitted this, and several times suggested other reasons for their exclusion. However Mr. Roebuck stated frankly,

The reason why these particular men were not included is that they are seasonal workers -- very much so. It was felt . . . that were they included the bill would be greatly complicated . . . (11)

That is, certain occupations -- notably lumbering and stevedoring -- were excluded because of their seasonal nature; not because their inclusion would ruin the actuarial basis of the Act, but because it would "complicate" calculation of this actuarial basis. ~~E~~

Except for the employments specifically ~~ex~~cepted, there seems no provision in the Act which will prevent seasonal workers from being insured if they so desire. Section 16 of the Act provides that "where any person proves to the satisfaction of the Commission that he is . . . employed in an occupation which is seasonal and which does not ordinarily extend over more than twenty weeks in one year . . . the Commission shall grant him a certificate exempting him from liability to contribute under this Act . ." but there is no compulsion for any worker to apply for such a certificate. It is true that there is another section in the Act allowing the Commission to modify the benefit rights of either casual, seasonal, or piece-workers, but this is evidently designed to avoid injustice to steadier workers, and it is not clear how much use will be made of it. The section reads,

42.(1) Where it appears to the Commission that the application of the provisions of this Act in the determination of benefits for classes of persons,--

- (a) who habitually work for less than a full working week,
- (b) whose normal employment is for portions of the year, but

only in occupations which are seasonal, or

- (c) who by custom of their occupation, trade or industry or pursuant to their agreement with an employer are paid, in whole or in part, by the piece or on a basis other than that of time,

would result in anomalies having regard for the benefits of other classes of insured persons, the Commission may make regulations which shall, in relation to the said classes of persons impose such additional conditions and terms with respect to contributions and the payment thereof and with respect to the receipt of benefit and such restrictions on the amount and period of benefit and on the number of days of any period of unemployment to be excluded from the benefit period, and make such modifications in the provisions of this Act relating to the determination of claims for benefit as may appear necessary or substantially remove the anomalies.

This part of the Act was evidently written by a barrister. It seems impossible to predict how this section will be applied; and it will have to be judged in the light of its application. What seems clear is that the framers of the Act were not anxious to have its funds dissipated by benefit payments to the seasonally unemployed. This is, we feel, sufficiently evident to be named as one of the aims of the Act.

3. THE BALANCE BETWEEN INDIVIDUAL JUSTICE AND COMMON WELFARE

Introducing the topic of injustice caused by any social insurance measure*, we divided such injustice into two classes -- subjective, and objective. Once the decision to introduce a given scheme of compulsory insurance is made, a certain amount of subjective or psychic injustice to the individual is inevitable. It is limited only by the extent of the scheme -- the

* above, page 47.

number of persons covered -- and it is impossible to control or eliminate, given the sole condition that the scheme is compulsory. The common welfare provided by such a scheme must be the excuse for its compulsory nature; and if this welfare be desired, subjective injustice to individuals must be accepted as necessary in order to benefit the community.

But it is with the second type -- objective injustice -- that we are more concerned. It also is to some degree necessary if we are to put into operation a compulsory insurance plan, and thus it too must be excused on the ground that the plan will benefit the community. It has this difference from subjective injustice: the amount of individual sacrifice to be demanded from less ^{favoured} ~~fortunate~~ members of the community can be set, within certain limits, by the provisions of the plan -- by the relative emphasis it lays upon common welfare and upon individual justice. It is with the exact balance between these two ideals struck by the Canadian Act that we are concerned.

As we said when discussing this "balance" for the first time, objective injustice may arise from two causes. In a compulsory scheme of unemployment insurance covering many industries, the risk of unemployment as between different specific industries may vary. Unless especial care is exercised in the setting of premiums, employees in stable industries are penalized to the advantage of those in more ^{un-}stable industries, where ^{un-}employment is more widespread. Again, the worker's risk of unemployment is partially dependent upon personal factors -- his efficiency, to cite but one -- and if a time comes when men must be

discharged, those with less desirable personal characteristics are the first to be dismissed. Then, if both efficient and inefficient workers pay the same contribution, the efficient worker is being penalized to the benefit of the inefficient man, who is the one most likely to call upon the fund for aid.

The fact that the Canadian fund has set a flat rate of contribution for all workers within given wage groups, no matter what industry employs them, and no matter what their previous record of employment (which might aid in determining efficiency) is to a great degree symbolic. The balance between individual justice and common welfare is struck at a point decidedly favouring the latter ideal.

While discriminating between industries in the matter of ~~the~~ the rate of contribution (by exacting equal contributions for varying risks) is to some extent an injustice to the individual, it is even more an injustice to the industry penalized. It appears to be the intention of the Government to let this injustice stand uncompensated, in the interests of more effective working of the plan. The case of the chartered banks of Canada is relevant.

The chartered banks employ their workers upon a lifetime basis; they have a satisfactory pension scheme to care for employees discharged because of old age. Beyond this, it is no exaggeration to say that no permanent employee of a chartered bank has ever been discharged except for cause -- untrustworthiness or gross inefficiency are almost the only reasons for dismissal. The risk of involuntary unemployment which is not the

fault of the worker is almost negligible in this occupation. There seems no reason why the banks' permanent employees should not have been excluded from coverage under the plan, or at very least given a very low rate of contribution. The banks themselves submitted briefs to the Government, and made every effort to have their employees declared belonging to an excepted occupation. But no; common welfare was considered desirable even at cost of what must be admitted a flagrant disregard for individual justice. These workers were included in the Act on the same terms as those in other industries. Mr. Hanson, speaking in the House, could "see no reason for this injustice", but talked himself into a position where he had to admit the logical reason:

I suppose the theory upon which they (i.e., employees of the chartered banks) are included is this. It is contended that as wage earners or salaried people they should contribute to the safety and the upbuilding of the standards of living of their less fortunate fellows. (12)

This indeed seems to be the only ground upon which such a procedure can be excused. Mr. Hanson goes on:

Looking at the whole picture, and having regard to the desire to secure and maintain fair and humane conditions of living for a large class of our people, those who are more favoured will have to make some sacrifice for those less favoured. (12)

We make no judgement here^{*} upon the correctness of this attitude, but it seems fair to quote it as the opinion of the framers of the Act. Though these words are spoken by the leader

(12): Debates, op. cit., p. 1771

* though the matter is considered again in Chapter VII.

of the opposition, the thought contained in them was not denied by the government, nor did Mr. McLarty give any other reason for the inclusion of banks under the scheme. But before we draw any definite conclusions we must attempt a deduction of the Government's policy as regards efficient and inefficient workers.

The relation of the rate and duration of benefits to the rate and length of contribution; the relation between contributions and wages; the extent to which savings rather than insurance principles are involved in the plan; will aid us here.

To the extent that actuarial considerations force a savings nature upon the Canadian plan, it becomes a measure in which some relation between individual contributions and individual returns must be preserved. We have seen before that perhaps the primary reason for the addition of a savings nature to unemployment insurance was the need for an accumulated fund to carry workers through the depression phase of the cycle. But once savings principles are introduced, they must be fulfilled in ways which consider the individual and the right to receive he has built up by previous contributions. In contrast to the British Act, the Canadian scheme follows this principle to its logical conclusion. Benefits under Canada's plan are a constant multiple of the contribution rate; in Britain, the ratio of benefit rate to contribution rate is not a constant. The British worker proving himself eligible for benefit automatically becomes entitled to a certain minimum period of benefit; but in Canada the ratio rule applies and benefit duration is calculated solely on the basis of previous contributions minus previous

benefits.

This implies a concern, over and above that made necessary by actuarial calculations, for achieving individual justice. In other words the savings principle, introduced to ensure financial soundness, has been extended until it is almost equal to an admission by the government that insured persons are entitled to receive from the fund benefits in some proportion to the mon-
eys he had contributed. In no other unemployment insurance plan of which we have knowledge are benefit rate and length of benefit period so inflexibly related to contribution rate and length of contribution period.

Is this policy carried to its logical conclusion? It is not. The outstanding injustice still remaining is this: the steady, efficient worker who, by reason of his efficiency or the occupation he chooses, remains steadily employed for the whole period of his working life, and is finally discharged in his old age as being no longer fit for work, receives absolutely no return from his contributions to the plan. Is he not being penalized far beyond the intention of the Act? True, he has for many years been insured against involuntary unemployment -- but that risk is one which, by all pragmatic tests, he has proved non-existent in his individual case.

For reasons of justice, and for other practical reasons, we shall have some very definite recommendations to make upon this point*. But those recommendations would be largely invalidated

* Chapter VII

if we were unable to prove here that this was an injustice not intended by the Act. To recapitulate, the proof is this:

We have indicated that the Canadian Act is based upon three principles -- those of compensation, insurance, and saving. In the case we have postulated, compensation was not required while the worker was at his job -- he was never unemployed, and there is no reason for insisting that he should be entitled to receive money paid by his employer or employers to the insurance fund in respect of him. But if the employer is held responsible, to some degree, for compensation to a worker discharged without cause, may not that compensation be even more justly payable to a man discharged because the period of his usefulness is over?

In regard to the worker's own contributions, compulsory under the provisions of the plan, he has received no return attributable to the insurance nature of the scheme. Is he then entitled to receive some return from the plan due to its savings character? Superficially, no; but the question hinges on the extent to which savings principles pervade the plan. We have tried to show that they extend beyond the point made necessary by actuarial considerations. If it is desired that savings should act as a compensating measure of individual justice within the plan, making up for some of the injustices brought about by it, then our worker has been unjustly treated.

It is safe, then, to cite this as ~~an~~ one of the reasons why accumulated, unused benefits under the plan should be returned to the worker at the end of his working life.

CHAPTER V: HOW FAR, AND HOW EFFICIENTLY WILL THE AIMS
OF CANADIAN UNEMPLOYMENT INSURANCE BE CARRIED OUT?

A. The Distinction from Relief.

We have seen that it is essential to unemployment insurance and a stated aim of the Canadian plan that the scheme shall remain fundamentally different from relief. We must ask three questions to determine how well this aim will be fulfilled:

1. Under the present provisions of the scheme, is its difference from relief all that is desired?
2. What ^{new} provisions could confuse the scheme with relief?
3. What likelihood is there of such changes occurring?

1. Under the present provisions of the scheme, the criterion of right is the sole criterion for benefit. We have noted this at several points in our discussion of the nature of the scheme. This is the fundamental -- though not the only -- provision separating insurance from relief, which is awarded on the basis of need alone. In other respects, too, the Act fulfills its aim of leaving to its own sphere the needed expedient of relief. The insurance plan, for instance, does not attempt to assist all unemployment; it is subsidized by the state only to a limited extent, and according to definitely set and predetermined regulations. The period and rate of benefit are predetermined; the

scheme has been designed on an actuarial basis. There seems no reason to fear that under the present set-up of the scheme, the powers of the Unemployment Insurance Commission or the duties of the Advisory Committee will result in any ^{change} of these characteristics of the scheme; and if they remained unchanged, no confusion of insurance with relief, to the destruction of the true nature of the insurance plan, need be feared.

2. Our only fear is that some change made in the provisions of the Act, by Parliament -- the body having ultimate authority over it -- will alter its insurance nature and permit unsound practices. That this is a very justified fear may be shown by the experience of Great Britain.

Under the British scheme the requirement for benefit (in so far as contributions were concerned) was that the insured should have paid 180 days' contributions in the last two years. This was the original requirement, and is the one effective to-day in the reconstituted plan. But at the height of the depression, those requirements were amended. "Transitional" payments were instituted; persons who had exhausted their benefit rights, or who were not entitled to benefits when they became unemployed, could receive payments provided they fulfilled other simpler qualifications. They need only have paid 48 days' contributions in the previous two years, or 180 days' contributions at any time in the past. These benefits were paid out of the Unemployment Insurance Fund, and of course ruined the soundness of its actuarial basis. The Fund accumulated huge debts which became a charge on the public exchequer. The scheme became an unstable mixture of insurance and relief: "The payments were .

. . . held to be discretionary payments, which, unlike covenanted benefit, could not be claimed as a right.⁽¹⁾" That is to say, its insurance nature was abandoned to a marked degree.

3. Could such a thing occur here? Why was the British scheme over-expanded? There were many reasons against such a move:

The Government of 1920-21 had to decide whether . . . to adapt and greatly expand the benefits of the newly launched Unemployment Insurance Scheme. To . . . (this) course there was the important objection that it would disrupt the whole actuarial basis of the scheme. Not only had the contributions and benefits been carefully related to one another, but they were in the nature of a contractual obligation into which the Government had entered as the price of imposing a compulsory scheme upon industry. To manipulate the benefits for its own convenience in an emergency, and to use the funds for the relief of non-contributors, might look like breaking faith with the contributors. Indeed the whole principle of contributory insurance might be put in jeopardy. (2)

There can be no doubt then that a government would not willingly make such a move; some consideration of political expediency must have forced it. This consideration was the presence of a large body of unemployed, who had exhausted or were not entitled to benefits, and who were rapidly becoming destitute because there was no satisfactory scheme of unemployment relief, either separate from or in conjunction with the insurance scheme. The national government was the only body financially able to cope with this problem; the insurance scheme was the only instrument through which it could act.

For these pressing reasons the unemployment insurance plan was wrecked; Britain's unemployed were after this cared for by

(1): Davison, Ronald C., The Unemployed, p. 105.

(2): idem., pp. 102-03.

what became known as "the dole" -- a corrupted, bastard relief-insurance system which killed initiative and produced the pernicious evil of unemployability among its beneficiaries. For, in practise, it became possible to obtain benefit without the fulfillment of any conditions. Granted, some method of relieving these unfortunates was vitally necessary. The pity was that the post-war depression in Britain brought unemployment of an extent undreamed of by the government; no proper measures were in operation, or even mapped out ready for application. The corruption of the insurance scheme was the only possible solution. For want of foresight, unemployment insurance generally was saddled with a reputation which it has not yet lived down. As for the British plan, it was entirely ruined and in later years had to be completely reconstituted.

With such an example before us, is it possible that we in Canada are likely to make the same mistakes? Unemployment insurance may, we have seen, be corrupted into a type of relief through political pressure; and this pressure may most often be encountered when there is immediate necessity for aiding a large body of unemployed, and no suitable national mechanism to work through save the unemployment insurance scheme.

Such a situation as this might easily be encountered in Canada -- say while our economy is in the depths of some future depression. ~~and~~ Because we have not, and are not likely to have, a national scheme of unemployment relief, we are subject to the very same danger which proved so disastrous in Britain. True, we in Canada have had extensive experience with relief partly sub-

sidized by the Dominion Government; but the difficulty outlined above must surely have been one of those foreseen by the Commission on Dominion-Provincial Relations, when it recommended that a national system of unemployment relief be set up in conjunction with the Unemployment Insurance plan.^x

Drastic measures are required to remedy this danger; increased independence of the administrative body controlling the insurance scheme, even perhaps elimination of government contributions to the fund, have been suggested:

A body of informed opinion in Great Britain holds that in some measure the system has suffered from governmental participation in contributions in that it facilitates sacrifice of the actuarial basis under social pressure by governmental influence in the direction of practically unlimited duration of benefit and inclusion of noninsurables. . . .

. . . each scheme was carefully buttressed by safeguards against expenditure in excess of what the contributions would bear, and . . . at every period of stress . . . those safeguards have, one by one, been abrogated . . . it is for the commission to decide whether any permanent scheme of an insurance character can be devised with the hope that it can be maintained unless there is something in its constitution that will protect it from these inroads in periods of economic stress.^{xx}

We cannot see our way clear to recommend that the Government cease its subsidization of the scheme; nor is Parliament likely, in the absence of such cessation of support, to relinquish any of its control over the plan. Another solution must be sought.

The most practical solution, perhaps, is that offered by

^x Report of the Royal Commission on Dominion-Provincial Relations, Volume II, p. 38.
^{xx} Stewart, Bryce M., "Some Phases of European Unemployment Insurance Experience"; Proc. Acad. Polit. Sci., XIV (1932) p. 493.

German experience; there, when it was seen that there might be a large body of unemployed, unentitled to benefit under the Insurance scheme, and in danger of becoming destitute, a plan more satisfactory than Britain's was conceived. A system of "transitional" or "extended" benefits was added to the scheme. But it was made clear that these benefits were to be granted in case of actual need only, and their expense was borne not by the insurance fund, but directly by the government.

Germany . . . vested administration (of her Act) in an autonomous body . . . managed by equal numbers of representatives of employers and employees. The serious unemployment encountered by the scheme forced large distribution of emergency unemployment allowances entirely from government funds.^x

In effect, a relief plan was in this way set up in conjunction with the insurance -- without injuring the soundness of the insurance -- and the vast majority of unemployed workers were assured of means of subsistence regardless of the state of their "right" to benefit. This may have had the same sociologically bad effects as the "dole" in Britain; but we are forced to admit that some system of relief payments is necessary in time of depression, and this scheme fulfilled that need while preserving intact the actuarial soundness of unemployment insurance. It seems that plans should be made for the setting up of a similar scheme in Canada, should it be necessary at some future time. Otherwise, the sad experience of the British scheme may be repeated here.

^x Stewart, Bryce M., op. cit.; underlining mine.

B. The Risk Covered.

The Canadian Act provides benefits for involuntary unemployment of those insured workers who continue able and willing to work. How effective are the provisions of the Act limiting its coverage to that one risk only? There can be little question that they are sufficiently effective -- except in respect to one small detail. The Act leaves a loophole through which it is inconceivable that voluntary unemployment might be compensated. We have seen that it is essential that the risk covered ^{by insurance} be beyond individual control; otherwise, many abuses may result. On this one score we would argue with the provisions of the Act as it now stands:

A person discharged for cause, or quitting his occupation without just cause, is under the scheme disqualified from receipt of benefits for a period "not exceeding six weeks." This seems both foolish and unjust. A man who has burned down his own house does not receive insurance for this loss, merely by waiting for a certain period of time as punishment for burning the house -- he is more likely to be prosecuted for fraud or arson. A man who voluntarily quits his position, without good cause, should not be treated differently.

Admittedly, the two cases are not strictly analagous. A case may be made out for this provision on the grounds of the difficulty of achieving a just decision as to whether discharge was "due to misconduct" or not, or whether or not the man quit his job "for good cause." This reason was sufficient to make

most other unemployment insurance plans draft a provision similar to the Canadian one. But our law courts find it possible to arrive at definite decisions in regard to any case presented to them. Can we not expect the Courts of Referees set up by the Unemployment Insurance Act to arrive at judgements final enough to permit the setting up of more just penalties?

The far-reaching evil effects of permitting men to receive benefits after they are discharged for misconduct, or quit their work, are easily imagined. One of these results is suggested by the following quotation:

Harrisburg, Pa.: Dorothy Parker, her husband, Alan Parker, and S. J. Perelman, all film writers and playwrights in the \$1000 - \$3000-a-week bracket, and members of the Bucks County, Pennsylvania, literary and art colony, claim California unemployment insurance benefits when not working. California pays a maximum of eighteen dollars a week for twenty-six weeks and does not require that the beneficiary be a resident. A writer living in Pennsylvania *applies to* ~~the~~ unemployment-compensation bureau, which transmits the claim to Sacramento. Investigation in Hollywood discloses that it is common for stars and the highest-paid writers to drive up in their limousines to claim their eighteen dollars weekly between contracts. Their point of view is that the money is theirs, paid to the state out of their earnings under compulsion, and why shouldn't they collect between jobs. (4)

There are several things wrong with a scheme that permits such an abuse; for several reasons, such a case could not arise under the Canadian Act. However the moral pointed is clear: the beneficiaries in this case were merely "resting" between jobs; they were doing this of their own free will. In any similar situation under the Canadian Act, the insured could obtain benefits after waiting six weeks -- if the employment exchange had

(4): "We See by the Papers," in The Saturday Evening Post for March 21, 1942.

not found a position for him in the meantime. The exchange is our only protection against such abuses of the Act as the above, an abuse which, with this alone to check it -- for the exchanges are not infallible -- may seriously affect the insurance scheme's effect on the worker's willingness to work. The lazy employee, if he knows that his unemployment benefits are ultimately payable no matter what the cause of his discharge, no matter why he quits his job, will be less likely to try to please his employer by working willingly and efficiently, less likely to stick to a job and try to succeed at it.

Aside from this one criticism, however, it is our judgment that, in the absence of any amendments to the Act, it will cover exactly that risk it is intended to cover. The employment exchanges ensure that the worker is involuntarily unemployed and test his willingness to work, by finding employment for him whenever this is possible; and his reporting in person at the exchange to claim benefit will in all ordinary circumstances prove his fitness for work.

C. The Soundness of the Actuarial Basis.

We must discover first of all whether we can consider the Act actuarially sound as it exists; we must consider the likelihood toward less or toward greater soundness caused by changes in the measure; we may also profitably ask whether the scheme as it exists at present will tend to accumulate an unnecessarily large reserve.

Statements made by Mr. McLarty in Parliament, in discussing

the actuarial calculations on which the Act was based, have been quoted*. Apparantly the fundamental assumption was that the rate of unemployment the scheme would encounter, over a period of years, would be 15 per cent. The percentage of unemployed in the classes covered, in the eleven years from 1921 to 1931, was calculated to be 12 per cent. "The average number of benefit days for insured persons," said Mr. McLarty, "as computed on the basis of 12 per cent, was increased by 30 per cent with a view in part to making provision for higher unemployment than that shown by the period of 1921 to 1931. In addition a number of other changes were made with a view to comptuing rates which might reasonably be sufficient." To put this in other words, the number of days of benefit to be paid out of the fund, assuming the rate of unemployment would be 12 per cent, was calculated. This figure was increased by 30 per cent, and the figure thus obtained was used as the determinant of contribution rates, assuming that it would represent the maximum possible demand on the fund. Before we can make any judgement as to the soundness of this -- for instance as being representative of unemployment incidence throughout a full trade cycle -- we must inquire into the calculations which led to these conclusions, and into the reliability in general of Canadian unemployment statistics.

Unfortunately, we immediately run into difficulties here. The three documents which would allow us to make a sound judgement on this matter, by our own standards -- the Minutes of the Special Committee of the House of Commons which considered the Unemployment Insurance Bill before its third reading, containing Mr. Wolfenden's actuarial judgement of the scheme; the Reports

*above, p.99.

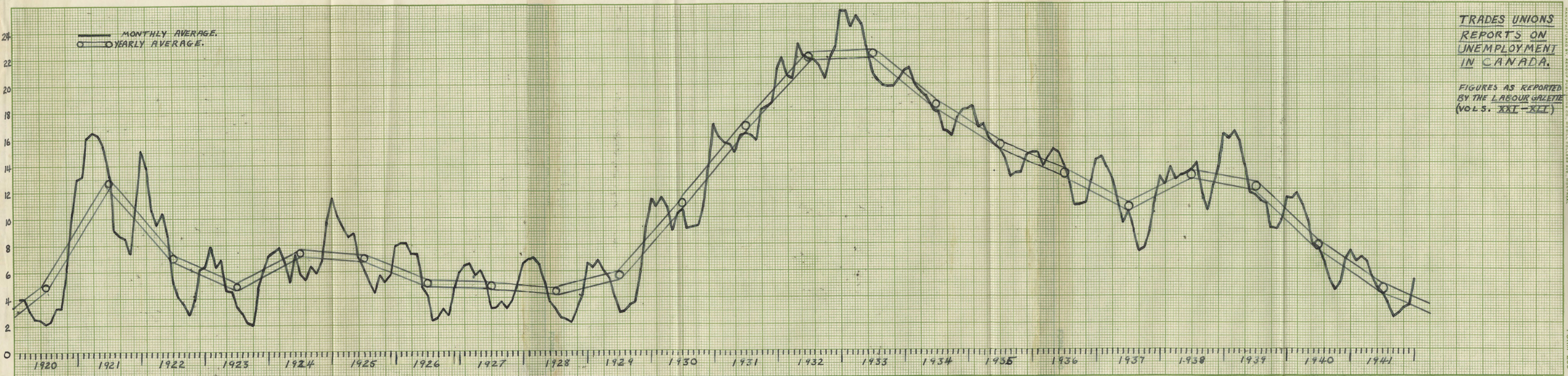
of Mr. Watson, Chief Actuary of the Department of Insurance, on the basis of which contributions for both the ill-fated 1935 Act, and the present Act, were set -- have never been published. Unable to consult them, we turn to other sources of statistics of unemployment in Canada.

The only official statistics, those evidently used by the Dominion Bureau of Statistics as an index of unemployment in Canada, are Reports from Trades Unions of unemployment within the unions. Any conclusions we may reach on the basis of these figures are strictly limited by several factors. In the first place, the trades unions members make up only a small percentage of all persons insured under the scheme. In the second place, the figures refer to all types of unemployment within the unions -- including, for instance, unemployment due to strikes, for ^{which} ~~which~~ benefits are not paid -- and to all unemployment, without reference to its duration. It is only fair to admit that a large number of the unemployed at the height of the depression -- 1932 -- would be persons who had exhausted their benefits. Be that as it may, the figures show a trend, and we may make some tentative observations based on them.

On the following page appears a graph showing the percentage of trades union members (of the reporting unions) unemployed, computed both as a monthly and as a yearly average, between the years 1920 and 1941. Of this period, it is interesting to note that the figures show

Average unemployment in the period 1921-1931: 7.9%

Average unemployment in the period 1931 - 1939: 14.6%



The rate of unemployment in 1931-1939 (a period purposely chosen to end before the employment boom caused by the war) is almost double the rate for 1921-1931. How sound, then, is Mr. Watson's conclusion that he must increase by only 30 per cent the figure of 12 per cent he computed for this earlier period?

We are hampered by lack of information in making any definite criticisms; but it seems as though the actuarial basis of the 1940 Act was merely a rehash of the basis computed for the earlier (1935) measure.* In the light of the experiences of post-1931 years -- the crash following the boom; the recovery; the recession -- this seems a lazy and foolhardy procedure. The Act, as we have seen, assists cyclically-caused unemployment to a considerable extent. Figures computed on the basis of 1921-1931 experience do not cover the full cycle as it has been revealed in subsequent years. A study of the yearly averages of unemployment (the yearly average to some extent smooths out seasonal fluctuations) suggests that a complete cycle for the type of unemployment recorded in our graph would extend from, say, 1925 to 1937 -- when its progress was interrupted by the "recession." Surely a new actuarial basis, calculated from unemployment figures for these years, would have put the measure on a safer basis. But this was not done; in our ignorance, we have probably neglected perfectly good reasons why there was no necessity for

* see Mr. McLarty's explanation in the House of Commons, quoted on page 99. Mr. Watson's 1940 report was apparently a revised version of his 1935 report.

doing so. And further criticisms are impossible without further specific data.

To recapitulate, the basis is this: contributions were calculated on the assumption that the average rate of unemployment would be 12 per cent. In the 1940 Act these contributions were increased by 30 per cent, and other safeguards were added. We may perhaps assume that the Act expects to encounter an average unemployment rate -- among the insured -- of 15 per cent.* Whether this average will prove too low, necessitating changes in the Act to prevent its becoming insolvent, or too high, enforcing changes to prevent accumulation of unwanted reserves, is a matter for speculation. Mr. Wolfenden doubts that the Act is "actuarially determinate" and even Mr. Watson, who is responsible for its actuarial basis, cannot guarantee that it is financially impregnable. We quote a report of certain evidence given before the Special Committee of the House of Commons which considered the Bill:(5)

Mr. H. H. Wolfenden, Toronto actuary . . . expressed his views on the actuarial aspect . . . as follows:

It is my conviction that the scheme set out in Bill 98 is, at the present time, "actuarially indeterminate." My reason for that opinion is this: Actuarial soundness requires the actuary to be able to formulate his methods of calculation "with reasonable certainty, and with adequate (though not, of course, excessive) margins of safety." In this case -- in the year 1940, in respect of any estimate of future unemployment -- it is, it seems to me, wholly impossible to formulate methods of

* see also page 141 below.

(5): reported in the Labour Gazette, XL (1940), p. 800.

calculation "with reasonable certainty, with adequate margins of safety." It is quite impossible to assume with reasonable certainty what the basic rate of unemployment, on which all the calculations must be based, is likely to be.

He stated that if the unemployment rate in 1943 and 1944 rose to 25 per cent and 35 per cent, respectively, the fund would become insolvent unless the Advisory Committee made a drastic re-adjustments. In answer to a question by Mr. Roebuck, Mr. Wolfenden explained that his inability to describe any unemployment insurance scheme as actuarially sound was because of the outbreak of the war . . . In answer to Mr. Pottier, the witness agreed that unemployment might possibly drop after the war as the result of industrial development . . .

Mr. A. D. Watson, Chief Actuary of the Department of Insurance, explained that the technical parts of his report had not been forwarded to Mr. Wolfenden. Mr. Watson believed he had allowed for a reasonable margin of safety and added:--

You cannot put in a statute now that will make people wise five or ten years from now. You have to assume, legislatively, that people will be sensible five or ten years from now and do the wise thing. I am sure that those aspects of the bill are adequate; we cannot say what people will do in the future, but they are legislatively adequate to give all the necessary protection and safeguards.

We can arrive at no definite decision as to the actuarial soundness of the scheme, then -- we cannot guess whether it will accumulate too large or too small a reserve -- if two experts, in possession of far more information and learning, cannot agree upon its soundness. But is this a vital matter?

Both actuaries agree that the scheme's actuarial basis cannot be determined, from the first, for once and all; this, in view of the many unpredictable factors determining extent of unemployment, is logical. The strength or weakness of the scheme

must therefore lie in the measures contained in it, ensuring that needed changes will be made and that unwise amendments will not occur. We have discussed how under ^{certain} circumstances, extreme political pressure may be brought to bear to ruin the actuarial basis of the plan, in order to assist destitute unemployed persons. We have concluded that this can only be avoided by the institution of some national measure of unemployment relief -- either as an independent scheme, or in conjunction with the insurance plan and disguised as part of it. Other factors -- pressure from employers to be exempted from coverage by the Act, or to have their contributions reduced; undue optimism in Government circles at the existence of a considerable reserve, perhaps built up in a boom period which would be the prelude to deep depression; pressure by special groups to have occupations which were, for one reason or another, uninsurable, included in the scheme -- any of these factors and others, it must be realized, could induce changes which would destroy the Act's financial soundness.

But we have adequate protection against anything of this sort occurring, in the existence of the Advisory Committee. It is presumed that this board will include at least one actuarial expert, and that its opinions and recommendations regarding the financial condition of the fund will be sound. And it seems logical to believe that, in the absence of very strong political pressure, Parliament will follow the Committee's suggestions, recognizing the authority with which they are made.

We may ask whether the Fund is sound enough at the present moment so that no shock early in its career could destroy its sol-

vency. It is Mr. Wolfenden's contention that it is not; Mr. Watson naturally defends his child. Watson claims Wolfenden's criticisms were made without an adequate knowledge of the safeguards used to ensure correct calculation. But even if Wolfenden erred on the side of pessimism, he felt that an unemployed percentage of 25 per cent in 1943, and 35 per cent in 1944, would be required to force the Fund into bankruptcy. It does not seem possible that this can occur. The war shows no sign of ending in 1943 or 1944, unless by a defeat of the United Nations -- in which case the Unemployment Insurance Act, together with many other statutes, would cease to be operative. And if the war continues, unemployment will decrease rather than increase. Even should the war ~~should~~ ^{in victory} end soon, the necessity of policing conquered countries will prevent demobilization of armies, and resultant flooding of the labour market, for some years; and in the field of industry, we may expect a repetition of 1918 conditions when, as Mr. Watson pointed out, "for eighteen months after the conclusion of the war . . . employment conditions were good."⁽⁶⁾ The possibility that the scheme will founder before the Advisory Committee can, from experience, put it on a sounder basis, seems in the light of present conditions unlikely.

To pursue the argument further, it may be seen that the factors which might make for such premature failure have been carefully eliminated. The Commission on Dominion-Provincial Relations, reporting on the State unemployment insurance schemes in the United States, said

Several schemes became bankrupt, or virtually so,

(6): Labour Gazette, XL (1940), p. 800.

before they got into effective operation, because of lack of diversification of industry in the state which made it impossible to spread the risk sufficiently, or because the state's industries were especially vulnerable to depression factors, or because the state took in too many workers in very low income groups or provided for too short periods of employment before benefits were available . . .^x

The first two contingencies are extremely ~~is~~ unlikely to occur with a compulsory national plan. The third objection, in a plan where benefits are always lower than wages, seems ridiculous; but what of the thought that the scheme may quickly founder because it "provides for too short periods of employment before benefits are available"?

OTTAWA, March 26-- (CP)-- Payments under the Unemployment Insurance Act have been made to 549 persons, it was reported in a return tabled in the House of Commons replying to a question by J. G. Diefenbaker . . .^{xx}

This is the answer to our question. The Canadian plan commenced operation on July 1, 1941. Thirty weeks later, or in the middle of January, 1942, benefits became payable to those insured persons who lost their employment and qualified for receipt of them. Yet after two months, only 549 persons have been assisted. And this is out of a total insured population of 2,981,199 persons (to January 1, 1942), with an Insurance Fund ~~having to its~~ having to its credit^{as} of January 1, 1942, a total of \$29,385,-498.54 .^{*}

^x Report of the Royal Commission on Dominion-Provincial Relations, p. 37 (*Vol. I.*)

^{xx} from the Montreal Star for March 27, 1942.

^{*} figures from the Labour Gazette, XLII (1942), p. 198.

Aside from feeling that the rate of unemployment should have been calculated using figures for, say, 1925 to 1937, rather than recalculated from the 1921 - 1931 figures, we are content to leave the question of financial soundness in the hands of the Advisory Committee, reasonably certain that ^{it} ~~they~~ will be able to maintain the solvency of the scheme.

With regard to accumulation of excess reserves, the German Act specifically provided that when the insurance fund reached a certain level contributions should be reduced. This seems rather a lazy substitute for endeavouring to place that scheme on an actuarially sound basis. The contention is borne out by the fact that the German fund never reached a level permitting contributions to be lowered, but on the contrary underestimated the rate of future unemployment so badly that doubling of contribution rates and, finally, borrowing from the Government, were necessary. We are content to leave to the Advisory Committee the further problem of readjusting certain parts of the scheme if and when reserves reach an excessive amount through the rate of unemployment being lower than that calculated.

With regard to determining whether reserves will be excessive, sufficient, or insufficient, should unemployment average out at exactly the calculated rate, ~~we~~ we have made some simple calculations. The "ratio rule" introduced by Section 34 of the Act works out so that every man who has been employed for a given number of weeks, steadily or on the average, over a period of at least five years, is entitled -- in any benefit year -- to receive one-half that number of weeks' benefit. This may

seem hard to believe, considering the Act's ruling that benefits are to extend for one-fifth of the number of days' contributions paid; but Mr. Shangroom of the Department of Labour shows how it is possible:

. . . suppose a man worked thirty weeks during the first year that he was covered by unemployment insurance. He would be entitled at the end of that period, if unemployed and if he fulfilled the other statutory conditions . . . to one-fifth of the period in insurance benefits; that is, six weeks. If he worked thirty weeks in the second year of his coverage and again became unemployed, he would have accumulated sixty weekly contributions, one-fifth of which would be twelve weeks. But from this would be taken one-third of the number of benefits which he had enjoyed in the previous year, that is two weeks. Therefore the period of benefit to which he would be entitled the second year would be ten weeks. If he had the same employment experience of thirty weeks during the third year, the benefit period would run to seventy-six days, and in the fourth year eighty-seven days. If over a period of years he was normally employed for thirty weeks he would be entitled to ~~fifteen~~ weeks benefit; that is, half the time of his employment.

At first glance it looks as if he is entitled to only one-fifth of the time, but actually he relies on employment experience which entitles him to one-half of his employment history in benefit duration; if he worked thirty weeks on the average over a period of years, he would still receive fifteen weeks' benefit, as if he had worked thirty weeks exactly each year. Similarly if a man worked twenty-four weeks either exactly or on the average, he would be entitled to twelve weeks' benefit, if he had built up five years' employment history. (6)

This matter being explained, we may attempt an analysis of the ratio of benefits to contributions, for later use. The maximum rate of benefit (paid if the beneficiary had one or more dependents) is 40 times the rate of contribution. Not all beneficiaries will claim the dependents' allowance; but let us assume that 40 times the rate of the worker's contribution will

(6): evidence before the Special Committee of the House of Commons on the Unemployment Insurance Bill; reported in the Labour Gazette, XL (1940) p.794

be a maximum average demand upon the Fund. However, each person may draw, as a maximum, only half as many benefit payments as he has made contributions. But the average rate of unemployment which the Act is expected to encounter is about 15 per cent:

Mr. Watson, Chief Actuary of the Insurance Department, . . . explained that 30 per cent had been added to the benefit days computed on the distribution of 1921-31 and corresponding deductions had been made from the contributions; thus the rate of unemployment of insured persons would be about 15 per cent . . . (7)

This makes it clear that total maximum demand on the fund, assuming the Actuary's figures substantially correct and a normal distribution of unemployment as between the different wage groups, would be

$$(\frac{40}{2} = 20) \quad 20 \times \frac{15}{100} \times C = 3.00 C$$

where C is the worker's contribution. But the employer's contribution to the fund is, on the average, 14 per cent greater than the worker's; and the Government adds one fifth of the total to the Fund. So the total Fund would be:

$$C + 1.14 C + \frac{2.14}{5} C = 2.57 C$$

and thus the possible total demand on the Fund would be

$$\frac{3.00C}{2.57C} = 116.3\%$$

Actually, since the rate of benefit would not average as much as ~~40~~ times the rate of contribution, this is a very extreme estimate of demand on the Fund. If the actuary's estimate of the per cent unemployed is correct, then -- if it is correct, throughout the cycle, as an average -- the Fund will over a period of years tend to build up ^{no} ~~and~~ excess reserve, and there is a little possibility of its becoming insolvent.

But some of the estimates made in this calculation will probably prove inaccurate -- all insured persons will not draw their maximum amount of benefit; on the other hand the expected rate of unemployment may be exceeded -- and the financial soundness of the plan will be dependent, as we have said, on the working efficiency of the Advisory Committee. This should prove sufficient to maintain solvency, given our one proviso on that matter -- a proviso also stressed by Mr. W. H. Macdonnell when he made a representation on behalf of the Canadian Manufacturers' Association to the Special Committee on the Bill:

The insurance scheme laid down in the bill will only take care of unemployed for a limited length of time. If widespread unemployment should continue for a length of time there would inevitably be a large number of unemployed who would either never become entitled to benefit or would exhaust their right to benefit. In these circumstances, unless a supplementary unemployment assistance scheme, with a means or need test, is set up along with the insurance scheme, there is grave danger that the same thing would happen in Canada as happened in Great Britain prior to 1931, namely, that there would be an irresistible pressure to "let down the bars" and continue to pay unemployment benefit regardless of contribution. (8)

(8): reported in the Labour Gazette, XL (1940), p.797; underlining mine.

D. The Secondary Purposes of the Act.

We have said that while the first aim of unemployment insurance schemes is to aid unemployment, their secondary purposes must always ^{be} to increase productivity, to encourage employment, to avoid any discouragement of employment. Most of the factors concerned in any discussion of how far the Canadian Act will fulfill these, its secondary purposes, are "long-run" factors, and thus are more properly considered in the next Chapter.* But certain features of the Act, particularly the working of the employment exchanges, may have some immediate effect, if not on productivity, then at least upon employment and employment conditions. Let us first consider, then, the working of the employment exchange in conjunction with the Act -- not from the point of view of long-run rigidities or mobilities it will add to the economy, but from the point of view of immediate effects upon employment.

1. THE WORKING OF THE EXCHANGES

The first danger encountered when employment exchanges are intimately associated with insurance schemes is this: the exchanges may recommend to employers men most in need of jobs -- say, those who have been unemployed for some time and have exhausted their insurance benefits -- rather than those most fitted for the position the employer has open. Or if, as in the case of the Canadian exchanges, any citizen -- whether or not insured

* see page 178 below.

under the Act -- is permitted to register with the exchanges for employment, these offices might recommend to employers those persons in receipt of unemployment benefit (or more particularly, those longest in receipt of benefit) in order to remove burdens from the scheme, rather than recommending a more suitable person who is not in receipt of benefit. Again, the exchanges might discriminate between employers, sending the best workers to that employer whose contribution to the Fund was greatest, for instance, rather than placing the worker with the first applicant for him, or where he was most suited.

Should any of these things be done, employers would soon stop applying to the exchanges, and refuse to employ workers recommended to them by the exchanges. And since there is not, and cannot be in this country, any regulation compelling employers to hire men through the exchanges only, these bureaus would become worse than useless. The natural tendency for frictional employment to be increased, due to workers slackening their individual efforts to hunt for jobs while in receipt of unemployment insurance benefits, would assert itself and run unchecked, because the exchanges would be unable to find employment for them. The scheme would be placed in a very precarious financial condition -- though it should not become insolvent -- and unemployment caused by the scheme would be a decided factor to reckon with. It is extremely important, then, that employers have full confidence in the exchanges. Luckily, it appears the intention of the bureaus to promote this. The "employment placement policy of the employment and claims offices" is stated to be as follows:

. . . The Unemployment and Claims Offices of the Unemployment Insurance Commission will:

- (a) endeavour to refer to suitable employment any employable resident of Canada, either male or female, of whatever occupation or calling;
- (b) endeavour to secure suitable applicants to fill any vacancy notified by an employer . . .

In effecting placements, Employment and Claims Offices will endeavour to refer the most competent applicants registered and available for the employment offering, and where several persons of like competence are available for the same employment, a preference shall be given to the person or persons whose application or applications, as the case may be, show the longest period of continuous registration immediately prior to the date of placement; provided, however, that nothing herein contained shall prevent the sending of a number of persons to an employer for selection purposes, nor the sending of a particular person who may be asked for by an employer.

No applicant seeking work will be discriminated in favour of, nor against, by reason:

- (a) of his or her racial origin, religious beliefs, or political affiliation;
- (b) of whether or not he or she was engaged previously in insured employment. (9)

Any discrimination in favour of, or against any employer will be caused only by virtue of the wage he offers, since workers registered with the exchange will be given the opportunity of choosing between jobs offering different rates of pay:

In referring workers to employment, the . . . Offices will advise the applicant of the wage rate offered by the prospective employer . . . (9)

It seems from the above that our fears in regard to the exchanges were groundless. If the Employment Offices hold to the

(9): Employment Placement Policy of the Employment and Claims Offices of the Unemployment Insurance Commission, as reported in the Labour Gazette, XLI (1941), p. 1392.

letter of their instructions, in practise, the trust of the employers in the Offices should become a thing beautiful to behold. The Offices should have little difficulty in obtaining employment for its registrants when there is any employment to be had, and the Unemployment Insurance scheme should not suffer from any unwarranted increase in frictional employment caused by the scheme itself.

British and American writers, in enumerating the difficulties of employment exchanges associated with insurance schemes, which we have put forward above, have often gone so far as to demand that exchanges be made entirely independent of the insurance schemes. The policy adopted by the Canadian Employment Offices, if adhered to, is a refutation of that argument. The Offices achieve sufficient independence from the scheme, yet save wastage of administrative funds, and duplication of staffs, by being combined with the Claims Offices. It is the best of all possible solutions.

2. THE QUESTION OF ADMINISTRATIVE COST

There are other ways in which the insurance plan may have immediate effects on employment. One way is by the expenditure of administrative funds on such things as rehabilitation and training of workers, mass shifting of the unemployed to more prosperous areas, vocational guidance, and publicity directed to both employers and **workers**. The important principle to be recognized is that disproportionate administrative expenses may have a favourable effect in cutting down demands upon the fund,

and a favourable effect upon employment in general. Dr. Richter has some very interesting comments in this connection; originally applied to the field of Workman's Compensation, the principles are no less applicable to unemployment insurance:

In the Workmen's Compensation Acts of most provinces, administrative costs are now usually borne by those employers who support the fund, though originally it was the custom for Governments to bear this expense. What is the reason for this change? Simply, that in compensation act administration, the expression of the administrative costs as a percentage of total costs means nothing; preventive ~~services~~ ~~servises~~ of several types are so important that the higher the percentage of administrative cost to total cost, the lower is the total cost likely to be. Governments, when they paid for administration, were not impressed or influenced by this fact. The result was that false economy was practised and true economy could not be applied.

There is a lesson here when we consider the Canadian Unemployment Insurance Act. In this Act . . . the Government of Canada is the direct bearer of all administrative costs. Who can say that the same situation will not arise? The need for "preventive servises" in minimizing unemployment is no less great ~~for~~ than the need for those services in minimizing industrial accidents. Yet the Government, even though it may realize that larger expenditures will result in fewer demands on the fund, as well as a favourable turn in employment generally, will be forced to consider "economy" -- false economy -- first. (10)

This question might as justifiably have been considered under the heading "Administrative Economy and Efficiency" as at this time; for it should be clear that what seems economy at first sight, in social insurance, may in truth be far from economy.

May these difficulties be avoided without a fundamental change in the Act? Mr. A. A. Heaps, another witness before the

(10): Richter, L., lectures on "Contemporary Economic Problems."

Special Committee, said,

. . . practically the whole of the administration of this bill when it becomes law will be in the hands of representatives of employer and employee, who pay by far the larger proportion of the fund . . . because you have employer and employee sitting in on the administration of this proposed act we are going to get a fairly sound and efficient administration. (11)

Granting for the moment the truth of this statement, will the Commission -- composed, as Mr. Heaps says, of employers and employees -- be permitted to exercise their own judgement in regard to attaining minimum true administrative cost? They will not. The purse-strings of the administrative funds are held by the Government -- as witness the wording of the Act:

11. The costs of administration of this Act, including remuneration of Commissioners, officers, clerks and employees, shall be paid out of moneys provided by parliament.

It is not hard to imagine the rhetorical condemnation which would be leveled from the floor of the House of Commons at any party in power whose appropriation estimates for administration of the Unemployment Insurance Act were what appeared, on the surface, "unduly high". Under the present Act, the Government would have much more interest in short-sighted economy than in reducing demands on the fund, to which it contributed the same amount be demands upon it great or small.

The recommendation we feel compelled to make is a radical one. Yet in helping reduce unemployment, in allowing contributions to the Fund to be eventually reduced much below their present level, it should have profoundly helpful results. It is

(11): A.A. Heaps, quoted in the Labour Gazette, XL (1940), p.793.

this: rather than paying administrative costs directly, the Government should grant to the Unemployment Insurance Fund a proportionately higher sum than it now pays. And in fashion similar to the British Act, the Commission should be empowered to determine, under scrutiny of the Advisory Committee, what proportion of the Fund's reserves shall be applied to preventing rather than assisting unemployment. With the one proviso that sound actuarial standards must be maintained, the Commission should determine the allocation of the Fund as between administrative costs and benefit payments.

Miss Carroll, speaking of the German Unemployment Insurance Act, compared⁽¹²⁾ its administrative costs of 7 per cent favourably with the British costs of up to 12½ per cent of the insurance fund. Only on certain grounds is she justified in calling the German figure "more satisfactory." If the lower percentage was due to greater efficiency of administration, well and good; if it was due to neglect of unemployment-prevention services, her statement betrays a want of understanding. We must struggle against the commonly-held belief that the administrative costs of social insurance measures should be kept as low as possible. This rule, which may be applied to many other government-controlled plans, should not be assumed generally applicable. If the Canadian scheme is to have a favourable effect upon the employment situation, it must be allowed to devote a large portion of its resources to preventive measures. Administrative costs should be paid directly from the insurance fund, for only thus can true

(12): Carroll, M.R., Unemployment Insurance in Germany, p. 87.

economy be achieved. This change would involve no insoluble actuarial difficulties. In our concluding Chapter we go on to determine what actuarial calculations would be required under the plan if so reconstituted, and how the Government's new contribution to the fund might be calculated.

3. OTHER PROVISIONS IN THE ACT, ENCOURAGING EMPLOYMENT.

From the short-run point of view, we may consider that the use of training schemes in conjunction with the Act will do a great deal to decrease unemployment. But as Mr. McLarty has indicated that the plan will ^{not} set up its own training schemes, but will send persons to private or Provincial schemes, the question of administrative cost considered above will be important here. For private (or Provincial) schemes will not generally accept insured workers without some fees being paid on their behalf; and liberal grants for payment of these fees must be made to ensure most effective use of this measure. The same applies to the provisions allowing loans to be made to workers, covering the expenses of their transportation from an impoverished area to one where employment is more plentiful. Under a more liberal set-up, these loans could profitably be transformed to outright gifts; more workers would make use of the provision, and net cost of such gifts would probably be negative. If administrative funds were more plentifully supplied, other measures to encourage employment might doubtless be set up under the Act. To mention but a few: institutions giving vocational guidance or free tech-

nical training to young people reaching an employable age are far too few in Canada; they might be augmented to the benefit of all. Publicity directed to employers and workers, giving invaluable information on the employment situation and prospects for the future, should be freely distributed. Canadian Unemployment insurance has recognized its responsibility as a preventive as well as a "salvage" measure; it is not yet free to discharge that duty to the best of its ability.

E. Efficiency and Economy of Administration.

Does the plan attain the maximum possible administrative efficiency and economy? It is important to answer this question, for such a measure should be content with nothing less than the maximum. And we mean economy, not only in regard to the actual administration of the Act itself, but also in regard to the administrative work it causes other groups -- particularly employers.

First, in regard to efficiency: the questions we must ask are these: does the Act eliminate the possibility of evasion to the maximum extent possible? Are the provisions ensuring that benefit payments will be made justly and carefully, sufficient?

The second question has been answered in the affirmative in another place*. Profiting by the experience of many previous insurance schemes in other countries, the Canadian Act has made full provision to eliminate payment of unearned or excessive benefits,

* above, page 127.

and payment of benefits to persons not qualifying for them in the prescribed manner, or not fulfilling the required conditions.

But what of the first question? Is there evasion of contribution payment by persons who in compliance with the Act should be covered by unemployment insurance?

The German scheme had a much easier path to follow in this matter than had the Canadian. In Germany, compulsory health insurance had been in force for a number of years prior to the introduction of unemployment insurance. The habit of regular contribution to the health insurance plan was firmly established among employers; evasions of the older Act had been discovered and punished; and administration had been amended through experience to ensure fullest possible compliance with the law. Now came the unemployment insurance scheme, covering essentially the same occupations and exacting contributions, as a general rule, from the same employers. The logical step was taken. The health insurance scheme became the collecting agency for unemployment insurance contributions, and evasion was kept at a very low level.

Having no such established administrative structure to work from, Canada had to institute different methods of ensuring the payment of contributions. First, every insurable worker was required to have an unemployment insurance book, which his employer was bound by law to obtain for him. The natural shifting of workers from job to job would show up many evading employers under this system, or could be made to do so if every man receiving an insurance book for the first time was questioned regarding his previous employment history. Again, in cases where the worker

was aware of the real advantages the insurance would bring him, he would be likely to report his employer if the latter failed to comply with the law. Avoidance of evasion through this method may be cited, in passing, as another reason for correctly shaping the worker's attitude toward unemployment insurance.

Also, inspectors are set up under the scheme, with power to make such investigations as the Commission sees fit to apprehend evading employers. Severe penalties are provided for evasion. Under the circumstances, it appears that the Act follows the best procedure possible to attain efficient collection of contributions. The American method of direct forwarding of contributions to the offices of the plan offers more loop-holes for evasion, though it is chiefly condemned on grounds of the difficulty of keeping ~~track~~ track of each worker's contribution. The German method is not applicable. And the convenient system of stamps and books, which has worked out well in Great Britain, affords the most efficient check on the contributions of the individual worker (necessary in determining benefits) and allows the least opening for evasion. It is to be hoped that Canada will some/day have the pleasure of repeating German experience in reverse, building up a Health Insurance scheme on the administrative structure provided by unemployment insurance.

The existence, in Britain, of a "black market" in used unemployment stamps, which were re-sold and placed in insurance books to avoid payment of contributions, may be mentioned. This is a danger which was overcome, once its existence was discovered, in Britain, and there is no reason why it should prove troublesome

in Canada if the Commission rules that all filled or completed books be returned to its offices. They could be retained while needed to establish claims to benefit, and destroyed at the end of five years when they became useless.

Does the Act achieve economy of administrative effort, both for government and for employer? In regard to payment of contributions the employers are treated as generously as possible. Unemployment insurance stamps may be bought at any Post Office, and there is a Post Office in every town where workers covered by the Act are likely to be employed. But if the employer finds that purchasing stamps and affixing them to insurance books is too great a waste of time and effort, he may lease from the Government a metering device which stamps the books automatically; and further, in some cases, permission is given to make payments in bulk directly to the insurance fund. A breakdown of the receipts of the fund from July 1, 1941, to January 1, 1942², shows how many employers have chosen the latter methods:

Receipts from sale of insurance stamps	14,988,079. 77
Payment by Meter Devices	4,241,002. 96
Payment in bulk	5,132,542. 18
Government Contributions	4,866,062. 50
Interest on investments	177,720. 00
Miscellaneous	91. 13
	<hr/> <hr/> 29,385,498. 54

² figures from the Labour Gazette, XLII (1942), p. 198.

But perhaps the provision most annoying and costly to employers was that governing the determination of contribution rates. The rates set were not a flat rate for all employees -- as in Britain -- nor a flat percentage of wages -- as in the United States. There is not so much as a constant ratio between the contribution of the worker and that of the employer.

To see why rates were set thus, in a way that makes calcul-

TABLE F

RELATIONS OF CONTRIBUTIONS AND BENEFITS TO WAGES IN CANADIAN UN-
EMPLOYMENT INSURANCE.^x

Wage Group \$	"Representative Wage"*	Contributions as % of "Representative Wage"				Benefits as % of "Rep. Wage."	
		Worker.	Emp'r.	Govt.	TOT.	No Deps.	Depends.
5.40-7.50	\$6.45	1.9%	3.3%	1%	6.2%	63%	74%
7.50-9.60	8.50	1.8	2.9	0.9	5.6	60	71
9.60-12.00	10.80	1.7	2.3	0.8	4.8	57	67
12.00-15.00	13.50	1.55	1.85	0.7	4.1	53	62
15.00-20.00	17.50	1.4	1.5	0.6	3.5	47	55
20.00-26.00	23.00	1.3	1.2	0.4	2.9	44	52
26.00-38.50	32.25	1.1	0.85	0.3	2.4	38	45

^x figures compiled from Second and Third Schedules to the Canadian Unemployment Insurance Act, 1940.

* the "representative wage" was calculated as a convenient basis for analysis and is taken, as in the German Act's Schedules, to be the mean between the two extremes of wages given in each of the specified wage groups.

calculation of them difficult and costly, we must look again at the degree of common welfare aimed at by the Act.

Referring to the table on the previous page (Table F), it will be seen that both the workers' and the employers' contributions are a decreasing percentage of wages, the percentage contribution by the employer decreasing more rapidly. Since benefit is proportional to contribution rate, benefits vary in constant ratio to workers' contributions. Total contributions are of course a decreasing percentage of wages.

It was because of the decision, based on savings principles, to make the rate of benefits a constant multiple of the rate of contribution and to make maximum number of benefits dependent upon the number of contributions, that the policy of decreasing percentage contributions with increasing wages was adopted. For, as Mr. McLarty has said, one of the fundamental principles of the Act is to protect the standard of living of the Canadian worker. Contributions by persons in the lower income brackets are a higher percentage of wages than the contributions of persons in higher brackets, because their benefits must be higher in proportion to wages. The fact that benefits vary in constant proportion to contributions prevents contributions varying in constant proportion to wages. For similar reasons the employer's contribution is higher in respect to the lower-paid worker, whose benefits must be proportionately greater.

Under the present scheme, benefits to the higher-paid groups would be unnecessarily high (speaking from the viewpoint of communal welfare) if their contributions were the same percentage of

wages as are the contributions of the lowest groups. Then should the relation of benefits to contributions be varied, as between different wage groups, instead of ~~varying~~ ^{contributions} the relation of contributions to wages? For where ~~benefits~~ are a flat percentage of wages the employer, knowing his total payroll and making allowance for his uninsured employees, can instantly calculate the amount he owes to the fund.

It seems that this would defeat some aims of the plan. The measure of individual justice postulated by the scheme calls for each worker receiving returns proportionate to the payments he is forced to make. The present system, then -- which after all calls for little more work than would a plan where both benefits and contributions were a constant percentage of wages -- must be retained. As for the suggestion that a flat rate of contribution and benefit for all workers be substituted for it, the reasons against this have been dealt with*. They are important enough so that no mere saving of administrative expense would justify such a change.

F. Types of Unemployment Aided.

Little need be said under this heading; we have already considered in detail how the Act proposes to aid frictional, cyclical and technological unemployment; and we have attempted to deduce to what extent it aims at aiding seasonal unemployment**. The

* above, pages 101-02.

** above, pages 112-14.

amounts of aid granted in any individual case -- especially in a case of seasonal unemployment -- is strictly limited by the actuarial base of the fund. Within these limits, it seems that the Act is efficient in aiding the types of unemployment it covers. The question of what it does to eliminate various types of unemployment, along with several other aims of the Act whose fulfillment or non-fulfillment must be considered in the light of long-run influences, is reserved for consideration in the following Chapter.

CHAPTER VI: LONG-TERM EFFECTS OF THE UNEMPLOYMENT INSURANCE ACT ON THE CANADIAN ECONOMY

The fundamental question -- in fact, the only question, if considered in all its ramifications -- which must be asked here, is this: in the long run, will the Canadian Unemployment Insurance Act tend to increase or decrease unemployment in Canada?

The first section of the Chapter will deal with general considerations -- probable effects of the scheme upon prices, wage-scales, production, progress, and employment in general. But the primary question is divided for consideration after that point. The second section will consider effects of the Act on technological unemployment; the third, its effects on cyclical unemployment; in the remaining sections, effects on frictional, seasonal, casual, and under-employment will be discussed.

A. General Considerations.

What are likely to be the effects of the unemployment insurance scheme on wages, prices, and employment in Canada? Speaking broadly -- not considering the effect of the Act in minimizing or increasing specific types of unemployment, leaving aside for the moment the question of its effect on the trade cycle -- speaking broadly, we must try to answer this question by following

a process of economic analysis. Theory will be our only basis of proof; for because the state of "ceteribus paribus" is not a real state, many of the conclusions we will reach are not subject to pragmatic proof. So many other influences act on wages, prices, and employment, that deduction of the effect of insurance on them, from observation, is impossible. But economic analysis -- theoretical analysis -- will enable us to arrive at tentative conclusions as to its effect.

1. THE BURDEN OF THE EMPLOYER'S CONTRIBUTION

Much
~~Perhaps most~~ theoretical argument in regard to the good or evil effects of social insurance hinges on this question: who actually bears the burden of the employer's contribution, and what effect does the burden have on the bearer?

The conclusion of many writers -- based on grounds of economic theory -- is that the burden of the employer's share in any social insurance measure is shifted entirely, in one way or another, to the worker.

Mr. Dale Yoder's analysis of this viewpoint is perhaps the best, and the following remarks are a summary of a paper written by him⁽¹⁾:

Yoder begins by adopting a method of elimination to determine how the cost of insurance can (or cannot) be borne by industry. The expense cannot be paid by the profits of industry because these do not occur with any regularity -- and the exist-

(1): Yoder, Dale, "Some Economic Implications of Unemployment Insurance," The Quarterly Journal of Economics, XLV (1931), p. 623.

ence of "pure" profits is, in any case, uncertain. Surpluses cannot be used to pay contributions, for they represent the return to capital for depreciating resources. There is no margin between wages and the marginal productivity of labour sufficient to pay insurance costs: "this tendency (of wages) to respond promptly (to changes in marginal productivity) is likely to be enhanced, and extended to skilled labour in increased degree, if and when a nation-wide system of ~~un~~employment exchanges adds to the mobility of labour."⁽²⁾ Again, voluntary schemes would have grown like leaves on a tree if it were true that provision of funds for insurance payments would so increase the productivity of workers as to pay for itself. He admits, "there is no reasonable proof either of the validity or invalidity of this contention," but, "there is a considerable body of evidence which seems to indicate that it is unsound." (Unsound, that is, to assume insurance costs return their own price to the employer.) For,

Does it seem reasonable that a promise of six to eight weeks' benefits amounting to one-third or one-half of ordinary wages, with definitely set maximum amounts, is likely to motivate an increase of from three to ten per cent in productivity, even when the plans are first initiated and enthusiasm heightened? (3)

The employer then will have no reason to wish to bear the burden of contribution himself; nor will **he** be able to bear it except by attributing it to the labour factor in production. That is to say, if he bears the burden, the marginal productivity of labour to him is lowered by the amount of the contribution.

(2): Yoder, op. cit.

(3): idem.

Principles of taxation seem to point to the following conclusion:

. . . an insurance premium imposed upon employers not in proportion to output or to sales but according to the number and wages of workers hired, will not raise prices in general and must fall upon wage-earners and wage-earners alone. Wages plus premiums will equal what wages were before. (4)

The conclusion is logical and clearly stated. But there is a further alternative. Yoder suggests it when he says

. . . in competitive industry, no single factor, such as labour, could long be advantaged at the enforced expense of the others, for the latter would be put to substitute uses where productivity would be adequately compensated. (5)

But we may turn to a paper by Mr. R. S. Meriam, who follows up this line of analysis more closely. He does not insist that wages will be lowered: "As the scales are weighted against labor, wages will be reduced by competition for employment, or the opportunities for increases in wages will be reduced." (6)

Mr. Meriam's phrase, "wages will be reduced by competition for employment" is explained by the analysis he uses to reach Mr. Brown's conclusion. A premium levied as a percentage of wages will increase labour costs. Through the operation of the Marshallian principle of substitution, the ~~labor~~^{labour} factor in industry will be reduced (as suggested by Mr. Yoder, above), and competition on the labour market will force wages down to the level

(4): Brown, H.C., The Economics of Taxation, pp. 160-63.

(5): Yoder; op. cit.

(6): Meriam, R. S., The Quarterly Journal of Economics, XLVII (1933), p. 312. (See foot-note, page 8 above, for title of paper.)

predicted by Mr. Brown.

The alternative to this is that unemployment will increase, if labour is strongly organized, or because ". . . unemployment benefits reduce the pressure on wage rates from the competition of the unemployed." (7) In either of these cases wage rates are not likely to be reduced. But the principle of substitution cannot be prevented from operating. "We can say that economizing on the relatively expensive factor will either reduce wages or will increase unemployment, (although) we cannot say which." (8)

A clearer and briefer recapitulation of this whole argument will perhaps be useful: (1) Cost of insurance benefits cannot be borne by the employer otherwise than by attributing it to the labour factor in production. (2) Therefore the marginal productivity of labour to him is lowered, that is, ^{labour}~~it~~ becomes a "relatively expensive factor." (3) By operation of the principle of substitution, we get either (a) a reduction of wages, or (b) the sacrificing of labour staffs to the advantage of other factors of production. (4) Therefore, the worker bears the employer's contribution to insurance in the form of (a) decreased wages, or (b) increased unemployment.

Are there any grounds on which we may attack the soundness of this argument? The analysis is logical and easy to follow. Arguing from the same viewpoint -- that of economic theory -- it is difficult to refute. True, Yoder himself suggests that insurance schemes, in so far as they reduce the total volume of

(7): Meriam, op. cit.

(8): idem.

unemployment, might compensate for the decreased wages or decreased employment postulated by this analysis. But in view of the fact that much unemployment is of a cyclical or seasonal nature -- which insurance per se can do little to mitigate -- he discards this idea.

We can think of no further theoretical arguments against the analysis. On practical grounds, its truth or untruth will largely depend on the attitude adopted by entrepreneurs. We quote again the words of Mr. Norman J. Dawes*: "The manufacturer cannot stand all these taxes; he has to do something with them. (He) . . . reduces wages or else adds it to the price." No statement could be clearer or more definite; and it probably represents the attitude of well-informed entrepreneurs throughout Canada.

Effect on Price: It is clear, as far as this analysis goes, that the employer's burden will not be shifted to the consumer. An ad valorem tax levied on the product of industry will commonly be shifted forward; a tax on one factor of production can, logically, be shifted only backward. We cannot deduce from the above theories that unemployment insurance will increase the price of consumers' goods -- in spite of Mr. Dawes' statement.

Effects on Wages and Employment: Here the process has complementary effects: to the extent that wages are not reduced to that level where the worker bears the entire amount of the employer's contribution, employment will diminish. In our wartime economy with labour at a premium, wage-rates pegged by law, and excess profits to take care of the employer's burden, neither will

* refer to page 107, above.

occur at present. After the war, the relative proportions in which wages will be lowered (from this cause) and unemployment increased (again, from this cause) is a matter for conjecture. Perhaps the only safe statement -- which is safe, in the light of our analysis -- is that in one of these two ways the worker will bear the entire burden of the employer's contribution.

There can therefore be no doubt that unemployment insurance defeats its own ends to some extent by increasing unemployment. If the sole effect of the above process were wage reduction, no fault could be charged to the insurance scheme -- for the plan has no net cost to workers as a whole. It is costly to some individual workers, true. But since all administrative costs are borne by the Government, workers as a whole receive from the scheme more than they pay into it (since the Government adds one-fifth to the Fund) even assuming their real contributions to be the sum of the employers' and the workers' shares. This is true on the assumption that there is no long-run accumulation of excess reserves. That their benefit from the scheme is even greater than this has been pointed out by Professor Pigou⁽⁹⁾, since their psychic need for money in times of distress is greater than their need in more prosperous times -- and any scheme that takes money from them when they are earning, and returns it when they are unemployed, is doubly beneficial.

Arguments that, notwithstanding all this, the employer should be forced to pay a share of the scheme's expenses -- because, it is argued, employers as a whole are responsible for

(9): Pigou, A. G., The Economics of Welfare, Chap. I.

most unemployment; or because employers should be forced to maintain the labour reserves needed by industry; or because unemployment should be reckoned an overhead expense of industry -- are not applicable. Those arguments are not applicable unless we can conclude that the Government intended employers to bear a share of the insurance scheme, and when we considered that matter* we were unable to reach any such decision.

The amount of unemployment caused by the Act, through the process considered, will depend specifically on the rigidity of wage-scales after the war. Again, unemployment insurance will help defeat its own ends. For existence of the benefits it provides will tend to ease competition on the labour market -- and thus rigidify wages to some extent.

If our theoretical structure be granted correct, these effects are almost inherent defects of unemployment insurance. There seems no way to prevent their occurrence, while retaining an insurance scheme, except by collecting the entire cost of the insurance directly from the workers. Then, no matter what the degree of rigidity of wage-rates, the scheme could not cause unemployment through shifting of the employer's contribution. This would, in fact, be an ideal solution. The entire cost -- just as before -- would be borne by the worker. But no part of that cost would be exacted by means of increased unemployment, with its resultant suffering and increased expense to the insurance scheme.

Unfortunately, the practical difficulties preventing such a plan would prove enormous. It is not too much to say that any

* page 106 et seq.

political party proposing such a change would find itself for some years the opposition party in Parliament. The workers believe now that entrepreneurs are helping them bear the burden of unemployment. Such sweet illusions, when jarred, give place to unreasonable wrath. In the absence of a volunteer brigade of political suicides, the scheme must remain as it is. Its tendency to produce unemployment must be compensated by full use of all the means at the disposal of the plan -- rehabilitation and training of workers, and extensive development of the employment exchanges, are two methods which spring to mind -- so that workers will not suffer.

It may be noted that unemployment caused in this way is due to the replacement of workers by other factors of production, and thus need not be assumed to have any deterrent effect on the volume of goods produced.

2. BENEFITS CONFERRED ON THE WORKERS

The obvious benefit conferred on workers by the plan is the establishment of a source of income on which they may draw when unemployed. There can be little doubt that this adds to the economic strength of the working class.

The effect of this increased power, in rigidifying wage-scales, has been noted above, as was the fact that this rigidification tends to cause replacement of labour by other factors of production. In this case at least, the workers' increased power seems to have an unfortunate effect on workers as a whole. That it may ~~not~~ have other bad effects will be seen when we

discuss the plan's influence on the trade cycle.

What other effects on the economy may we impute to the more advantageous position of labour? Increased power of the trades unions, no doubt, despite the fact that the Act provides no benefits for strikers. But in the long run any tendency toward increased real wages will probably be voided by operation of the principle of substitution.

Any other possible effects of the increased economic power of workers on wages or prices which suggest themselves, could be stated only as guesses; further predictions are hard to make.

B. Effects of the Act on Technological Unemployment.

We have deduced that the Act intends to aid and does aid technological, cyclical and frictional unemployment. We have not gone into the question deeply; we have made no attempt to determine in what proportion the scheme devotes its resources to assisting each type of unemployment. But Stewart has said,

One defect of governmental procedure has been that the various unemployment risks have not been individualized and separate provision made for each. In the European experience it is becoming more apparent that if all the risks of unemployment are not contemplated and provided against from the first, the fund may be consumed in meeting any one of them. If the fund is not allocated to different risks, there will be constant pressure to utilize any accumulated moneys either to increase benefit or decrease contributions to the fund . . . (10)

In view of the actuarial basis calculated for the Canadian Act, we have no great ~~the~~ fear of the danger he suggests. But it

(10): Stewart, Bryce M., Proceedings of the Academy of Political Science, XIV (1930-32), p. 493.

is true that we are unable to deduce the relative weights of different types of unemployment expected by the Act. We might assert that the provision for a "waiting period" before benefits are payable means that very temporary unemployment is not to be assisted. And from certain other provisions we may draw the conclusion that the Act wishes to have very little to do with aiding seasonal unemployment. But beyond that, it seems true that the plan is not specifically "allocated to different risks." It is designed to aid almost all unemployment for a fixed maximum period of time.

But we are more interested here in what the Act does to prevent (or increase) unemployment. In regard to technological unemployment, it does not seem that the Act will afford such a stimulus to industrial progress that technological unemployment -- caused by the rendering useless of old skills -- will increase. There seems no way in which it can possibly increase this type of unemployment.

We must repeat what we have said before*. The Act contains measures -- provisions for training and resettling workers -- which could cut down technological unemployment. The effects of these provisions should be gratifying -- but their potentialities are even greater. Remove from the plan governmental control over administrative cost, and even more beneficial results would be apparent.

Akin to the technologically unemployed are the unemployables and pauperized groups. We have little fear that the Act will

* above, page 149.

bring any increase in these types, in the long run, greater than that brought by any other method of assistance. The suggestion that unemployment insurance will lessen the desire to work may be true, but it is the duty and responsibility of the employment exchanges to see that this tendency is not allowed to develop.

The proposed training schemes, again, will to a marked degree prevent the growth of pauperism if used extensively.

C. The Effect of the Act on Cyclical Unemployment.

What is a business cycle?

The upward and downward movements, which together make business cycles, are now commonly believed to be mainly associated with fluctuations in the volume of real investment . . . The fluctuations of cyclical movements may be characterized in terms of either money income, real income, (the output of material goods and services), or employment. (11)

That is, a business cycle is a more or less periodic fluctuation in the productive effort of a community, caused by -- what?

Modern economic theorists have concerned themselves with the problem of the business cycle to the exclusion of almost all other considerations. Undoubtedly, it is one of the really important economic problems of this age. And also, undoubtedly, we are still far from solving the riddle of its origin and ^{its} prevention. The cycle has been variously and emphatically blamed on under-production, over-production, under-consumption, over-consumption, and faults inherent in the capitalist economic organization. Even if the last theory be rejected, the fact re-

(11): Hansen, Alvin H., Fiscal Policy and Business Cycles, p.14.

mains that we cannot at present prevent the cycle, nor even point to a good method for its prevention. If it is such an important problem, the cycle and especially the action of the Unemployment Insurance Act in increasing or mitigating its effects must claim our attention.

We adhere, in the absence of a better theory, to the analysis of the causes of trade cycles put forward by Mr. J. M. Keynes, and elaborated by (among others) Alvin H. Hansen. Briefly, these men believe that the depression phase of the cycle is brought on by an excess of saving and a paucity of consumption in the more prosperous phases. Let us begin our analysis of the Canadian Act's effect on the cycle with this as our hypothesis.

In so far as the Unemployment Insurance Fund accumulates, by taxes on the incomes of workers, a large reserve which is in effect saving until depression strikes the economy, it is a tax on consumption in prosperous times. In calculating the expected percentage of unemployment ^{from} ~~for~~ figures for a number of years, the Canadian Act has in effect admitted its intention to do just this. And our decision that ultimately most of the cost of the scheme will be borne by the workers makes this doubly important. The effect will be, according to Mr. Keynes and Mr. Hansen, an unneeded exaggeration of the cyclical fluctuation:

It is highly possible that taxes on consumption played a far greater role as a deterrent to full recovery in 1936-37 than did corporate and personal income taxes. The heavy weight of new consumption taxes, including the federal and state social security taxes, was of primary significance here. . . Especially to be noted is the sudden imposition of heavy social security taxes (unemployment and old-age) on payrolls in 1937, which resulted in a withdrawal of nearly one and a quarter billion dollars in excess

of benefits paid. This, undoubtedly, had an important bearing upon the decline in total consumption expenditures beginning early in 1937. . . .

In so far as these revenues had the effect of curtailing private consumption expenditures, it is clear that equivalent off-setting governmental expenditures were in no sense income generating. The receipt of these taxes and the expending of these sums by the government merely diverted the income stream from private to governmental purposes.

To the extent that our tax system could be shifted away from regressive taxes bearing on consumption to progressive taxes on that part of the income stream which flows into the savings channel, private consumption expenditures would rise. Such increase in expenditures would stimulate private investment . . . (and) would be of vital importance in any program aiming to enlarge the outlets for private investment. (12)

Mr. Hansen's criticisms are hardly fair, for they based on the effects of ~~the~~ Social Security when it was first introduced. To achieve financial soundness, no benefits were paid from that fund for a considerable period of time after its first establishment, to permit the building up of a considerable reserve. The sudden imposition of payroll levies to build up such a fund was, of course, a deterrent to consumption. In view of the fact that the American economy was at this time just recovering from a severe depression, it is probable that the scheme was initiated at a rather unfortunate time. Mr. Hansen may be justified in blaming the "recession" partly on the initiation of a social insurance scheme. To blame it on the scheme itself is not as easy -- for as we have said, contributions to such a scheme constitute a net consumption tax only in prosperous times. In times of depression they have the net effect of subsidizing consumption.

(12): Hansen, op. cit., pp. 398-99; underlining mine.

What are the results of this dual process? It is first necessary to give, in slightly more detail, a statement of the essentials of Keynes' theory. Bye has given an excellent statement of these essentials:

Keynes' Theory of Employment.--- . . . His argument runs somewhat as follows: He believes that the volume of money savings grows larger as incomes increase, regardless of the rate of interest; hence, in those countries where technical efficiency is high and where real incomes are correspondingly great, the volume of savings will grow progressively larger. These savings cannot be invested unless profitable opportunity for the use of more equipment exists. Such opportunities are more and more difficult to find, he believes, because there are fewer and fewer frontier regions to be developed, and population is not growing as fast as it formerly did, so that the demand for consumers' goods is no longer increasing very rapidly. There might be sufficient demand for all the savings if the rate of interest could fall low enough to permit enterprisers to obtain loans cheaply; but this cannot happen, for one thing, because people will hoard rather than invest, if the interest yield does not suffice to offset the risks of investment. Besides, he believes that people have become so accustomed to prevailing interest rates that there is a psychological obstacle to their reduction. The result is that not all of the money savings can be invested, and so they are hoarded instead. This breaks the circuit flow of money and starts a deflationary fall in prices which has unfavourable repercussions on business activity. The volume of production is thereby reduced and, with it, the volume of employment. As production is reduced, real income is reduced, leading to a decrease in the volume of saving. This goes on until money savings have fallen to the point where they no longer exceed the possibilities for profitable investment. Hoarding will then cease, the circuit flow of money will be continuous, and the economy will be in equilibrium. However, it will be an equilibrium in which the level of activity is so low that labor is not fully employed.

Keynes' theory thus makes investment the determiner of the level of economic activity and of the volume of employment. Only if the current investment can be kept equal to the flow of money savings can full employment be maintained . . . Keynes argues that total demand depends upon investment, and that this is a limited

quantity . . . Keynes holds that not all the money saved will be invested, and therefore, the circuit flow will be broken.
(13)

But Keynes realizes that the "equilibrium at less than full employment" which he postulates seldom actually exists. For investment occurs by jumps (and here Keynes' theories may be correlated with those of Professor Schumpeter) because investment opportunities fluctuate quantitatively over a period of years. This explanation of causation of cycles is accepted by many theorists today.

While we can do little to "smooth out" the occurrence of investment opportunities, we may be able to mitigate the cycle in other ways. Perhaps Keynes' outstanding contribution to economic theory is his postulate that consumption expenditures are a decreasing percentage of increasing income, and the percentage spent on consumption by a person of given income is constant over a long period of years. The best way we can mitigate the effects of the cycle is by increasing the propensity to consume thus at the same time stimulating production and decreasing the volume of money savings.

The abstraction of a considerable volume of funds from the lower income groups in prosperous times will decrease their capacity to consume. It should not increase the volume of money savings, for the fund so accumulated will be invested in Government bonds*, and thus used for Governmental expenditures -- which

(13): Bye, R. T., Principles of Economics, pp. 255-56.

* the Unemployment Insurance Fund had up to October 31, 1941, accumulated \$14,288,497.14, of which \$13,321,188.19 had been invested "in Dominion of Canada bonds" -- Labour Gazette, XLI, p.1394

do not usually interfere with private investment opportunities. It will however prevent expansion of production to the maximum extent possible, in prosperous times, for due to the action of the acceleration principle⁽¹⁴⁾ any amount spent on consumption has a disproportionately great effect in expanding production.

If we accept also the principle of the multiplier⁽¹⁵⁾, it will be necessary for the Government to lay out the money it receives, through the fund, on employment-producing measures, not interfering with private investment, if the insurance scheme is to have least economic cost. Then only in so far as the contributions are consumption taxes will production be discouraged.

To avoid any discouragement of production, the ideal method would be to accumulate unemployment reserves by taxation of "that part of the income stream which flows into the savings channel" in times of prosperity -- that is, allocate part of the revenue received from increased progressive taxation to the Insurance Fund, and eliminate other contributions.

It is difficult to believe this would be possible. Abstracting money from money savings might aid in preventing hoarding, the breaking of the curcuit process, and depression; but a monetary reserve, rather than a real reserve, would be built up. There would be no real saving of income, obtained in prosperity, for depression use. And a non-contributory plan could not be an insurance plan -- we would have reverted to a relief scheme. If the measure failed to prevent depression -- as it easily might --

(14): Hansen, op. cit., pp. 274-79

(15): idem, pp. 265 - 274

we would be faced with providing for the unemployed out of current national income, at a time when that national income was decreasing rapidly.

The insurance plan, on the other hand, compells real saving in that it prevents a certain amount of consumption. But can this saving be retained as real saving until the depression strikes? We think not. The Government, having spent the money accumulated in the Fund, would be faced as surely as if the Fund did not exist with provision of unemployment benefits out of current revenues. And the benefits, in the case of our Canadian unemployment insurance plan, would be higher in cost than direct relief.

Theoretically, then, neither collection nor non-collection of contributions to insurance can provide a real fund for depression use. The prevention of excess money savings through progressive taxation can be the same in either case, as the taxation can be imposed whether or not an insurance scheme exists. Insurance can do no more to provide real savings than other schemes, but its other features make it preferable to them. The sole argument against insurance on theoretical grounds, is its deterrent effect on consumption. There are practical reasons for advocating it in spite of this. The chief of these reasons -- and it is based on social rather than economic grounds -- is the fact that the existence of an insurance scheme systemizes and vastly improves the assisting of the cyclically unemployed.

Let us consider the problem from the position of the depression phase. Both Keynes and (especially) Hansen urge that

governments provide "value-producing" (in their use of the term, "employment-producing") relief at this time -- measures which will not only subsidize consumption and thus set the acceleration principle in operation, but also produce goods (without interfering with private investment) and thus also influence the multiplier.

The question of direct consumption-subsidizing (as by insurance) versus value-producing relief is one on which, to speak frankly, we are unable to reach any conclusion even after a careful study of Hansen's writings. We are forced to fall back on our principle that the economist must confine himself to constructive criticism.

The unemployment insurance plan has been instituted. It is in operation. Its effect in discouraging consumption in prosperity is counterbalanced by practical considerations. Its subsidizing of consumption in depression, while perhaps not as efficacious in starting the recovery as is subsidizing combined with new production, at least decreased the severity of depression to some extent. Whether employment-creating relief should be introduced as a supplementary measure is a matter for political decision.

The net effect of the Act is to smooth out consumption by workers. Whatever the good social effects of this process, the beneficial economic effects claimed by Professor Pigou seem less certain. The scheme prevents production from reaching the maximum desirable level in prosperous times, although it encourages production in depression. In balance, the effect may be either a slight increase or a slight decrease in cycle-caused unemployment.

Other measures might be more effective in decreasing unemployment of this sort. But because the measure provides some degree of social security -- because its savings features, even if not real saving, remove some anxiety from the mind of the honest and diligent workers -- we do not feel justified in criticizing it on those grounds.

D. The Effect of the Act on Frictional Unemployment.

The provision of unemployment insurance, alone, would have a decided tendency to increase frictional unemployment. It is clear that beneficiaries of the plan will have less incentive to job-hunting than if their unemployment were not compensated. But this tendency is counterbalanced by the action of the employment exchanges in placing beneficiaries. The question of whether frictional unemployment will be increased or decreased by the Act can be answered only by determining how fully the exchanges will make up for decreased individual effort in the search for employment.

In one sense, the exchanges~~f~~ can never entirely compensate for lack of individual effort. It may send men to employers, but the employer's decision whether any man will be employed or not depends on the impression that man makes on the employer. The worker, on his part, may or may not strive to make a favourable impression. If he was faced with the alternative of working or falling back on charity, his effort to secure the position would be much more effective. Added to this is the fact that, due to payment of insurance benefits, slothful workers will not be likely

to exert as much effort as before to retain the employment they have, or are placed in.

But the exchanges themselves have a compensating effect. We have expressed the belief that they will merit the confidence of employers, and work efficiently*. If this is true, their effect in increasing the mobility of labour -- in making men available when and where their services are needed -- would make up for any slackening of individual effort in the search for employment.

This effect would be vastly increased if the exchanges were empowered to send men to any part of the country where employment waited for them. As the Act now stands, the Commission is merely allowed to make loans to workers travelling to a new job. The concept of justice forbids forcing the worker to travel to a new position the exchange has secured for him, and then collecting the sum advanced as a debt due the Commission. In the interests of increasing mobility of labour, it would seem very desirable to provide free travelling allowances for workers -- in cases where this would be beneficial -- and compel them to accept employment in any part of the Dominion.

Hazarding a guess, we might say that the Act will tend to cause, on balance, more frictional unemployment than now exists. But because of the two opposing factors, the effect either way should be slight. It would surely be swung in favour of decreased frictional unemployment should free travelling allowances be introduced.

* above, pages 144-46.

E. Effects of the Act on Seasonal and Casual Employment, and Underemployment.

The Act will cover a very limited number of seasonal workers. It does not seem that it will either increase or decrease seasonal unemployment.

The effect on casual workers is likely to be more marked. For our purposes, casual employment consists of the support of a large number of workers by an enterprise hiring only a certain percentage of these workers each day. Such a situation may occur when workers are hired by the day; it is not prevalent in Canada as it was for some time, for instance, among dock-labourers in Great Britain. While the Act should do nothing to encourage casual employment, it will not tend to decrease it. The scheme provides that if a man is employed for less than the full working week, contributions by both himself and his employer shall be reduced pro rata of the weekly contribution.

Casual employment could be discouraged by providing that where a worker is employed by only one employer, the contribution of the employer in respect of him should ^{always} be the full weekly contribution. But this would have effects (noted below) on underemployment, and the problem of casual labour is in any case not a pressing one in Canada.

More important is the question of underemployment -- employment of workers for less than the normal number of working days in a week, or less than the normal number of working hours in a day. Experience seems to indicate that, when production falls off, the sharing of work by one or the other of these methods is desirable. By such means, the labour staff required by each industry

in normal times is maintained. Our only choice is between reduction of working hours and reduction of working days.

Of these two alternatives, the Act seems to prefer reduction of days worked by each worker; the preference is probably for administrative reasons. Benefits are payable for days of the normal working week when the worker is unemployed -- after the waiting period has elapsed -- and contributions are not payable for those days. Benefits are not payable when working hours are reduced (nor does there seem any way this could be done), and the full daily contribution is still payable for those days. The Act discourages shortening of working hours, but not shortening of the working week. It does not discourage underemployment as a whole, because it does not wish to do so. In most cases where underemployment exists -- so reasons the Act -- it is preferable to total unemployment of some persons and full employment of others.

F. The Long-Run Effects of the Act.

1. RECAPITULATION

Unemployment will be increased to some extent under the Act by the shifting of the employer's contribution in the presence of rigid wage-scales. Our theoretical argument on this point has been challenged on two grounds:

(a) the cost of the employer's contribution need not be attributed to the labour factor in production, since most industry today is carried on under partly monopolistic conditions.

In this case contributions could be paid from monopoly surpluses. But the vital part of our argument hinges on the point that the employer will not wish to pay the contribution, rather than that he cannot pay it. If non-payment of this sum would decrease his monopoly surplus, or if payment of it would proportionately increase labour's productivity, the monopolist would bear his own burden. But since the amount is shifted to the worker, having no effect on price, it does not seem likely that the former is true; and we have examined and discarded that latter argument. It would be a very benevolent monopoly which would be willing to pay the contributions in the absence of either of these effects.

(b) we stated that the worker would bear the burden of the employer's contribution in addition to that of his own. The argument to the contrary states that the exact reverse will occur. The employer will be forced to bear his own contribution, and the worker's contribution will be shifted to him. The truth of this depends on the relative economic power of the two groups. We are willing to amend our belief, admitting that in cases where labour is strongly organized and highly specialized, this might occur. The effect might easily be worse than that deduced from our own argument, for increased production costs would likely result in decreased production. But we feel that such a situation will arise in very few cases in this country.

2. BENEFICIAL LONG-RUN EFFECTS OF THE ACT

Professor Pigou and Sir W. H. Beveridge both give us lists of the favourable effects of unemployment insurance, in which

economic and social factors are decidedly confused. The best statement of the beneficial economic effects of unemployment insurance is given by the British Royal Commission on Unemployment Insurance⁽¹⁶⁾ and is summarized here:

(1) "maintainence of the unemployed workers' fitness for work."

(2) "maintainence of the community's purchasing power during depression."

(3) maintainence, in possibly the most economic way, of the labour reserve needed in our economy because of the fluctuations to which that economy is subject.

(4) maintainence of this labour reserve with minimum loss of efficiency and employability, and minimum pauperization.

(5) smoothing out of the workers' consumption as between the boom and the depression (though the beneficial economic effects of this, according to our analysis, are questionable).

We have found also that the Act will have a beneficial effect on technological unemployment, in the long run. Unemployment may be caused by shifting of the employer's contribution, but the Act will probably have little effect on the trade cycle, on seasonal or casual employment, or on underemployment. The effect on frictional unemployment will also, in the balance, be small.

The chief possibilities of the Act as it now stands thus seem to be in relation to its assistance of unemployment. Many of the recommendations we will state in the following Chapter will be concerned with increasing prevention of unemployment.

(16) Final Report, 1932, pp. 102-03.

CHAPTER VII: AND IN CONCLUSION . . .

Our work has been carried to the point where we may conclude by summarizing suggestions -- both rejected and adopted -- made regarding ways the Act might be improved; by discussing the place of unemployment insurance as a war measure and as a post-war measure; and by a final evaluation of the Act as it now exists.

A. Summary of Rejected Proposals.

The section considers proposals which have been put forward, or are suggested by experience of previous Acts, as practical ways of aiding the Canadian scheme in achieving its aims. They are proposals which, for the reasons given in each case, we do not see fit to adopt as our own recommendations.

To save space, and because this list is primarily intended as a summary, references to other parts of this thesis are given after each item rather than in foot-notes.

1. CHANGES IN THE FUNDAMENTALS OF THE SCHEME

We have defined the economic scientist's scope in relation to practical problems as that of a constructive rather than a destructive critic.* It is almost possible, then, to dismiss

* above, page 7

all proposals for fundamental change on the basis of this belief. They might be considered only if they would attain in a far better way the declared objects of the plan. We do not consider that any of the following proposals do this:

(1) Admit that passage of the Unemployment Insurance Act was a bad mistake, and scrap it. (What, and return to relief measures? Reactionary! Throughout the whole thesis we have tried to point out the points on which insurance was superior to relief; we can think of few where it is inferior. See pages 41-42, 46, 176.)

(2) Make the scheme non-contributory. (This would eliminate the bad effects of the Act in decreasing consumption in prosperity. The effect could be achieved only by eliminating employers' as well as workers' contributions, so that no shifting could occur, and raising the money required for the Fund by new taxation. But in this form the scheme could easily degenerate into a form of relief; so that it may be rejected for reasons given under (1) above. See especially page 46.)

(3) Eliminate the workers' contributions and force the employers to bear the burden of their own. (This is a variant of suggestion (2), since the only way of doing this would be to eliminate employers' contributions^{and,} in some other way, force them to pay for insurance. This is subject to all the above objections, and to the additional objection that it might discourage production by increasing production costs.)

(4) The scheme should be made a pure compensation scheme. (No.

Identical to suggestion (3), and rejected for identical reasons.)

(5) The scheme should be made a pure savings scheme. (Then you would lose the element of risk-sharing, which is important in making the scheme cheap enough so that workers can afford to be insured. See page 50.)

(6) The scheme should be made a pure insurance scheme. (In the first place this is impossible -- remember, it is unemployment you are insuring -- and even were it possible, the depressions would be in the nature of long, hard winters for the Insurance Fund.)

(7) Merit rating should be introduced. (This is an argument not to be so lightly dismissed, for it has not been fully considered in any previous Chapter. So ---)

Merit-rating has been tried on three bases: regional merit-rating, industrial merit-rating, and individual-employer merit-rating. The essence of the proposal is that employers and workers in each region -- or in each industry, or in each individual enterprise -- should contribute at a rate determined by the risk of unemployment in each case, as determined by previous demands of that region, industry or plant upon the Fund.

We have stated the reasons (p. 108) why we believe such a system will not have much effect in stabilizing employment. The only other ground for its suggestion is the belief that it would increase individual justice under the plan. The reasons why this consideration did not cause merit-rating to be included in the Canadian plan ^{are} (in addition to the administrative and actuarial

difficulties it would cause) ~~and~~ stated to be these:

Mr. Hodgson pointed out that many of the industries which would benefit from merit-rating provisions, such as banking, public utilities, chain grocery stores, and drug stores, are inherently stable,"and their stabilized employment is not the result of any action on the employer's part. On the other hand, building trades, the automobile industry, perhaps, and others which have a definite season, would be having to pay higher rates of contribution simply because of the necessary characteristics of the market for which they produce." (16)

(8) The scheme should be voluntary rather than compulsory. (And attract only "bad risks" to the plan? No. See page23.)

(9) Those employers or organizations of workers who so wish should be permitted, under the supervision of the Commission, to set up their own plans. (Same objection. All the good risks would set up their own schemes, and the actuarial basis of the national scheme would suffer badly.)

2. CHANGES IN THE SCOPE OF THE PLAN

(1) The plan should cover all unemployment, no matter what the cause, no matter what duration, no matter what the occupation of the beneficiary. (This statement has actually been made in the House of Commons, the idea being that such an insurance scheme would make relief unnecessary. It would be undue repetition to explain again why there could not be such an insurance scheme. See pages 32 - 37, and many other parts of the thesis.)

(2) The plan should cover voluntary as well as involuntary unemployment. (No, "the risk must not be within individual control."

(16): The Labour Gazette, XL (1940), p.796.

(3) The Act should cover seasonal employment more fully.

(There are administrative and actuarial difficulties here. It seems likely that seasonal employment could be more fully covered but this is evidently not the intention of the Act. Criticism would be possible only if we felt that by failing to cover this class of persons, the Act was defeating some of its other aims; and we do not feel that this is so. See pages 112-14.)

(4) The Act should not attempt to cover cyclical unemployment.

(It is the Act's intention to cover cyclical unemployment as fully as is actuarially possible. We can object only if such coverage destroys the actuarial soundness of the scheme, or produces an exaggeration of the effects of the trade cycle. We are not prepared to make definite pronouncements on either of these points, but we feel that the Act is justified in attempting to aid cyclical unemployment. See pages 129-135, 170-178.)

(5) Forestry and lumbering workers whose period of occupation is reasonably continuous should be insured. (Debate on this point raged long and loud in the House of Commons. Chief reason for exclusion of these workers seemed to be the fact that collection of contributions would be difficult and costly, but this view was challenged. We are not certain that the aims and limits of the scheme justify their exclusion, but the matter has been handed to the Unemployment Insurance Commission for consideration in all aspects; only their decision will be final.)

(6) Farmers should be insured.

Chief argument for this was that farmers, as tax-payers,

bear part of the cost of the insurance plan and thus should be entitled to some consideration. But it is impossible for insurance to cover persons who are their own employers, as is the case with most farmers. So, at most, only farm labourers could be covered -- and it is not likely that many farm labourers are tax-payers. The administrative difficulties even in this latter case are great. They are illustrated by the story told of two farmers in Great Britain. These men exchanged sons during the autumn, when labour was most needed. Each man paid his friend's son an equal wage, so that while neither man lost any money by the arrangement both sons became insurable. When labour needs slackened, in the wintertime, both sons were "discharged" and became eligible for benefit.

There should be, and in fact are, other much more satisfactory methods of assisting both farmers and farm labour.

(7) Domestic servants should be insured. (No, there seems little doubt that if this were done evasion would be rife, collection of any ^{contributions} ~~benefits~~ more costly than the amount of those contributions. See page 33.)

(8) Insurance should be extended to all persons, regardless of the amount of income they receive; or at any rate the present insurable limit of \$2000 yearly income should be lifted.

In justice to those whose incomes were temporarily raised by the war, a special order has been passed including those persons who now earn more than \$2000 yearly, if their normal earnings are under this amount. But aside from this, although labour

has asked that the ceiling be raised to \$2,500, no action has been taken. The matter of exact setting of the upper limit of incomes to be insured is a matter for governmental decision, but we have said that the insurance is primarily intended to cover those who are in no position to provide their own funds against unemployment. In view of this fact, it does not seem logical that higher-paid employees should be insured. A glance at the absurd things which do occur when all persons are covered is given in the quotation on page 128.)

3. CHANGES IN FACTORS DETERMINING CONTRIBUTIONS

(1) Make contributions a flat rate. (No. In a country such as Canada, we could not do this while retaining our aim of keeping benefits lower than wages, our aim of protecting the normal standard of living of the worker, and our aim of making benefit rate proportional to contribution rate. See pages 155-57.)

(2) Make contributions a flat percentage of wages. (No, if we did this while retaining our constant ratio of benefits to contributions, either benefits to higher-paid workers would be unnecessarily high, or benefits to lower-paid men would not protect their standard of living. Again, see pages 155-57.)

(3) Make employers' and workers' contributions bear a fixed ratio to each other. (Well, there are no reasons for such a suggestion; so the reason against it must be that it would cause an unnecessary and costly change in the scheme.)

(4) The use of books and stamps should be discontinued. (In a scheme where it is necessary to have a quick and convenient method of determining each worker's contributions, in order to calculate his benefit rights, stamps and books seem to be the best way to collect contributions. In spite of the administrative nuisance and the possibility of counterfeiting or re-using stamps, let's keep them. See pages 152-54.)

(5) Make the employer pay the full weekly contribution in respect of each worker, no matter what the number of days that man worked for him during the week. (This would have the effect of discouraging casual employment; but it would also discourage underemployment; we do not feel that the Act wishes to do this.)

(6) Let the banks pay a specially adjusted, low rate of contribution. (Merit-rating! We've just been through all that;)

4. CHANGES IN THE FACTORS DETERMINING BENEFITS

(1) Change the Relation between benefits and contributions; abolish the fixed ratio. (Argument for: it would enable contributions to be levied in a simpler, less costly manner, while not defeating any of the aims of the Act. Argument against: it would upset the desired balance between individual justice and common welfare in the Act. No.)

(2) Increase dependents' allowances; grade benefits according to the number of dependents a man has, instead of according to whether he has or has not dependents. (This would necessitate a gen-

eral lowering of all benefit rates, in order to retain the policy of keeping benefits lower~~ing~~ than wages. Could only be done if family allowances were given as a supplement to wages in all industries. This we do not hesitate to recommend, but do not expect to see happen.)

(3) Benefits should be continued when the beneficiary falls ill or is injured, becoming incapable of work.

There has been much argument on the justice or injustice of discontinuing benefits under such circumstances. We may say first in support of discontinuance that the Act intends to cover only one risk -- that contention has been explored at length. But to elaborate; the only method the Act has to determine whether a man is actually involuntarily unemployed, is the employment exchange. If he becomes incapacitated, he certainly cannot make use of the exchange. The scheme has no way of discovering "malingerers" under these circumstances. The scheme cannot cover ill or injured workers.

(4) Benefits should merely be mailed to beneficiaries, rather than requiring the latter to claim them at the local employment office. (The chief object of this requirement is to make certain first, that the worker actually is unemployed; second, that he is capable of work. Good enough reasons.)

(5) Employer rather than worker should be required to report fact of unemployment. (No. Worker must report to claim benefits. Employer's evidence may be required, in addition, but is not alone

sufficient.)

(6) Workers discharged for cause, or quitting their employment, should not be penalized by any loss of benefit. (The contingency insured must not be within control of the ^{person} insured! They should receive no benefits. We intend returning to this question.)

(7) Cover the entire period of unemployment, if statutory conditions are fulfilled, of any insured person. (Come, come. This is insurance against unemployment. Impossible.)

5. CHANGES IN THE ACTUARIAL BASIS OF THE ACT

The percentage unemployment to be expected by the Act should be calculated from figures for the years 1925 - 1937, rather than the years 1921 - 1931. (This is our own idea, and we still like it. The objection to adopting it as a definite recommendation is, of course, that the calculation has already been made and the plan is in operation on the basis of that calculation.)

6. CHANGES IN OTHER ADMINISTRATIVE PROCEDURES

(1) Divorce the employment exchanges entirely from the insurance scheme and remove them from control by the Commission. (The reasons why this is urged have been given, but we have seen that if present policies are adhered to the exchanges will gain the full confidence of employers. No. See pages 143-46.)

(2) Force employers to report vacancies to the exchanges. (No. You could never enforce such a regulation in Canada, and in any

case it would aid in destroying individual initiative in job-hunting, which is not desirable.)

B. Recommended Changes in The Unemployment Insurance Act.

Though the same headings are not used, these recommendations will be arranged in roughly the same order of classification as were those in the section considering rejected suggestions.

1. ACCUMULATION OF BENEFITS TO OLD AGE PENSIONS

What better index to public opinion have we than that established institution -- "Letters to the Editor" --

Sir,-- Through the press and over the air, by regular reporting and by feature contributors, we are being daily advised of the privileges and security that will be received by those "qualified" and "permitted to accept" the provisions of the Unemployment Insurance Act . . . Any similarity between the Unemployment Insurance Act and any other insurance agency, either alive or dead, is purely coincidental . . .

When a large business establishment which furnishes its employees with any kind of protection is making up its budget, the cost of such protection is deducted from the sum estimated for salaries. This protection is part of the consideration of employment and everyone pays for his own protection, whether or not it is shown on the payroll.

I have in mind a friend who has been employed by a large company for twenty-five years during which time deductions have been made from his salary by the "blanket" method, to cover sickness benefits and pension rights. Five years ago he had completed enough service to entitle him to a pension but he is not yet old enough to meet the age requirement. In the meantime, though, he has been protected, financially at least, from any untoward contingency. This man can't be a lone case in this country -- he must be typical of many ~~institutions~~ employed by institutions which are conscientiously protecting the

future of their employes -- but he must pay for unemployment insurance which he can never collect. Serious sickness would bring his pension into immediate operation and he couldn't be discharged if he robbed a bank. Is the money he is now called upon to pay, "for value received?" He loses, but how could he win? The method of collecting from him can bear only one title -- Confiscation of Property. . . . (17)

The part of this letter we would draw special attention to is the phrase, "He couldn't be discharged if he robbed a bank." Popular opinion ~~sees~~ in the present Unemployment Insurance scheme a measure penalizing the man who, by honesty and diligence, or perhaps by his wisdom in choosing an inherently stable occupation, remains employed throughout the whole span of his working life.

That injustice is done, is certain. But the effect on the public mind is even worse. Every where one goes, the workers are grumbling against unemployment insurance -- "it's an extortion!" -- "just another government tax!" The reason for this is that the ordinary worker, bewildered by the many provisions in the Act limiting the conditions under which benefit can be claimed, feels that he will never get a return from his insurance contributions. Or, if he considers the Act and discovers that benefits are immediately payable for involuntary unemployment, he is true enough to human nature to think that he will never be discharged without cause, even "if he robbed a bank." The last depression is a long way from the surface of the worker's memory. The thought that it can and will occur again does not seriously occur to him.

This dangerous attitude on the ~~part~~ part of workers could lead to much trouble; it heightens grumbling against the Government; it could easily bring about widespread evasion of the Act. But

(17): The Montreal Star for Jan. 20, 1942.

there are other reasons for combatting this injustice. We have stated our belief that it is an ~~an~~ injustice not intended by the framers of the Act, not required by the balance the Act sets between individual justice and common welfare. We feel that it could and should be eliminated, if this could be done without endangering the actuarial soundness of the Act.

Our proposal is this: at a certain set age -- say age 65, or perhaps 70 -- workers should be exempted from further contributions under the Act and barred from further unemployment benefits. The total contributions made by them to the scheme in their working life (not including those made by employers on their behalf) should be totaled. From this should be subtracted the total amount they have received in unemployment insurance benefits. If a balance remains, that balance should be returned to the worker as a monthly pension of set amount, received as of right, until his balance of contributions is exhausted.

It may seem that in urging some return to workers not likely (being diligent) or unwilling (being individualists) to claim benefits from the plan, I am motivated by personal desires. For I have myself contributed to the unemployment insurance scheme and I do not expect to receive benefits from that scheme. My own reaction was to do anything possible to escape the payment ^{contributions.} of ~~benefits~~. But if my attitude was influenced in this way, so is the attitude of every steady and reliable worker.

The plan outlined above would combat this outlook. Can it be introduced without injuring the actuarial aspect of the Act?

It is estimated that in Great Britain, "probably one-third

of the insured population . . . never claim benefit in all their industrial lives."(17) We may safely assume that this percentage will be lower -- say, not more than 30 per cent -- in Canada. Let us work from this assumption. It would mean that the Fund would have to be immediately increased by 30 per cent of the workers' contribution total, or by

$$\frac{30}{100} \times \frac{1}{2.55} \text{ or } 11.8\%$$

The allowance to be added to this for workers who had called upon the Fund only a few times would not be great, for with benefits approximately (on the average) ~~40~~ times contributions, the drawing of a small number of benefits would soon exhaust the workers' claims to ^{pension.} ~~benefit~~. We may estimate the total cost of providing old age pensions out of the Fund, as described above, at 15% of that fund -- less than the amount expected to be paid as administrative costs of the scheme.

Though we have hazarded merely a guess, the actual cost of these old age pensions to the insurance plan could be estimated very accurately on the basis of a decade or so experience with the working of the Act. At the end of that time, if not before, we feel the institution of some such plan is necessary to stop the cries of "Robbery!" that are now being heard. The manner in which the extra cost to the Fund would be shared between workers, employers and government, we do not attempt to decide.

2. THE GOVERNMENT SHOULD NOT DIRECTLY PAY ADMINISTRATIVE COSTS

We have shown how the bearing of administrative costs

(17): Margaret Bondfield, Amer. Lab. Leg. Review, XX (1930), p237.

directly by the Government results in failure of the scheme to realize all its possibilities in the field of unemployment prevention. We have suggested that if the Government were to pay directly to the Fund an increased sum of money, leaving to the Commission the allocation of funds as between unemployment assistance and prevention, matters would be improved. Again the difficulty is an actuarial one.

How would the government's new share in the plan be determined? In connection with administrative costs,

The cost in Great Britain seemed . . . to be about \$1.70 per head of insurable population; in the United States the cost was \$2.10 . . . Mr. Heaps believed that the only index of administrative cost was based on the number of persons covered, and expressed the opinion that the more familiar method of expressing costs as percentages either of contributions or of benefits, was meaningless. (He said:) " . . . if we were to add approximately twenty per cent . . . to the United States costs of administration, we would arrive at a reasonably fair estimate of what the cost would be here in Canada." The costs of administration had therefore been placed at \$2.50 per insured person, the witness declared. (19).

Our proposal is this: Let the Government's present 20 per cent subsidy of the Fund be withdrawn. Let the Government grant to the Fund an amount corresponding to \$5.00 per insured person per year, and let this be an irreducible amount (there is precedent for such a provision). Further, let a sum approximating 20 per cent of the total fund be applied to the payment of claims out of this amount; to secure the actuarial basis of the scheme, make this compulsory. Of the remaining amount, let the Commission allocate the necessary minimum to administration of benefit payments, the rest to provision of unemployment preventive meas-

ures. Such a proposal as this, in order to be feasible, would have to be worked out in much greater detail than is possible with the time and space at our disposal. But we feel that a change of this general type is possible, and is sadly needed in the Canadian unemployment insurance plan if it is to carry out its aims fully and completely.

Two corollaries especially worthy of mention follow on the acceptance of this proposal:

3. PROVISION OF FREE TRAVELLING ALLOWANCES

We have discussed on pages 178-79 the ways in which free travelling allowances, as opposed to the present system of loans for travel, would increase mobility of labour and combat the Act's tendency to produce an increase in frictional unemployment. The institution of such a system is probably dependent upon a more liberal allocation of administrative funds.

4. INSTITUTION OF VOCATIONAL GUIDANCE

If young persons coming of an employable age were assisted, not only by free entry into technical schools -- under sponsorship of the insurance scheme -- but also by vocational guidance, the problems the scheme would later be called upon to deal with would be considerably decreased.

5. NO BENEFITS FOR VOLUNTARY UNEMPLOYMENT

We need not repeat again our reasoning that persons who

are discharged for misconduct, or who voluntarily quit their employment without good cause, should be disqualified from receipt of benefits permanently, rather than merely for a period of six weeks. The change is possible, from the administrative point of view; is urged, because it furthers the true purposes of the Act in increasing justice and confining the scheme's scope to that one risk it is designed and intended to cover.

6. NEW WAGES NOT LOWER THAN BENEFITS.

Under the German Act, we have quoted Carroll as saying, "a man may refuse a position that offers insufficient remuneration to provide for his dependents."⁽²⁰⁾ There is no parallel provision in the Canadian scheme. After the lapse of a period of time which is, in each individual case, deemed "reasonable" by the Commission, a man unable to find employment in his customary occupation may be forced to take any job -- provided the wages are not substandard, he is not acting as a strike-breaker, and so on. There is a possibility of grave injustices being done in the application of this provision.

Take the case of a man earning \$30.00 per week. Assuming that he has at least one dependent, his weekly benefit should he become unemployed would be \$14.40. This would entail a drastic reduction in his standard of living. But under the provisions of the Act, after the passing of a "reasonable" period of time, he might be compelled to accept employment paying wages as low

(20): Carroll, Unemployment Insurance in Germany, p. 54.

as \$5.00 per week; possibly even lower. The injustice of this situation speaks for itself. The simplest remedy would be this: To the provisos in the Act enumerating the types of employment a beneficiary is not required to accept, add a further proviso that he need not accept employment at a wage lower than the benefit rate to which he would otherwise be entitled. Otherwise, there is an opening here through which the Act might conceivably defeat its purpose of "maintaining the normal standard of living of the worker."

7. TWO KINDS OF PUBLICITY

The Unemployment Insurance Act has been very poorly publicized. This is one reason for the wave of public feeling against it, so noticable to those who come into close contact with workers. Though few workers approve of the scheme fully, it is a general rule that those who have studied the Act, and understand its provisions and some of the reasons behind them, are less antagonistic toward it than are the less well-informed men. All workers feel the injustice of such anomalies in the Act as that for which we suggested a solution in our first recommendation. But whether or not old age pensions, paid from accumulated contributions, are ever made a part of the scheme, publicity of the measure is vital.

Publicity to employers has been profuse and beneficial. But the Commission seems to have forgotten the possibility that the average workingman would like to know, not simply that he can't get his benefits when he goes on strike, but why he can't get

them then. The Commission's answer -- "It is the law!" -- besides being unsatisfactory to the worker, is in itself a confession of weakness. We should ~~like~~ like to see publicity of the Act, to the workman, as a genuine measure of assistance for his times of distress, rather than an extortion of part of his wages; as genuine unemployment insurance, to aid him, distinguished from relief which merely degrades him; most important of all, we should like to see the workman informed why the restrictions necessary to the scheme's working are, for perfectly sound reasons, included in it. The employer has been informed on these matters. It is too much to expect him to undertake the education of his workmen to the genuine benefits of insurance. That, the far more vital task, must also be accomplished by the scheme.

The second type of publicity we should like to see the scheme undertake is in connection with the prevention of unemployment. The employment offices promise to distribute information which will assist workers in choosing suitable occupations (relative, that is, to demand for workers of each type) and finding suitable employment. Let us hope that this information will be so distributed that it will effectively reach and influence workers.

8. ESTABLISH A NATIONAL SYSTEM OF UNEMPLOYMENT RELIEF.

There are other, and more pressing, reasons for advocating such a step than that we are about to propose. But we have seen that in the absence of effective relief measures, the political pressure on the insurance plan in times of depression becomes

intolerable. The postponement of plans for adequate relief measures may mean the corruption and disruption of the entire unemployment insurance scheme in post-war years.

C. Unemployment Insurance as a War Measure and as a Post-War Measure.

"Mr. Dawes questioned the desirability of unemployment insurance as a wartime enactment, since he felt that it would divert man-power and money from the war." (21)

Several representations similar to the above were made before the Special Committee of the House of Commons on the Unemployment Insurance Bill. Possibly, they were honest representations; yet one cannot help feeling that they were made with some ulterior motive. For the advantages of unemployment insurance in assisting war finance, and in providing for possible post-war contingencies, so far outweigh any considerations like the above as to make them negligible; and this should be obvious to the mind of the dullest entrepreneur.

We must state briefly our own analysis of the problems of war finance. It is a commonplace that the Government, in wartime, is forced to use all means in its power to turn a greater and greater part of the national productive effort, and the national capital equipment, to production for war. When this is being done contemporaneously with a vast increase in civilian purchasing power -- because of increased wages, increased employment, longer hours of labour -- one consideration emerges as

(21): Labour Gazette, **xI** (1940), p. 799.

essential: civilian purchasing power must be restricted and curtailed. It is for this reason, even more than for fiscal reasons, that the Government turns to heavy taxation, borrowing, and possibly inflation; and from these to forced loans and rationing of consumers' goods.

It is important to restrict purchasing power, and it is most vitally important to curtail the spending of those with low incomes -- for it is they who purchase most of the consumers' goods ordinarily produced in the peace-time economy. So the Government has set income tax exemptions lower and lower -- has initiated the National Defense Tax on incomes -- has encouraged the sale of War Savings Certificates and Stamps, and even Victory Bonds, to workers and their families. Viewed in this light, the nature of unemployment insurance as an adjunct to war finance becomes clear.

We have explained before how such insurance schemes curtail consumption in ^{prosperous} ~~depression~~ times. In war-time, with every type of unemployment minimized, this is doubly true. And that effect is precisely what the Government wants. The outstanding advantage of unemployment insurance in war-time is that it is a relatively painless method of curtailing consumption of small-income earners. Though there is a definite limit to the amount which may be extracted from workers in this way, the scheme taps a source of fiscal revenue and dries up a consumer demand otherwise very difficult and troublesome to control.

The role of unemployment insurance in the post-war years cannot be so easily seen nor so clearly predicted. Each war in

history has been succeeded by a short but reckless spending spree; we should have this as a breathing-spell in which to commence our re-conversion of resources to civilian production, our gradual and orderly demobilization of armies.

The problem will be mainly one of readjustment. The theory that "we shall be much poorer after the war, and shall have to accustom ourselves to a lower standard of living," is quite untenable, though it has been espoused by a number of politicians (fearing the worst) and a few reputable economists.

True, our capital reserves will have depreciated sadly. But aside from this loss of past accumulations, which is not a vital matter, the cost of war is essentially a current cost. It is not inevitable that we shall be poor and starving after the war ends. Whether we are, or not, depends upon the speed with which we can reorganize and readjust our economy.

But it is unlikely that we shall escape a post-war depression, though we may make it either mild or deep. Some time during the period of readjustment -- probably about two years after the end of the war -- the economy, no matter how carefully controlled, is likely to become unmanagable. What problems does that bring to the unemployment insurance scheme?

The fund which is built up during the war is by no means a real fund. The consumption the workers have foregone has permitted greater production of war supplies. We are faced, then, two years after the war, with sudden demands on a purely fiscal fund, probably already depleted by the demands of the frictionally unemployed in the readjustment period.

The solution of the problem is independent of whether the Fund is, nominally, sufficient or insufficient to meet the demands on it. In either case, those demands must be met by the Government out of current income. The reserves of the fund will consist exclusively of Dominion of Canada Bonds. The Government may risk a disastrous slump in security prices by allowing these to be disposed of in the open market, or it may redeem them.

Discounting the possibility of simply printing money to meet these obligations, we find that, at the base, the problem of unemployment insurance in a post-war slump becomes the problem of fiscal budgeting in that slump. And except for indicating that the Government will have to solve that problem by taxation and borrowing -- and perhaps inflation -- we prefer to leave the discussion at that point.

D. The Canadian Unemployment Insurance Act, 1940: A Final Evaluation.

The Canadian scheme has been considered throughout on the assumption that it is intended primarily to aid unemployment -- and secondly to prevent unemployment.

The assisting of unemployment by use of insurance is, in light of previous experience of our own and other countries with both relief and insurance, a worthy aim. For a successful insurance plan is, both socially and economically, more satisfactory than a relief plan. And while relief measures cannot be eliminated under existing conditions, insurance may eventually render

them unnecessary. (We are not contradicting other parts of this study; we are speaking of a near-millennium.) It can only do this if it fulfills its secondary aim. The more vital part of our study, then, was that concerned with the short-run and long-run effects of the Canadian Act on the employment situation.

In regard to its assistance of unemployment, we have expressed ourselves reasonably satisfied with the working of the Act as it now stands. We have realized, with Mr. Meriam, that insurance

. . . raises ethical questions, a conflict between what may be called the individualist justice principle and the solidarity principle. (22)

And we saw that because of this,

Compulsory schemes . . . inflict injustices on the superior workman by forcing him to bear the extra risks of the inferior workman. (23)

But we have accepted without question the Government's decision to permit a certain amount of injustice so that common welfare might be benefitted. We have realized the necessity for a compulsory scheme, and the concessions made by the Government so that it might be enforced.

The development of voluntary Insurance against unemployment is checked by the unwillingness of those less exposed to the risk to join others in purchasing indemnity on equal terms. Accordingly, in this country, . . . insurance was made compulsory. In recognition of the

(22): Meriam, R.S., "Unemployment Reserves; Some Questions of Principle;" Quart. Journal Econ., XLVII (1933), p. 312.

(23): Winston Churchill; Parl. Debates, 5 ser., XXVI (25/6/11), 496

inequality between good and bad risks . . . the state subsidized the scheme. (24)

We have accepted, even emphasized, the limitations laid on the scheme by its desire to compromise between justice to individuals and welfare for all. We have never criticized the relative importance it laid on these ideals, but rather tried to show how best the balance it aimed at could be struck. And we considered duly the restrictions of scope that this compromise makes necessary.

We have seen, too, how the scheme is forced to place itself on a sound actuarial basis. It could be insurance in no sense of the word if it failed to do so; lack of financial soundness would eventually change the measure to a mere relief scheme. The limitations in benefit rate and period, and in the types of occupations covered -- the necessity for requiring workers' contributions -- was accepted as justifiable on those grounds.

Further restrictions in scope were forced on the Act by considerations of administrative difficulty. And yet, in face of all these limitations, we have expressed ourselves satisfied with the manner in which the Act assists unemployment. Better schemes for this purpose can only be introduced by new kinds of governments. Unemployment insurance, by compelling the worker to help provide for his own periods of idleness, avoids the evils of "the dole" and relief. Mr. Yoder, whose comments are usually sound, betrays a lack of understanding when he says---

(24): Final Report of the (British) Royal Commission on Unemployment Insurance, 1932, p. 114.

If it is agreed that the state is sufficiently interested in easing the difficulties of the unemployed and maintaining some part of normal consumers' demand to justify supplementing the income of American workers with funds secured, to an increasing extent, by levies against other American citizens, then this type of benefit (i.e., insurance) is exactly the means to that end. (25)

The point is not a good one. We appear unwilling, in this age, to let the unemployed starve; and any type of assistance for them entails levies, to a greater or less degree, on other members of the community. The existence of unemployment insurance must be justified or condemned on other grounds. Some measure to aid unemployment is necessary, and the reasons for preferring insurance to relief are manifold.

Insurance is less costly and, on the whole, more satisfactory than such projects as the Works Progress Administration, because it at least attempts to stimulate employment.

We agree that insurance assists unemployment.

Our chief criticisms of the scheme, therefore, were on the basis of its failure to realize its full possibilities in the elimination of unemployment.

Perhaps the chief drawback to the scheme is the manner in which administrative costs are borne. Against all the canons of effective social insurance, direct control of administrative expenditures by the Government perhaps will do more than anything else to remove from the plan that liberal attitude which means the difference between real success and failure.

(25): Yoder, Dale, "Some Economic Implications of Unemployment Insurance," The Quarterly Journal of Economics, XLV (1931) p.623.

Less important, because less drastic cures are needed to remedy it, is the attitude of Canadian labour toward the scheme. To hope for old age pensions in connection with the plan is perhaps foolish optimism; yet the workers would be satisfied with little less. Publicity of the plan, at any rate, would improve this situation amazingly.

As it exists, no startling results need be expected from the scheme. It will undoubtedly help us finance the war. And after the war, if what we have said above be accepted, it is very likely to act as a redistributor of national income -- a measure of social justice, many persons might say. If it is the beginning of a trend in this direction -- and this may well be -- then its most important results will be political rather than economic. Let us hope this will be true; for unless drastic changes, changes which the author, for one, does not expect, are made in the scheme, it will continue to the end of its existence a pure and simple aid to unemployment.

T H E

E N D

APPENDIX: BIBLIOGRAPHY

The bibliography is arranged in alphabetical order of author's names, and is not classified further since thorough foot-notes are given throughout the body of the thesis. Author, Title of book, City of publication, Publisher and Date of publication are given unless this data was unavailable. All listings preceded by an asterick (*) were not in the Redpath Library, or elsewhere, and could not be consulted in the writing of the thesis; they are included in an attempt to make the bibliography more complete.

Armstrong, Barbara N., Insuring the Essentials, London, MacMillan, 1932.

Arnold, Thurman, The Symbols of Government, New Haven, Yale, 1937

Bergithon, Carl, The Problem of Social Insurance In Canada, M.A. Thesis, in McGill University Library (unpublished).

*Beveridge, The Past and Present of Unemployment Insurance.

Beveridge, W. H., Unemployment - A Problem of Industry; London, Longmans, Green; 1930 ("New Edition").

*Braun Commission, Report of; Berlin, 1931.

*Brown, H. G., The Economics of Taxation.

Bye, Raymond T., Principles of Economics (Fourth Edition -- "A

Restatement"), New York, F.S.Crofts, 1941.

Calcott, Mary S., and Waterman, W.C., Principles of Social Legislation, New York, MacMillan, 1932.

Carnegie Endowment for International Peace, War and Insurance, London, Oxford, 1927.

Carroll, Mollie R., Unemployment Insurance in Germany, Washington, The Brookings Institution, 1929.

Cohen, Percy, The British System of Social Insurance, London, Allen, 1932.

Commons, John R., and Andrews, John B., Principles of Labor Legislation, New York, Harpers, 1936 (4th Edit.).

Craig, James D., "Is Unemployment Insurance Feasible and Practicable?" Paper read before the American Bankers' Association, New York, Jan. 29, 1932; Privately printed.

Davison, Ronald C., The Unemployed, London, Longmans, Green; 1929.

Day, J. P., An Introduction to World Economic History, Toronto, MacMillan, 1940.

Debates, House of Commons, Ottawa, H.M.'s Printer; issued yearly.

Department of Statistics, Canada Year Book, Ottawa, His Majesty's Printer, issued yearly.

Douglas, Paul H., Social Security in the United States, New York, McGraw-Hill, 1936.

*Douglas, Paul H., Standards of Unemployment Insurance,
Chicago, University of Chicago, 1933.

Gibbon, I. G., Unemployment Insurance, London, King, 1911.

Hansen, Alvin H., Fiscal Policy and Business Cycles,
New York, Norton, 1941.

Hansen, Alvin H., and Murray, Merrill G., A New Plan for Unemployment Reserves, Minneapolis, University of Minnesota, 1933.

*Hoar, R. S., Unemployment Insurance in Wisconsin,
Milwaukee, Stuart, 1932.

International Labor Office, Unemployment Insurance; Geneva, 1925.

Keynes, J. M., The End of Laissez-Faire, London, Woolf, 1926.

Keynes, J. M., The General Theory of Employment Interest and Money,
London, MacMillan, 1936.

*Keynes, J. M., The Means to Prosperity, London, MacMillan

Keynes, John Neville, The Scope and Method of Political Economy;
London, MacMillan, 1891.

*Lewisohn, Draper, Commons and Lescohier, Can Business
Prevent Unemployment?

Parliamentary Debates, London, His Majesty's Stationery Office.

Pigou, A. C., The Economics of Welfare, London, MacMillan, 1920.

Pigou, A. C., Industrial Fluctuations, London, MacMillan, 1927.

Rathbone, Eleanor F., The Case for Family Allowances,

Harmondsworth, Penguin, 1940.

Richter, L., (editor), Canada's Unemployment Problem, Toronto, MacMillan, 1939.

Richter, L., "Contemporary Economic Problems;" (Course given at Dalhousie University; quotations in thesis taken from notes on these lectures, in my possession; unpublished.) 1939-40.

Robbins, Lionel, An Essay on the ~~Nature~~ Nature and Significance of Economic Science, London, MacMillan, 1935 (Rev. Edit.).

Rowe, J.W.F., Wages in Practise and Theory, London, Routledge, 1928.

Royal Commission on Dominion-Provincial Relations, Report of, (3 vols.); Ottawa, His Majesty's Printer, 1940.

Royal Commission on Unemployment Insurance,

First Report, 1931 (cmd. 3872).

Final Report, 1932 (cmd. 4185).

*Minutes of Evidence, 1932

London, His Majesty's Stationery Office;

Rubinow, I. M., Social Insurance, New York, Holt, 1913.

Schloss, David F., Insurance Against Unemployment, London, King, 'o 1909.

*Spates and Rabinovitch, Unemployment Insurance in Switzerland.

Stewart, Bryce M., Unemployment Benefits in the United States, New York, Industrial Relations Councilors, 1930.

Taussig, F. W., Principles of Economics, 3rd Revised Edition,
New York, MacMillan, 1928.

Tolles, N. A., Economic Aspects of Unemployment Insurance in
Great Britain; University of Chicago Ph. D. Thesis, private-
ly printed by Univ. of Chicago Library, 1935; mimeo.

The Unemployment Insurance Act, 1935, London, His Majesty's
Stationery Office (25 Geo,5, Chap. 34).

The Unemployment Insurance Act, 1940, Ottawa, Unemployment In-
surance Commission, Canada; 1941 (4 Geo,VI, Chap. 44).

U. S. Senate Select Committee on Unemployment Insurance,
Report of, Washington, 1931.

Webb, Sidney, The Prevention of Destitution, London,
Longmans, Green, 1911.

Wolfenden, Hugh H., The Real Meaning of Social Insurance,
Toronto, MacMillan, 1934.

Wolfenden, Hugh H., Unemployment Funds, Toronto, MacMillan, 1934.

The Following Periodicals Were Also Consulted:

Actuarial Society of America, Proceedings.

The American Economic Review.

The American Labor Legislation Review.

The Economic Journal

The Economist.

The Journal of the Institute of Actuaries.

The Labour Gazette.

Proceedings of the Academy of Political Science.

Proceedings of the American Economic Association.

The Quarterly Journal of Economics.

