

(January 9, 1933)

## Unemployment Insurance

By MR. HUGH H. WOLFENDEN.

PRESIDENT CHALMERS:—Gentlemen, to-day we are to have the pleasure of an address from a member of this club, something that does not happen very many times in the course of a year. We are fortunate to have in the club as one of our members, Mr. Hugh H. Wolfenden, independent consulting actuary, who is an unchallenged expert on the various social insurances, including unemployment insurance, and we have asked him to-day to speak to us on the subject of Unemployment Insurance. One week from to-morrow there will open in Ottawa a conference between the provincial prime ministers and the members of the Dominion Cabinet on a number of different problems and perhaps the most important and outstanding problem is that of unemployment insurance in Canada. Now a great many people in this country think that unemployment insurance is a simple formula to end many of our economic problems. We felt in discussing this matter at our executive meeting that there was a great deal of ignorance on the subject of unemployment insurance in Canada. It has never been discussed sufficiently by the general public and by the leaders of the general public to enable people to know the things they should know before they can make up their minds as to whether unemployment insurance is a solution for any problem and if so, how that scheme is to be drawn up and put into operation. Believing that there was a need for frank discussion of the subject we have asked Mr. Wolfenden, who has given a great deal of study to this matter throughout his life as actuary and particularly during the last two years, to come to the Club to-day and introduce

the subject to us. He can hardly do more in the time at his disposal. I have great pleasure in introducing Mr. Wolfenden.

MR. WOLFENDEN:—Mr. President and gentlemen, the subject on which I am to speak to-day is one which requires very careful thought, and preciseness in its definitions—more careful thought, and greater precision, in fact, than has generally been given to it hitherto in this and many other countries. It is, consequently, a subject which should not be dealt with by mere flights of oratory. It should, on the contrary, be considered dispassionately, in a sympathetic yet critical spirit of inquiry, with the deliberate intention of attempting to ascertain the facts and to discard the fictions, so that we may know not only what unemployment insurance, and social insurance generally, have come to mean in practice, but what they seek to do, why they seek to do it, how justifiable their objectives are, and how closely their practical methods can be controlled and maintained in conformity with their original intentions.

Because of the intricacy of these questions, and the magnitude of the subject, I shall to-day ask your pardon if I use very closely a prepared address, in which the underlying principles of these methods are discussed, as I see them, logically and calmly. I shall not seek to stir your emotions, to play upon your sympathies unduly, or, on the other hand, to encourage antipathies or cynicism. I shall attempt only to discuss with you certain unmistakable facts, based on a philosophic approach—an approach, it seems to me, which is essential if we are not to be misled into thinking that Social Insurance means something, and can do something, which in fact it can neither mean nor do.

“INSURANCE” AND “SOCIAL INSURANCE”; AND THE ENTRY OF THE GOVERNMENT.

To obtain a clear understanding of the matter, it is necessary, first of all, to have a sound conception of the word “Insurance”, and of the meaning of the term “Social Insurance”.

Insurance, whatever its administrative form may be,

implies simply the co-operative association of a large number of persons, who agree to share amongst themselves the burdens resulting from the occurrence of a particular contingency, such as death or sickness, by the payment of the necessary contributions into a common fund from which benefits, related strictly to those contributions, are distributed in alleviation of the burdens against which the insurance is effected.

The term “Social Insurance”, on the other hand, is generally understood to-day as concerning the methods of securing money income or other benefits, on the principles of insurance, to workers and their families in the cases of accident, sickness and invalidism, old age, death, and unemployment, when the State, in whole or in part, undertakes the creation and administration of such schemes, frequently prescribes the bases upon which employers or employees, or both, are obliged to contribute, and often assumes the ultimate responsibility for the financial sufficiency of the plans.

At this stage it is necessary to remind ourselves that all insurance, whether operated by private organizations or by governments, is essentially co-operative, and that therein lies the one outstanding feature which completely differentiates insurance organizations from other commercial businesses. It is equally clear that all insurance is “social” in the truest sense; and the term “Social Insurance”, accordingly, should really not be reserved, as it generally is to-day, for describing only governmental schemes. For the purposes of this address, however, it may be used without confusion to denote governmental plans, of the types already mentioned, which are to-day identified in the public’s mind by the specific terms Industrial Accident (that is to say, Workmen’s Compensation) Insurance, State Health (or Sickness) Insurance, Old Age, Widows’, and Orphans’ Pensions, and Mothers’ Allowances, and Unemployment Insurance.

In connection with these systems it is important to realize that the entry of the government into insurance plans which thus are fundamentally both co-operative and social does not imply the socialization of an otherwise pre-

dominantly capitalistic business, and no such economic issue is involved as that encountered in proposals for the public ownership of other enterprises. The main feature which differentiates governmental schemes of "social insurance" from voluntary plans lies in the compulsory methods which governments are in a position to enforce, and in the changes which this compulsion brings in the ethics and practical operation of the business. The entry of the government simply changes the channels by which the collection of the contributions and the payment of the benefits are effected; and in so doing it is obvious that it merely substitutes one set of problems for another, with a change in their direction but not in their extent.

#### "SAVINGS", "COMPENSATION", AND "RELIEF" PLANS.

This change in direction is of great significance. In many cases it affects so fundamentally the whole basis of the plans that many which still are called "insurance" will be found upon examination to involve none of the principles of insurance at all. Some become little more than schemes of individual "saving"; some are methods of non-contributory "compensation"; others are those of mere "relief". It is therefore essential to maintain a very clear distinction between these types of plans. A plan of real "insurance" implies group effort; insurance apart from the group concept is impossible. The benefit which may be claimed by any individual on the happening of the contingency against which the insurance is effected may be more, or less, than the total contributions with interest, after deduction of expenses. An insurance plan must involve an insurable interest, in the form of the beneficiary being faced, but for the insurance, with a loss in property or human value which must be capable of valuation in terms of money; and, outside this insurable interest, there is, of course, no test of "means" or "need". In "saving" plans, on the other hand, either the individual or the group concept is possible; the return receivable by any individual may be claimed usually (though not necessarily) at any time, and is always the precise equivalent of the total contributions plus interest and

after direct or indirect deduction of expenses. Payments under "compensation" plans presuppose a prior injury for which the beneficiary, without contributions on his part, has the right of recompense. "Relief", finally, implies charitable assistance, for which the beneficiary has not paid money in advance, and need not, as in "compensation" plans, have furnished labor or any other effort; and here, of course, there must be some test of "means" or "need".

Each of these types has its place; but each type can perform only the special functions which flow naturally, without undue assistance or control, from whatever widely accepted principles have led to its adoption in any set of circumstances. By this analysis we see, also, that Workmen's Compensation is clearly "compensation", and is thus appropriately named. State Sickness Insurance, as it is generally organized in Europe, has usually been operated in conformity with insurance principles. When we come to State Pension plans, however, it is apparent that, in so far as they are non-contributory, they are in fact but little different from "relief"; and this becomes more clear when the scales of payment, as in the Old Age Pensions and Mothers' Allowances of the Canadian Provinces, are determined by the recipient's resources—for this determination of resources is, in fact, but a rough test of "means". These distinctions are, I think, generally realized. But when we come to examine many of the plans which to-day pass under the term Unemployment Insurance, we find that by these tests there is frequently no element of real "insurance"; in many cases there are no prior responsibilities which place the payments within the "compensation" class; again they often are not truly "savings"; and finally the misunderstanding of their intent is such that, though the payments frequently are but mere "relief", the imposition of a "means" or "needs" test is opposed, and unconditional payment is demanded as a right.

#### THE NECESSITY FOR A SOUND PHILOSOPHY.

Why is there this confusion, which so befogs the problem, and hinders a clear, straightforward, and undisguised

solution? It seems to me that the answer to this question has its roots in the philosophy by which the problem is approached. In the time at my disposal to-day it will not be possible to discuss with any fulness this most important aspect of the question. I would, however, commend it to your most earnest consideration. No plan of insurance, savings, compensation, or relief can possibly succeed unless its meaning and intent are clearly and sympathetically understood; nor can malingering and exploitation be avoided if the beneficiary's sense of obligation to the community, and his interest in the plan itself, are undermined by claims which can be made by the mere exercise of ingenuity. We can not demand the maximum by way of protection, and yet be unwilling to give something adequate in the nature of a minimum return. State Workmen's Compensation has succeeded, because it is founded, within reasonable limits, on a sound philosophy, based on the readily determinable relation between cause and effect in industrial accidents, and on direct certification of claims. State Sickness Insurance, however, does not possess any such clearly satisfactory philosophy—for non-industrial accident and illness may be the outcome of the carelessness or misfortune of the employer, or of the employee, or of the State; and certification does not always depend upon the direct relation of employer and employee, and thus may be subject to many subversive influences. The unemployment question, likewise, requires the establishment of some more satisfactory philosophy than the mere statement that maintenance must be provided when work can not be secured or offered; and, as in sickness insurance, it is frequently impossible to determine where the responsibility for unemployment ultimately rests.

#### THE DIFFICULTIES OF UNEMPLOYMENT INSURANCE.

When we thus come to a close study of Unemployment Insurance we are, in present circumstances, on very thorny ground; yet it is believed, apparently, by many sections of the public, that Unemployment Insurance can be made almost a panacea in this depression. It can, of course, be

no such thing. In the first place, it can not remove the causes of unemployment. Those causes are well recognized to-day to be world-wide and essentially international in character. An almost general breakdown in the normally smooth workings of international finance and trade has been aggravated in many cases by undue trade restrictions and artificial monetary policies. Those factors have been far more responsible for the existing unemployment than have the so-called technological changes in methods of production, which so often are almost wholly blamed, although the figures show that technological advancement in industry has resulted much more in a redistribution of workers than in their actual replacement. Secondly, in any plan of insurance it must be possible to relate the benefits definitely to the contributions—not individually, as in a savings plan, but on the average; yet the unemployment rate depends so largely upon the human will and is subject to such violent fluctuations, while the definition of compensatable unemployment is so difficult, that actuarial prediction of the rates of claim often can not be made within the reasonable limits of safety indicated by the laws of probability. The consequent difficulty of keeping any scheme on a real insurance basis has led to the introduction into existing plans of many reservations and conditions which frequently mean, in reality, the almost complete abandonment of the insurance principle. Thirdly, it is not always recognized sufficiently that in the schemes of unemployment insurance which exist abroad it has been possible to include on an insurance basis only certain types of workers in comparatively stable occupations, and that great difficulties have been encountered in attempting to apply the plans to agriculturalists, seasonal workers of all kinds, and intermittent, casual, and short-time workers, in respect of whom the difficulties here in Canada certainly would be no smaller. Fourthly, although plans of real insurance against unemployment might alleviate some types of unemployment for short periods, they could never deal even with those types throughout a long depression; and it is of course impossible to use the method of insurance for immediate payments to those who are at present unemployed.

## THE REPORT OF THE BRITISH ROYAL COMMISSION.

Those are the main difficulties. Abundant evidence of their importance is to be found in the Final Report of the Royal Commission on Unemployment Insurance in Great Britain, which was issued only two months ago, and is thus completely up to date. Entirely judicial in tone, full of the most carefully assembled facts, and based on the examination of numerous expert witnesses over a period of nearly two years, it presents a survey of quite exceptional importance, and embodies recommendations of profound significance. Yet it must be studied always with an understanding of the fact that the British plan of 1911 was wholly experimental. It was the very first national scheme to be adopted. It was started upon as sound a basis as was then thought possible in dealing with a contingency such as unemployment, and it was carefully restricted to certain selected trades for which reliable trade union statistics of unemployment were available. It contained, however, at least two features which were quite foreign to any plan of real insurance, namely, the fixed ratio between the number of contributions paid and the number of weeks' benefit which could be drawn, and the provision that on attainment of age sixty the total contributions less benefits should be returned with compound interest. These provisions are features rather of a "savings" plan; and accordingly it is quite debatable whether the scheme, even in its earliest stages, ever satisfied the fundamental requirements of a true insurance plan. Throughout its many years of stormy history, moreover, it has been subjected to such pressure from outside that it has been made, in the words of the Royal Commission, "to carry a load which it was not designed to bear", and has thus ceased in large measure to be insurance at all. Even Sir William Beveridge—one of the two prominent economists mainly responsible for the original plan—found it necessary to remark, in his evidence before the Royal Commission: "In the past I have often had occasion to speak of 'insurance popularly mis-called the dole'. To-day, I am afraid that it might be truer to speak of 'the dole officially mis-called insurance'." Neverthe-

less, retreat was found impossible once the plan was started; and for many years every suggestion for its modification has been tempered by a realization of that fact. Not all of the proposals of the Royal Commission, therefore, are necessarily applicable to Canada, or to any other country except Britain. But where the Commission's views are unhampered by the existing plan, its opinions are of great importance. Such an instance is their conclusion with regard to agriculturalists, who have never been included in the scheme, largely because no statistics of their unemployment experience are available, because unemployment in agriculture is hard to define and difficult to certify, and because the low average level of wages in that occupation renders it impossible to include them in a general plan with other industrial workers. The Commission therefore did not recommend the inclusion of agriculture in the State insurance plan. The most they could suggest was that a Statutory Commission should "explore . . . the possibility of devising a special scheme for agriculture"; and in their discussion of the question they pointed out that the "bases for the finances of a scheme would be purely conjectural", while also they observed that the difficulties are formidable and that they had not been able to satisfy themselves that any scheme yet proposed contains any method by which they could be surmounted.

## THE GERMAN PLAN.

Another very important illustration of the difficulties of administering successfully an unemployment insurance plan of national scope is afforded by the experience of Germany. The German scheme was launched in 1927, after a group of experts had studied the British plan with characteristic German thoroughness. This study led the Germans from the outset to attempt a clear distinction between, first, the limited standard benefits of an insurance scheme proper; second, "crisis benefits" for those who have run beyond the standard benefits; and third, "welfare support", which is payable after a worker has exhausted his claims to standard and crisis benefits, and is subject to very strict

tests of "means" and "need". Notwithstanding this intelligent attempt to recognize the severe limitations of a national insurance plan, however, the contributions of workers and employers had to be raised from three per cent to six and one-half per cent of wages, the finances of the fund became heavily involved by large loans from the Government, which have never been repaid, and it was found necessary to appoint a Commission to re-examine the practicability of the entire plan only four years after it was started.

#### THE FINANCES OF THE BRITISH SCHEME.

In view of these facts, some figures of the British scheme may be of interest. The original plan was founded on the assumption that an average rate of unemployment of eight decimal six per cent might be anticipated over a cycle of years; and until the end of the war—during which, of course, unemployment was negligible—a balance of nearly nineteen million pounds was accumulated. The economic upheaval following the Armistice, however, and the extension of the scheme in 1920 to the great majority of industrial workers, caused the rate of unemployment to rise to an average over ten years of twelve decimal two per cent, with a rate of over twenty per cent, reaching as high as twenty-six decimal five per cent, being shown since 1930. In consequence, the fund ran rapidly and deeply into debt. Notwithstanding increases in the normal contributions in respect of men from six and two-thirds pence altogether in the original Act to thirty pence at present—which is four and one-half times the original figure—the favorable balance of nineteen million pounds became transformed into a debt to the National Exchequer of no less than one hundred and fifteen million pounds, in addition to which the Exchequer has been called upon to make a further "deficiency grant". Such borrowings were very properly characterized by the Royal Commission as "a dangerous fiction", and "unsound". It must also be remembered that, in addition to these borrowings, the transitional payments outside the insurance scheme proper are costing the tax-payers a further sum of over fifty million pounds a year. The total

burden on the National Exchequer has run at times as high as about one hundred million pounds a year, which the Commission hopes to reduce by its proposals to about eighty million pounds per annum. The task of attempting to bring such a scheme back to something more nearly in the nature of a self-supporting insurance plan engaged the most earnest attention of the Commission, and a great variety of recommendations have been made with this objective. In addition to such a reconstructed insurance plan, however, they recommended the re-organization of the arrangements outside insurance for those who have exhausted their claims to benefits; and amongst the most significant of their conclusions in this field is their decision that in any relief plan based, as they consider it must be, on tests of "means" or "need", the central authority should be charged only with the promulgation of general rules, and that "the discretion inherent in such a system can be successfully exercised only by a responsible local authority."

#### THE DANISH, BELGIAN, AND SWISS PLANS.

These British and German systems, however, are of course not the only plans which have been tried in Europe. It is important to remember that the Danish, Belgian, and Swiss methods have all been founded on a different principle, and all possess, though in varying degrees, one great advantage—they are based on the much sounder philosophy of encouraging each individual first of all to make his own systematic provision for himself, with the municipalities and the governments assisting by subsidies the voluntary funds so raised. A healthier outlook is created by such methods. In particular, the government's function is not assumed at the very outset to lie in the unlimited support of plans to which the individual contributes almost as an afterthought; and the dangers of the scheme being exploited are very much reduced. It is a well known principle of sound insurance administration that unjustifiable claims can be controlled effectively only when the contributors and beneficiaries are subject to close mutual supervision and are inspired by a real community of interest, just as it is a well

known characteristic of human nature that any plan will be abused when the responsibility for its success does not rest squarely on the shoulders of those who are to benefit from its provisions. These fundamental principles are much more largely satisfied by the Danish, Belgian, and Swiss plans than by those of Germany and Britain.

#### THE WISCONSIN COMPENSATION PLAN.

In this rapid survey mention should perhaps also be made of the Wisconsin plan of so-called Unemployment Compensation, since it is being advertised so widely as offering a method which avoids the dangers of the European systems. The underlying motive of the scheme, however, is immediately apparent. It is founded on the proposition that unemployment must be paid for by industry alone, on the theory that the unemployment risk and that of workmen's compensation are analogous. This proposition is clearly defensible only in so far as unemployment is caused by certain types of technological displacement of man by machines; it is not even defensible in all types of technological displacement; it certainly is not defensible in respect of unemployment arising from the many international causes which have contributed so largely to the existing depression. The whole theory of the scheme is that "compensation" must be paid by the employer only, notwithstanding the impossibility in many cases of establishing any such clear relation between cause and effect as will justify exactions of that character. The principles of "insurance" or "saving" not only are entirely absent; they are deliberately excluded; and even the indirect assistance of insurance is prohibited—for there is a most remarkable provision that "no employer shall be permitted to insure his liability to pay benefits in any insurance company", and, further, that if an employer voluntarily establishes his own benefit plan, he may not "enter into any agreement for any form of insurance coverage". Without discussing its subsidiary details at this time, it may be suggested that legislation of that type is neither fair nor sound.

In contrast with this Wisconsin plan, however, it is im-

portant to remember that in the United States Senate a Committee on Unemployment Insurance has recently conducted a very wide investigation, calling many important witnesses before it, and last year issued a long and valuable report. Its opinion is that Federal unemployment insurance is "impractical if not undesirable", but that "some form of reserves . . . should be provided by individual employers, with the possible co-operation of employees, and not by the Federal Government or by the State".

#### CONCLUSION.

It seems to me that from a study of these various proposals and discussions we in Canada have an unusual opportunity to reach a solution which will avoid many of the proved defects of the plans of other countries. In so far as unemployment insurance is concerned, there is no need for undue and ill-considered haste—for no such plan can possibly help the present situation. If a scheme is once adopted, it will undergo modification—undoubtedly—from year to year; but it will be found impossible to discard it if it does not succeed. I want to suggest very seriously, once more, that the British plan, with its contributions from employers, employees, and the State, and the division of responsibility which such triple contributions inevitably create, is not the last word; nor is the German plan, even though it does attempt to keep the State out of the insurance scheme proper, and even though it has attempted from the start to separate "insurance" and "relief"; nor are the Danish, Belgian, and Swiss systems, even with their philosophy of self-help and self-reliance; nor are the proposals in the United States.

How far can unemployment be dealt with by insurance? That question has never yet been clearly answered, either in theory or in practice. If on mature consideration it is concluded that so-called "insurance" will not provide the best solution, it is conceivable that an alternative might be found in some form of "saving" plan. At least that principle could avoid the constant shifting of personal and financial responsibilities to the shoulders of other persons or

the State; it would encourage thrift, and self-reliance, and initiative; the direct and undisguised relation between the contributions and the benefits would avoid all the popular misconceptions of the term "insurance" which have so largely undermined the State insurance plans abroad; and, comparatively speaking, it would be easy to administer. Moreover, nothing would prevent the State, under such a plan, from offering tangible support to those who in the first place have the good faith to try to help themselves.

However, I do not wish to put forward that idea in any sense as a considered opinion that it would prove to be the best solution. All I want to suggest is that "insurance", so-called, is not necessarily that best solution, and that a "savings" system is worth consideration as an alternative, or as a supplement.

Much clear thinking, and close study, are required. The mere imitation of legislation elsewhere will not provide the answer. It was said long ago, in words far better than any that have been uttered since the days of the immortal Shakespeare:

"There is a tide in the affairs of men,  
Which, taken at the flood, leads on to fortune;  
Omitted, all the voyage of their life  
Is bound in shallows, and in miseries."<sup>1</sup>

That noble inspiration might well be taken as a text for our discussions of this problem. Not only does it bring to us the thought that we, as individuals, may still find opportunities awaiting those who have ambition and initiative; it suggests also that here in Canada we as a nation have an enviable chance to watch carefully the turning of that tide, and to profit greatly by the wide and varied experiences of other lands in their attempts to curb its ebb and flow.

PRESIDENT CHALMERS:—Mr. Wolfenden, for your remarkably clear and enlightening analysis of unemployment insurance and the problems attendant upon it please accept our deepest gratitude. I think to-day we have gotten back almost to the first principles of this Club. When my good friend Col. John Cooper and two or three of his associates

<sup>1</sup> Julius Caesar, Act IV., Sc. iii, 217-20.

founded the Canadian Club of Toronto thirty-five years ago, it was a small group who gathered around the luncheon table, perhaps with an occasional glass of beer, and discussed subjects that were before the public or coming before the public. And the club of those days was a little group gathering. To-day we have had our discussion on unemployment insurance led by a member of the club, which to me gives particular point to the discussion and a particular feeling of satisfaction. Again let me say we have all enjoyed and benefitted from your address.