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**CAUSES AND CURES OF
UNEMPLOYMENT**

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UNEMPLOYMENT

A PROBLEM OF INDUSTRY (1909-1930)

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TARIFFS: THE CASE EXAMINED

*By a Committee of Economists under
the Chairmanship of*

SIR WILLIAM BEVERIDGE, K.C.B.

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CAUSES AND CURES OF UNEMPLOYMENT

BY

Sir WILLIAM H. BEVERIDGE, K.C.B.

AUTHOR OF 'UNEMPLOYMENT: A PROBLEM
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PREFACE

IN this volume are printed six wireless talks on Unemployment, given during May and June 1931. I have inserted two charts illustrating the subject of the talks, and have added in an Appendix the memorandum of evidence submitted by me in March 1931 to the Royal Commission on Unemployment Insurance.

The Interim Report of this Commission was published while my talks were in progress (long after they had been prepared) and the Report of the Committee on Finance and Industry was issued just after their conclusion. So far as I can judge, neither Report contains ground for changing seriously anything in my talks, though each, of course, covers—with far more authority and fullness—part of the same ground.

I have kept in the printed text a few sentences which, when speaking through the microphone, I omitted, in order to come within my allotted twenty minutes for each talk, and I have corrected one or two minor errors and amplified one or two phrases which caused misunderstanding. Otherwise, with 'chapters' substituted for 'talks' in cross references, the printed text represents almost word for word what I said. I am indebted to the British Broadcasting Corporation for permission to republish these talks in their present form.

W. H. B.

GREEN STREET,
AVEBURY,
26th July, 1931.

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APPENDIX

EVIDENCE OF SIR WILLIAM BEVERIDGE, K.C.B., DIRECTOR OF THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE, TO THE ROYAL COMMISSION ON UNEMPLOYMENT INSURANCE

1. I was engaged in the Board of Trade from 1908 to 1916, first in devising with Sir Hubert Llewellyn Smith the scheme of compulsory unemployment insurance for certain trades introduced in 1911, and then as Director of Labour Exchanges in administering the joint service of Labour Exchanges and Unemployment Insurance. In 1919 I was a member of a Departmental Committee concerned in framing a general scheme of unemployment insurance. Since then I have had no practical association with measures for dealing with unemployment, though I have continued to study the problem and have written about it. I am not in a position to tell the Commission anything about the working of the present scheme of insurance which they will not learn better at first hand from other witnesses. I hope it may be of value to them if I first set out briefly the objects of the original scheme, the principles underlying it, and the dangers against which its framers sought to guard it; second, compare and contrast with this the present scheme; third, make some tentative suggestions as to the outlines of a policy for dealing with unemployment insurance and assistance in the future.

2. Before 1911, insurance against unemployment on any considerable scale was unknown in any country, except as practised by trade unions. In Britain provision

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of unemployed benefit, along with other benefits (for sickness, death, accidents, etc.), had been a feature of trade union organisation for more than fifty years. The unemployed benefit consisted of a payment—seldom exceeding 10s. a week—for a limited number of weeks—seldom exceeding 26 in a year; where the benefit continued for a long period the rate of benefit was usually reduced for the latter part of it; after exhausting his claim for one year the member could not as a rule claim again till he had again been in work for a specified period. These benefits, small as they were and little as they cost the unions, were usually sufficient, with the other resources of the workpeople concerned, to make it unnecessary for them to apply either to the Poor Law authorities or for any other form of relief, *e.g.*, under the Unemployed Workmen Act of 1905. Unemployed benefits were confined, however, to a limited number of trade unions, in skilled occupations; they practically did not extend to any unskilled workmen. Even in such strongly organised industries as cotton and coal-mining they were little developed; depression of trade there was met by systematic short time for all rather than by dismissal of some, and the unions did not think it necessary to supplement the earnings of persons on short time. The somewhat notable fact that the friendly societies, which did so much for sickness, accident and funeral insurance, made no attempt to insure against unemployment and left that to the trade unions, is explained by two considerations. First, the trade unions alone, by the knowledge which members of the same trade had of the openings for work, were in a position to test the genuineness of unemployment. Second, in the trade unions, provision of unemployed benefit was intimately associated with keeping the union together and maintaining the standard of wages; unemployed members were kept on benefit so that they might not be tempted to undercut the union rate; on the other hand, if a union put its rate higher than economic conditions warranted, the cost of doing so fell directly on its funds and its members in employment. The union was ✓ directly interested in reducing unemployment to a minimum.

3. Compulsory Unemployment Insurance was intro-

duced in 1911, primarily as a means of extending something like the trade union system to unskilled and unorganised workmen. It was meant to provide a benefit, strictly limited in duration, to men whose eligibility for benefits could be determined by some simple automatic test, and under rules designed to interest workpeople and employers alike in reducing unemployment and avoiding unnecessary claims. This last motive was, indeed, one of the main reasons for requiring contributions from employers; the contributions would vary from time to time with the rate of unemployment. The contribution from the State was justified partly as an expression of the interest of the State in reducing distress through unemployment, partly as a means of equalising risks and contributions. The scheme was introduced at first experimentally for a few trades, those where systematic short time was customary (such as cotton and coal) being deliberately excluded; unemployed benefit was regarded as an alternative to organised short time, not as a subsidy in aid of it. The trades insured at the outset included also, by design, hardly any women, so that the problem of insurance of women after marriage did not arise.

4. The period for which benefit could be drawn was limited in two ways. It might not exceed a specified number of weeks (originally 15, later 26 weeks) in twelve months. It might not for an individual be more than one week of benefit for every five (later six) contributions paid by him. Limitation of the period for which benefit could be drawn was not dictated solely or even mainly by actuarial considerations; it was in fact at that time impossible to estimate how much the claims on the insurance fund would be cut down by either the 15 weeks rule or the 1 in 5 rule. The main principle underlying limitation of benefit was that, though a weekly allowance given as of right without conditions was a suitable means of dealing with temporary unemployment—of tiding over a bad time men who needed nothing more than tiding over till in the normal course they would recover work in their own trades at their former wages—it was not an appropriate measure for chronic unemployment.

5. The limitation of benefit to one week for every five contributions had several purposes. It appeared the

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simplest way of defining eligibility for benefit and protecting the scheme against uninsurable risks. It emphasised the contractual nature of the scheme, adjusting the extent of protection given to the amount of premiums paid. It gave the workman an incentive to avoid unnecessary claims, if he were not in need, and keep his rights intact for a rainy day.

6. The belief that it was important to interest work-people and employers alike in saving the insurance fund from avoidable claims dominated the scheme of 1911. Those responsible for pressing forward insurance at that time were well aware of the danger that provision for unemployment might tend to bring about unemployment—might affect the readiness of workpeople to move to new trades and new districts, might relax efforts by employers to maintain an even flow of employment, might make for excessive rigidity of wage rates. Provision for unemployment, accordingly, through insurance, was accompanied by a number of measures designed to reward and so to encourage the prevention of unemployment. The insurance scheme was associated with a labour exchange system established before it, which it was hoped that employers would come to treat as their main means of recruiting labour; the exchanges were to be in a position to test the genuineness of unemployment by knowing all the jobs available. A rebate of contributions was allowed to employers giving regular employment. A refund of contributions was made at the age of 60 to workmen who had not drawn benefit. The insurance fund was to be self-supporting, and the scope of State help in meeting deficits was rigidly limited. Accounts were to be kept in such a way as to show how the separate trades were paying in and drawing out, and it was contemplated that when the facts were known there should be different contributions for trades with high and with low unemployment respectively.

7. It was recognised, of course, that limitation of the period of benefit meant that men might exhaust their rights to benefit before they recovered employment—in other words, that the insurance scheme would not cover all unemployment. It was never meant to do so. It was meant to be accompanied by a reform of the Poor Law,

making provision outside insurance—on the basis of need rather than of contractual right—for those who exhausted their insurance rights. Compulsory unemployment insurance was conceived only as a first line of defence against distress through unemployment, an extension of admirable pioneer work done in this field by the trade unions.

8. The present system bears no resemblance at all either to the practice of trade unions or to the scheme of 1911 that was meant as an extension of it. Every important idea in either has gone by the board. The benefit has been made unlimited in time and practically divorced from the payment of contributions: it has become neither insurance nor a spreading of wages, but out-relief financed mainly by a tax on employment. The insurance fund has become indistinguishable from the national exchequer. All interest of employer or of work-people in reducing unemployment has gone; glaringly the scheme has become in many cases a means of subsidising casual industries and insufficient wages. In the past, I, like other defenders of unemployment insurance, have often had occasion to speak of 'insurance popularly miscalled the dole.' To-day I am afraid that it might be truer to speak of 'the dole officially miscalled insurance.'

9. The disintegration of the insurance system is not due solely or mainly to the Act of 1930, passed by the present Government. The first step was taken when, in 1920, the system introduced in 1911 for a few selected trades was applied practically without change to all trades, no use being made of the power to exclude from the general scheme and deal by special schemes with casual occupations like dock labour or short-time industries like cotton and coal. The second and decisive step was taken when by the Act of 1927 benefit was made unlimited in duration and, for a 'transitional' period, nearly independent of any payment of contributions. The transitional provisions were extended by an Act of 1929. The Act of 1930 has simply carried to its final stage the process of merging insurance in indiscriminate relief of the able-bodied, by a further extension of transitional provisions and by abolishing the psychological requirement that the applicant should be genuinely seeking employment.

10. The main problem now is not that of finding an

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actuarial basis for the scheme as it stands. The objection to unlimited benefit given as of right is not simply or mainly that of expense, but (a) that money payments without conditions are an inadequate and demoralising way of dealing with prolonged unemployment, and (b) that the availability of such payments encourages unemployment. There would be little sense in trying to find an actuarial basis for fire insurance in a country with no fire engines and no penalties for arson.

11. The essential evil of the present scheme is that it treats alike things which are unlike—the temporary unemployment of the regular worker thrown out by seasonal or cyclical depression, the permanent loss of their old employment by men whose trades have declined or moved, the chronic under-employment of the dock labourer, the loss of earnings by the short-time worker, the leisure of the married woman for whom earnings has become incidental, the long decay of men ageing before their time. The remedy must lie in restoring discrimination and treating differing cases by different methods." This does not mean that the whole problem of unemployment should be divided as between central and local authorities, that part should be dealt with by the Ministry of Labour and part relegated to local bodies for Public Assistance. Mrs. Sidney Webb and the Minority of the Poor Law Commission of 1906 were, I believe, right in urging a single central authority for dealing with the Unemployed at all stages. But it is essential to recognise that there are different stages calling for differing treatment. Broadly we have to distinguish three classes:—

i. Those who are unemployed with a presumption that within a reasonable period (i.e., one not too long, to cause demoralisation through idleness) they will be able to find work again in their own trades and places.

ii. Those who are unemployed and apparently able and desiring to work, but with a presumption that they will not within a reasonable period as defined above find work again in their own trades and places.

iii. Those who though of working age are apparently either unfit to work or unwilling to work.

12. The appropriate provision for the first class is unemployment insurance, as conceived in the schemes of 1911 and 1920—a weekly payment, given as of right, for a limited period, in respect of contributions, from a fund required to be self-supporting. All these people need is a spreading of their wages over good and bad times, 'tiding over' till work returns to them on substantially their former terms. So long as the principle is maintained that the insurance fund, with a fixed contribution from the State, must be self-supporting, the rate and period of benefit and the terms on which it is drawn can all be generous. The rules defining continuity of unemployment, however, must be such as to prevent benefit from becoming a subsidy to chronic under-employment or short time. Moreover, though insurance in one form or another should cover all industrial occupations, at least, and so far as possible, with uniform benefits, there should be some means of adjusting premiums to risks, not only in the scheme as a whole (which will be secured by making it self-supporting as a whole), but as among industries and individuals. Something will be done in this direction if the maximum benefit that can be drawn by any individual is limited by reference to his contributions. The following further suggestions are submitted for examination :—

13. First, the Minister of Labour might be empowered to schedule industries as having 'excessive unemployment.' Scheduling would mean in all cases that engagement of labour had to take place through or under supervision of the labour exchanges, so that recruiting of fresh labour in a presumably overcrowded industry would be controlled as it now is in coal-mining. Where it appeared that the excessive unemployment was a normal condition of the industry, *e.g.*, due to casual employment, scheduling would have the further effect of modifying the insurance scheme in relation to that industry, either cutting them out altogether and making a special scheme to fit their peculiar condition (*e.g.*, with dock labour) or simply increasing their contribution.

14. Second, part of the money required might be raised by a tax on dismissals in place of raising it all, as now, by a tax on employment. The employer, besides

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affixing an insurance stamp for each week of employment (say 1s.) and deducting part from wages, would put on a special stamp (say 5s.) whenever for any reason a man left his employment in such a way as to qualify for benefit. It would be easy to make exceptions for men engaged exceptionally for short periods (particularly if this were done through an exchange) and thus to avoid discouraging such employment. On the other hand, the tax on dismissals, originally proposed by the Poor Law Commission of 1906, under the name of an 'employment termination due,' would automatically increase the contributions of industries and employers making a practice of irregular labour. Arguments can be advanced against this suggestion of a tax on dismissals, but on the whole I think its advantages would be found in practice to outweigh any disadvantages.

15. The principle of the refund of surplus contributions at 60 embodied in the original scheme might be reintroduced in an improved form by providing that any man who at 60 had any contributions to his credit might be allowed to retire voluntarily on a small pension, say 10s. a week, in place of working at all.

16. These suggestions are made only as typical of many others that might be considered, having the general object of adjusting insurance premiums to risks. Such adjustment is desirable, not merely or mainly on grounds of equity, but in order to enlist the interest of employers and workpeople on behalf of the insurance fund, in place of uniting them, as at present, in more or less open conspiracy against it.

17. The essence of the insurance system as described above being the giving of definite rights for a definite period, provision must be made for those who exhaust their rights to insurance benefit. So long as they remain *prima facie* able to work and desiring to work, they should be treated as an industrial rather than a social problem, by a central rather than a local authority, that is to say, either by the Ministry of Labour or (preferably) a statutory commission supervised by the Ministry. The fact, however, that they have exhausted their claim on the insurance fund sets up a presumption that they may not

be able to recover work on their former terms ; their long unemployment makes it certain that further unemployment without occupation of any kind will bring demoralisation. For both reasons something other than mere 'tiding over' by insurance is required. The relief of these men should be a matter, not of contractual right enforced by quasi-legal process before an Umpire, but of need, judged by the administering authority, and would be subject to conditions imposed by the authority ; the necessity of side-tracking detailed Parliamentary scrutiny of the action taken in individual cases makes it desirable that this authority should be a commission with statutory powers, and not a Minister directly responsible to Parliament. The recipient of relief would not be entitled, as under insurance, to hold out for substantially his former wages and former type of work, but would be required to take any work in any place judged suitable for him by the administering authority. He might be required as a condition of relief to enter a training establishment or otherwise have his time or thoughts occupied. He might, in the discretion of the authority, be relieved either in money or in kind. He would, however, be treated as still part of the industrial army, and be relieved, without loss of civil rights, with the aim of restoring him to employment and insurance. If it became clear that through infirmity he was never likely to recover employment, or if he failed to accept suitable work or to comply with the conditions of relief, he would become a social rather than an industrial problem. He would be passed on, in the first case, to the local Public Assistance Authority as no longer able-bodied ; in the second case, to whatever authority was appointed to deal, either in detention colonies or under other stringent conditions, with men of proved unwillingness for work.

18. The essence of this proposal is that, up to the point when men prove themselves unemployable (whether through physical infirmity or character) they shall be dealt with by a central industrial authority, but in two sections—insurance and relief. Both sections might, indeed, be entrusted to a single Statutory Commission working under the supervision of the Minister of Labour.

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For one side of its work, the Commission would take over the Labour Exchanges and Unemployment Insurances. For the relief side it would have local officers forming a separate organisation and housed in separate buildings. It would not, I think, need for the two branches together a larger organisation than for unemployment insurance alone.

19. The separation of relief for prolonged unemployment from insurance for tiding over is proposed here as the only way of securing appropriate differing treatment for differing problems. The proposal does not imply a view that those who suffer prolonged unemployment and run out of insurance are always themselves to blame for their misfortunes. On the contrary, they may be the victims either of large economic movements almost beyond human control (such as those which had led to the decay of coal-mining in certain districts of Britain) or of a policy of rigid money wages in face of falling prices pursued by trade unions or sanctioned by public opinion. But this does not make a benefit claimable as of right so long as they are unemployed an appropriate remedy for their case. The ruined mining areas need treatment altogether different from perpetual doles. The practicability of the scheme suggested above, involving both generous insurance based on contract and adequate relief based on need and subject to conditions for those who run through insurance, depends upon getting back one way or another to the position existing before the war, when the trade unions felt some responsibility both for wage policy and for the unemployment which a policy of rigid wages might in certain conditions cause. A scheme either of insurance or of relief which makes leaders of industry—whether employers or trade unionists—careless as to the creation of unemployment is a social danger of the first magnitude.

20th March, 1931.

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