

SOCIAL INSURANCE COORDINATION

**AN ANALYSIS OF GERMAN AND
BRITISH ORGANIZATION**

COMMITTEE ON SOCIAL SECURITY SOCIAL SCIENCE RESEARCH COUNCIL

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SOCIAL INSURANCE COORDINATION

An Analysis of German and
British Organization

By C. A. KULP

A
REPORT PREPARED FOR THE
COMMITTEE ON SOCIAL SECURITY

Washington
Committee on Social Security
Social Science Research Council

1938

PRINTED IN THE UNITED STATES OF AMERICA
UNDER THE DIRECTION OF RAYMOND RICH ASSOCIATES

FOREWORD

COORDINATION of the social insurances with each other and with various forms of relief is a matter of increasing importance in the United States in view of the statutory and administrative developments of the last three or four years. Other countries, notably Germany and Great Britain, have had decades of experience in dealing with virtually identical questions of organization and policy. The Committee on Social Security undertook the study which resulted in this volume, one of a series of investigations of fundamental social insurance problems, in the well-founded belief that a critical examination of German and British experience would clarify questions which are bound to become important in the United States, and would disclose the possibilities and limitations inherent in coordinating devices and policies that may be suggested to meet them.

This volume is not intended to be a descriptive survey of the social insurances of Germany and Great Britain. A number of competent descriptions already exist; the International Labour Office's *International Survey of Social Services* gives an excellent summary of statutory provisions. Neither is this volume a handbook of social insurance organization and operation; had this been intended, a separate manual for each insurance would have been required.

Instead, a more difficult task has been attempted: that of ascertaining how well the German and British social insurances—and relief—work together and why. The result is essentially a discussion of organizational policy. Past studies in this general area have tended to emphasize individual insurances—though the recent P E P *Report on the British Social Services* is a brilliant exception—and have generally stressed statutory as against organizational aspects. The present volume, on the other hand, attempts a picture of the inter-relations of the social insurances in their actual operation.

This point of view has governed the presentation of the text. It is focused, first, upon general social insurance organizational trends, and, secondly, upon fundamental relationships, forms and

problems. No attempt is made to trace out every trend or to analyze every minor issue. Two major organizational trends—toward centralization and toward coordination—provide the main themes. These are broad and pervasive enough to touch at one point or another every aspect of the social insurances. Detailed case studies of an insurance or an institution are introduced at intervals to give concreteness to the discussion of organizational trends and relations, and necessarily the same insurances or institutions have been used repeatedly as examples. Thus, British Unemployment Assistance illustrates the British trend toward centralized administration and likewise a slower trend toward coordination. It serves also as the subject of a case study on the coordination of unemployment insurance and unemployment relief. The functional approach used by the author has not, of course, resulted in a systematic description of individual insurances and administrative agencies. An unusually thorough index, however, makes it possible to bring together all of the discussion or analysis bearing upon any one insurance or institution in which the reader may be especially interested.

The materials utilized consist almost entirely of official documents and of information obtained in interviews with official and other qualified persons during eight months spent by the author in Europe. Inasmuch as many of the most significant characteristics of any organization are intangible, the persons interviewed proved to be more helpful than official reports. In the great majority of cases, it has seemed best not to cite these persons in support of points of interpretation or fact. To safeguard officials and others against possible identification with opinions or statements in the text, the author has concluded that he must content himself simply with an acknowledgment of his indebtedness to the many persons who were so generous of their time and experience and without whose wholehearted help a study of this kind would clearly have been impossible. He is particularly indebted to the civil servants and other officials of the German Federal and Prussian Ministry of Labor and the Federal Insurance Office; of the British Ministries of Labour and Health, Unemployment Assistance Board and the Public Assistance Committee of the London County Council; and of the Social Insurance Section of the International Labour Office at Geneva.

The author wishes to express his appreciation also to Edwin E. Witte, Joseph H. Willits, Frieda Wunderlich, I. S. Falk, J. Frederic Dewhurst, Eveline M. Burns, Walter Matscheck, Robert Frase, William R. Williamson, Margaret Grant and Franz Huber, who gave their time and helpful criticism while the manuscript was being written. Final revision of the manuscript was largely the task of Mary Charles Cole. In its later stages the manuscript was reviewed by Sumner H. Slichter and Horace A. Bacus on behalf of the Committee on Social Security.

While the study has been sponsored by the Committee on Social Security the resulting report has not been submitted to the Committee for formal review or approval. The statements and conclusions of the author are therefore entirely his own and do not necessarily reflect the opinions or attitudes of the members of the Committee or of the Social Science Research Council.

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November 28, 1938

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SOCIAL INSURANCE COORDINATION

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PART I
COORDINATION AND SOCIAL INSURANCE
ORGANIZATION

CHAPTER I

THE MEANING OF COORDINATION: WORKING
VOCABULARY

A WELL COORDINATED social insurance system is one in which all the elements work together harmoniously and effectively to a common end. This is a broad definition, but it needs to be, because of the breadth and complexity of the area it must cover. The principal elements of social insurance coordination are: (1) *organizational*, and (2) *actuarial-technical*.¹ As the title of this book indicates, primary emphasis is on social insurance organization. Actuarial-technical phases are included whenever they affect or are affected by organization.

By social insurance organization is meant the number and kind of supervisory and insurance bodies engaged in social insurance and the nature of the relations between them. Organization may refer to a single insurance scheme or to an entire social insurance system. Always in Germany, and sometimes in Great Britain, a division is made between the functions of operating the insurance scheme (collecting contributions, maintaining reserves if any,

¹The economist would add, and quite properly, *social-economic*. For example, a perfectly coordinated scheme, were one possible, would take into account such elements as the social and economic effects of social insurance contributions, benefits and reserve accumulations on the national income and national welfare; the incidence of contributions on contributing and other social groups, etc. It is remarkable to Americans to find how little attention is paid to these matters abroad. There is, for example, little discussion of incidence in Great Britain and Germany. Indeed there is a frequent assumption that the worker-member pays not only his direct contribution, but, in lower wages or higher prices, the employer's share as well. "Moreover the distribution of cost, as provided by the law, between insured persons, employers and the state is not of fundamental importance. For, whatever may be the intention of the legislator, the cost will, in the ultimate analysis, be distributed according to the very complicated operation of the law of incidence, and will be met in varying proportions out of wages or included in the selling cost." (International Labour Office, *General Problems of Social Insurance* [Geneva: 1925], p. 128.)

In so far as these social-economic considerations enter into the problems of coordination, they are treated as a part of the actuarial-technical factors to which they are closely related.

paying benefits, bearing the financial-actuarial risk), and of supervising it (seeing that the scheme works efficiently or legally). The first function is performed by administrative or insurance bodies, the second by supervisory bodies.²

The actuarial-technical elements of social insurance are that complex of insurability and eligibility rules, and contribution, benefit and reserve provisions which is not a part of organization but affects it intimately. These are what the average person thinks of as the social insurance "law." As a matter of fact, the actuarial-technical elements, though by no means always, are usually statutory; organization to a remarkable degree is not.³

Unless specified otherwise the term coordination will refer in this book to coordination exclusively or primarily of organization or administration. The following pages will show that many organizational features or changes carry with them distinct actuarial-technical consequences and may even arise from an attempt to improve actuarial-technical coordination. Coordinative features and changes entirely or largely actuarial-technical are so indicated.

Coordination is essentially a horizontal relation. It may exist within an insurance scheme between insurance or supervisory bodies at the same level (as in the collaboration of the Ministry of Health and the Ministry of Labour in British unemployment insurance) or between insurance bodies (as between the thousands of health insurance funds in Germany). It may also exist between the actuarial-technical features of the schemes administered by different insurance bodies or funds, though here it is more difficult to achieve and indeed in large part may even be inconsistent, since the reason for multi-insurance carriers on the same risk is the desire to assure the financial autonomy of each and reward good management by allowing differences in benefits or contributions. Even in a single national insurance system there may be questions of actuarial-technical coordination of contributions and benefits among various classes of members.

² Actually, as we shall see in Chapter 18, the functions of the supervisory bodies extend beyond simple supervision. To eliminate a clumsy ellipticism, the functions of a supervisory body are to be taken to include also regulation of the insurance bodies and provision of appeal facilities.

³ This Chapter on definitions is not intended to treat exhaustively all the terms it refers to. The relations between the organizations and insurances cited here as illustrations are shown graphically in the Appendix, together with a brief description. For cross-references between these definitions and related discussions in the text, see the index.

The most important possibilities both of organizational and actuarial-technical coordination lie in the relations *between* insurance schemes and sometimes, when the groups of persons covered are similar or identical, between insurance and relief schemes. Here coordination is even more clearly a horizontal relation. The same ministry (a supervisory body) may coordinate the organizational and actuarial-technical features of different insurance schemes under its supervision, e.g., the German Ministry of Labor, or more specifically, the German Federal Insurance Office (Reichsversicherungsamt), which has under its general supervision all social insurance. Or two supervisory bodies may cooperate in handling the able-bodied unemployed, as the German Ministry of the Interior, which supervises local government and makes local grants-in-aid for unemployment, and the Ministry of Labor, which certifies relief applicants as able-bodied and unemployed. Similarly in Great Britain the Ministry of Labour and the Unemployment Assistance Board work together in administration of unemployment relief. Insurance bodies covering different risks, for example, German industrial accident (workmen's compensation) and health funds, may work out important cooperative arrangements to govern their joint responsibility. And finally there are opportunities for coordination between the contribution, benefit scales and other technical features of different insurance schemes, and broadly between social insurance and relief.

Coordination is finally a relative concept. The coordinative process is never finished. Coordination followed to its inevitable (not necessarily its ideal) conclusion becomes unification; but the very idea of social insurance coordination assumes that there are different organizations or insurance schemes and that it is desirable to relate them efficiently and harmoniously. The extent to which coordination is desirable and is to be sought depends on a great many factors. Of these some of the most important (discussed in detail later, particularly in Chapter 17), are the political and social characteristics and predilections of the insured membership, the nature and scope of existing insurance institutions (many of them older than compulsory social insurance), the actuarial nature of the risk. The desirable degree of coordination—assuming agreement, for by its nature decisions on this question are largely empirical—not only varies from one period to another;

it varies widely between countries and even within a country depending on the insurance scheme. The factors involved are unbelievably complex. One reason why there are no absolute standards in this realm is that, particularly in questions involving actuarial-technical (including social-economic) coordination, decision is made on grounds largely historical, subjective or even ethical. It may, for example, be desirable for many reasons to impose standard benefits and contributions on the 4,725 health insurance bodies in Germany, but what of the century-old tradition of self-government? Again, below what income level should compulsory membership in a social insurance scheme be imposed? Even more difficult to decide on objective grounds is the proper relation between the benefit levels of insurance and relief for the able-bodied unemployed. Hardly anyone argues that they should be the same (practically they cannot be), but what is the desirable differential? While it is not the first purpose of this book to deal exhaustively with these questions of actuarial-technical coordination, they complicate considerably the related organizational problem.

"In this connection," says the majority of the British Royal Commission on National Health Insurance in its discussion of the difficulties of securing exact equities in social insurance, "we realize that there are features of the system which must appear to many as defects, and that these cannot be eradicated from it. On the other hand we cannot disregard the consideration that opinion as to faults and defects in a scheme of this kind is largely a matter of the individual standpoint, and that what amounts in the eyes of some to a flaw will commend itself to others as an element of equity or justice." (*Report of the Royal Commission on National Health Insurance, 1926, p. 102.*)

A current instance is the demand of British spinsters for equal treatment with widows in the old age pensions scheme. "800,000 of the 4,000,000 single women who annually contributed to the Pensions Fund [will] remain spinsters and pay contributions as the result of which only 80,000 of their class [will] benefit." The answer of the Minister of Health was that "in fixing the rates of contribution, account was taken of the fact that the great majority of insured women would marry insured men, and . . . the accumulated contributions of such women should go towards providing the benefits . . . which she would receive as the wife or widow of an insured man and by way of supplementing his contribution." He added that spinsters do not begin to pay for the pensions they later receive as wives or widows. (*London Times, June 4, 1937.*) [Author's note: But then neither do non-spinsters.]

Even in private insurance where the factors are less complicated, there are no absolute standards of contribution-benefit equity between risks. All rates are averages for groups selected on the basis of homogeneity, but the groups and the rates always represent a compromise between the search for greater and greater refinement of the groups (which reduces their size and credibility), and the search for the maximum of company safety and experience-uniformity over a period of time. Far from being the most exact in this question of rate equity, ordinary life insurance is among the crudest of insurances: it generally takes into account only one risk factor—age.

COORDINATION AND UNIFICATION

A number of other concepts are related to coordination but are to be distinguished from it. Complete unification, for example, would in theory at least result from the merger of the organizational and actuarial-technical structures of different insurances. Partial unification is a merger of one or a part of one, of these, in practice usually of organizations. Coordination sometimes takes the form of partial unification but not usually; usually the coordinator is seeking a smoother and more efficient relationship *between* different insurance bodies and schemes. These must of course have some fundamental characteristics in common, such as a broadly similar membership or financial basis; otherwise there is no more argument for coordination than for unification. Their differences are at the same time important enough to demand, in part at least, different organization or different treatment. True coordination may indeed require not unification but a separation of function, at least in part, as in the British practice of separating placement and insurance records so that the applicant's insurance status shall not interfere with honest and efficient placement.⁵

COORDINATION AND SIMPLIFICATION

Nor is coordination the same as simplification, although it often works out as a simplifying process. An instance is the application of the so-called Schlüssel or formula for eliminating most of the intricacies of cross-accounting between the German old age-invalidity bodies.⁶ Indeed inter-insurance relations may, by any reasonable standard, be harmonious and effective and still be desperately complex. German social insurance organization, like German government, is at the same time very complicated and very orderly.⁷

⁵ *Final Report of the Royal Commission on Unemployment Insurance*, 1932, p. 305. For a detailed analysis of the unification issue, see Chapter 21.

⁶ In Germany invalidity (long-term non-industrial disability) and old age insurance benefits are provided by the same insurance institutions. Since 1934 both are called invalidity benefits and differ only in that payment of the first is dependent on proof of physical incapacity, the second on arrival at age 65. For a discussion of the Schlüssel, see the section on old age-invalidity insurance in Chapter 12.

⁷ For further details of German and British organizational terminology, see F. F. Blachly and M. E. Oatman, *Government and Administration of Germany* (Washington: The Brookings Institution, 1928), especially pp. 29,

COORDINATION AND INTEGRATION

Integration is a term closely allied with coordination. Coordination has been preferred in these pages principally because integration to certain writers includes the concept of vertical relations between different levels of authority (administrative and supervisory) and to others the idea of departmentalization of related functions.⁸ The second of these is foreign to the purpose and scope of the present investigation. And while it is impossible and even undesirable to attempt terminological precision beyond a certain point, this investigation is essentially one of horizontal relations: between one insurance body and another, between one supervisory body and another, between insurance schemes; and the term coordination conveys that emphasis. This decidedly does not rule out of consideration the important question of the relations between supervisory body and insurance body, which may be regarded as vertical, but these relations are hardly those implied by the term, integration. Supervision acts from above at times to promote, among other ends, coordination, but coordination operates through a common level, not between levels of authority or administration. Relations between the higher and lower levels of authority within the insurance organization will be considered only as they affect inter-insurance or inter-insurance-body coordination. The most important failures to coordinate occur not *within* a single national insurance institution but between insurances or insurance institutions.

CENTRALIZATION

Centralization or centralized organization means close control at the top level of authority, supervisory or administrative.⁹ Like decentralization, its opposite, it is a relative term. It denotes a

302, 625, 629; F. A. Ogg, *Governments of Europe* (rev. ed.; New York: Macmillan, 1929), p. 228; G. D. H. Cole, *The Future of Local Government* (London: Cassell and Co., 1921), p. 6; J. A. R. Marriott, *English Political Institutions* (Oxford, 1910), p. 283; Ramsay Muir, *How Britain Is Governed* (New York: R. R. Smith, 1930), p. 44; William B. Munro, *The Government of European Cities* (New York: Macmillan, 1927), pp. 48-50.

⁸W. W. Willoughby, cited in Leonard D. White, *Introduction to the Study of Public Administration* (New York: Macmillan, 1926), p. 57.

⁹"Centralized administration is . . . one in which there are close relations of control and subordination between officials responsible to different levels of government." (*Ibid.*, p. 77.)

vertical relation always. It is a term carelessly used. Frequently an organization is said to be decentralized because a subordinate official carries out certain functions of the organization; but this is merely decentralization of *function*, or "technical" decentralization. The test of true decentralization (decentralization of power, of control) is the degree of local or subordinate autonomy. If this is low, the organization is only technically decentralized. Unless specified otherwise, the terms centralization and decentralization will refer in this book only to control.

We shall have to consider in this investigation three types of true or power centralization: (a) that produced by relatively close control by superior over inferior insurance or administrative bodies (hereafter referred to as *administrative* centralization); (b) by supervisory over insurance or administrative bodies (hereafter *supervisory* centralization); and (c) by superior over inferior supervisory bodies (*internal supervisory* centralization). For the purposes of this study, the second is the most important.

A few examples of the varieties of centralization and decentralization follow. Administrative *function* may be decentralized and administrative *control* centralized, as in German and British unemployment insurance. That is, the nature of the insurance risk and its connection with placement make necessary the delegation of many duties to local offices. Policy nevertheless is made at the top of the organization and even detail operations are often controlled by minute central instructions. Administrative *function and control* may be decentralized. Both the British and German health insurance organizations are illustrations; formerly the degree of supervisory control was so slight that the schemes were truly decentralized: they were autonomous, as in German industrial accident insurance today. And *both function and control* may be joined in one highly centralized organization, e.g., British old age insurance.

True decentralization (of control) and self-government mean practically the same thing. The concept of self-government comes from political organization: both in Germany and Great Britain political self-government denotes freedom from central domination and central bureaucracy; in both countries it includes the idea of lay participation in affairs considered of local concern. Political self-government always refers to autonomy at local levels

only. Self-government in social insurance is more complex and is quite different in Germany and Great Britain. In Germany it has meant first and foremost industrial democracy: administration of, or at least responsibility for, the social insurance organization from top to bottom by employer and worker contributors. Sometimes, as in health insurance, self-government was joined with local responsibility: there were and are a large number of relatively small territorial insurance bodies or funds. In Great Britain (where health insurance is the sole example of self-government) the insured members only (not the employers) in theory administer their own Approved Societies (insurance bodies), a modern variation of the mutual aid groups from which they have developed. Actually many of the Approved Societies are merely private mutual insurance companies, some of giant size.

One of the surface paradoxes of social insurance organization trends is that centralization and self-government are not necessarily or always antithetical.¹⁰ This is naturally most true of administrative centralization; for instance, the German Federal Institution for Employment Service and Unemployment Insurance (Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung). It began with an extreme degree of true decentralization (power at the lower levels) but beginning about 1930 higher administrative officials gradually took over more control. Yet the Institution, at least until 1933, was practically self-governing as it always had been. *Supervisory* centralization¹¹ may also exist with self-government. The best examples are British and, to a degree, German health insurance. In the latter, for instance, and particularly since 1933, central supervisory powers have increased considerably, but an important degree of autonomy remains with the health insurance funds. The reason, of course, is that neither centralization nor self-government is an absolute. An instance is the recent increase in supervisory control of German health fund personnel and the conspicuous omission to modify health fund fiscal-actuarial autonomy.

¹⁰ "Centralization of social insurance does not require any limitation of self-government." (Richard Freund, in *International Labour Review*, January 1925, p. 9.)

¹¹ See Chapter 7 for an example of increasing *supervisory* centralization in German unemployment insurance.

It would be unrealistic not to add that the usual purpose of increasing central supervisory power and no less often its usual result is to decrease local autonomy. Self-government by a nation-wide insurance body tends to be almost as highly centralized (administratively) as a straight governmental system. For example, the nation-wide organization for salaried employees in German old age-invalidity insurance resembles that of British old age insurance more than the German old age-invalidity insurance scheme for wage earners.

COORDINATION AND CENTRALIZATION

The relations between coordination and centralization, as we shall see presently in more detail, are many and complex. Coordination, if pursued directly, comes very slowly; it comes more usually and in the long run more surely by the indirection of increased central control. Superior administrative or supervisory authorities have three reasons (aside from the propensity of bureaucrats to expand) for increasing their control. Most often it is the simple desire to improve administrative standards, particularly in personnel: for example, the increasing administrative centralization of the German unemployment insurance scheme. Sometimes it is central financial responsibility that provides the reason for, as well as the weapon of, greater central supervisory control. Old age-invalidity insurance for wage earners in Germany and health insurance in Great Britain are examples. Finally, but not as frequently as for the other reasons, higher authorities, supervisory and administrative, wish more power in order to be able to improve coordination. This was a powerful contributing factor in the important increase of central supervisory powers granted the German Federal Insurance Office in 1933-34.

All of these have serious limitations as ways of improving coordination, particularly between insurances. The first two, as the examples indicate, operate principally within the limits of a single insurance scheme. The last is limited by the fact that centralized administrative organizations, irrespective of the motives cited above, are often hostile or at least lukewarm toward coordination. Unless a single supervisory body has the power and the wish to draw centralized administrative bodies closer together, mere centralization cannot be expected to produce coordination. Usually

12 COORDINATION AND SOCIAL INSURANCE ORGANIZATION

the contrary. Germany places supervision of all social insurance in one ministry. Great Britain divides it among five ministries. In Germany supervisory centralization works directly for coordination. In Britain the very fact of the existence of five highly centralized ministries discourages it.

CHAPTER 2

BASIC IMPORTANCE OF ORGANIZATION AND ADMINISTRATION

"NOTHING," SAYS MUNRO, "is easier to make than an unworkable law."¹ The British and Germans, unlike Americans, have learned not to put all of the law in the statute, but rather to trust the administrative organization to transform the dead paragraphs into a living and flexible organization.² This has its defects as well as its advantages, but particularly in the realm of technical social insurance administration there is no question of the net gain.

The Europeans, again in sharp contrast with Americans, place much weight on problems of organization and administration,³ comparatively little on the actuarial-technical features of the laws. "Problems of social insurance," says Joseph L. Cohen, "are almost all bound up with questions of administration and organization."⁴ It is a rare thing for a European specialist to ask about the benefit and contribution provisions of American laws; his first question and concern is: "How are you going to operate so vast a scheme with so little preparation and all at once?" Germans particularly are unable to see how it is possible to implement so comprehensive a program: their background prepares them for the difficulties of state loyalties and local opinion, and their schemes came into effect gradually between 1881 and 1927. The British are amazed to find

¹ William B. Munro, *The Governments of Europe* (New York: Macmillan, 1925), p. 95.

² Blachly and Oatman, *op. cit.*, p. 627; Muir, *op. cit.*, pp. 58-64; P. Orman Ray, *Major European Governments* (Boston: Ginn, 1931), p. 102.

³ Organization in the same broad sense as used in Chapter 1: the number and kind of supervisory and insurance bodies and the relations between them. As the following pages of Part I show, there is no intention at this stage to do more than indicate the importance of organization in this sense as compared with the "law." Its purpose is to emphasize not a social insurance organization, but *any* organization. The most important factor determining the actual as distinguished from the paper effectiveness of this organization is its personnel; but this is no more a study of personnel management than it is a study of administrative procedures or techniques. The broad relations of the German and British civil service to social insurance administration are discussed later in this Chapter and in Chapter 6, but not technically. No details of selection, training, promotion, tenure, etc., are given.

⁴ *Social Insurance Unified and Other Essays* (London: P. S. King and Son, Ltd., 1924), p. 70.

how little we have relied on a true civil service, how largely the new personnel will have to be recruited from amateurs.

ORGANIZATION TENDS TO SET IN ITS EARLY FORMS

Coordination of social insurance organization is something that cannot be left for the future. Organizational and actuarial-technical developments appear to follow different laws. One of the reasons it is important to pay early attention to coordination is that while the actuarial-technical sections of the laws are written and rewritten endlessly, organization is likely to retain permanently its first set. "In five years hardly one word of your laws will be the same," is the comment of an International Labour Office official. It has been the experience of every country. This is not at all a sign the laws are badly written. Nobody knows for a given country what a "good" law is; and if someone did it wouldn't stay good indefinitely. Europeans, for example, are amused at our worries about old age reserves 40 years hence; they say we shall have to change the law many and many a time before that. And this is not to imply that it is easier to decide today what the most suitable organization will be in the future, than what will be the most suitable benefit and contribution schedules. The point is that organizational decisions made and relations established in the pioneer days have a way, quite unlike other features of social insurance, of solidifying in their first forms.⁵ British and German social insurance organization is filled with anachronisms, temporary arrangements that remain 30 and 50 years later. Two of literally dozens of these organizational vestigia are the almost complete absence of civil servants (officers enjoying permanent tenure and pension rights) in German unemployment insurance, omitted in 1927 in order to win the trade unions to a centralized scheme, and the administration of British non-contributory old age pensions by the Treasury, because in 1908 no other country-wide organization was available. The point is not that these decisions or arrangements were good or bad; they are permanent. Says a British expert, "It is far easier to fill in gaps in coverage,

⁵ "Once erected to a certain design and imbued with a certain spirit and philosophy, a great organization is liable to cling to these after they have served their purpose." (P E P [Political and Economic Planning], *Report on the British Social Services* [London, 1937], p. 161.)

which means creating new jobs, than to eliminate overlappings or to simplify administration" once the system is well started.

THE IMPONDERABLES OF ORGANIZATION

Organization, we have observed, is mostly non-statutory. Even in America it is impossible for the legislature to write a complete organizational plan into the laws; if it did the administrator would have to find ways around it in order to make social insurance work. And just as significant, the essential organization, the actual as distinguished from the formal system, is not in printed regulations and schematic charts. This is true everywhere. It is true in Germany, as in Ministry of Labor influence over health insurance funds, in a country which admits that it over-organizes, over-refines, over-particularizes. But it is particularly true of the British, who cheerfully admit the most damaging faults, on paper, of their social insurance system. They not only say that coordination is not their long suit; they may even assume that because it does not exist, on paper, there is no need for it. There is no formal machinery, for example, for coordinating the efforts of the Ministries of Health and Labour although they collaborate in administering unemployment insurance. Nor have the relations between the Unemployment Insurance Statutory Committee and the Ministry of Labour been defined in detail, and by intention.⁶ The Committee is a departure in British social insurance administration and its status is purposely left indeterminate. It is both a part of and not a part of the Ministry. The whole arrangement is still perfectly tentative and informal, two leading British organizational characteristics. "It is the British way, it suits us and it works. It leaves things flexible." Relations between the Committee and the Ministry are "purposely vague." In practice the principal and usually the sole connecting link between the two is one officer, the Secretary of the Committee, formerly in the Ministry.

The relations between the Unemployment Assistance Board and the Ministry are of the same tentative, flexible and informal character. They have even been criticized as ambiguous, dangerous and a contributing cause of the Standstill Act of February 1935.⁷ Again one man, the Secretary of the Unemployment Assistance

⁶ See Chapter 18 for a detailed analysis of the Statutory Committee.

⁷ P E P, *op. cit.*, p. 135.

Board, also a former Ministry of Labour official, has been the principal connecting link between the two bodies.

But all this and a score of other evidences do not mean an automatic lack of coordination in British organization. The coordination is mostly informal but is often very effective; it depends on an amazing trust in individual capacity and integrity and on the usefulness of a flexible attitude.⁸ Lack of formal and permanent coordinative machinery has its drawbacks, but there is something really amazing in the way British organizations work together without seeming to. The British deeply admire German systematization but they do not copy it. On questioning one finds that a chief officer of the Ministry of Health practically daily picks up his hat and visits his "opposite number" in the Ministry of Labour and that the result is often an informal agreement between the two. Unemployment Assistance Board-Ministry of Labour agreements are based largely on this same informal relationship. "The English," says an American student of British government, "are not logical in politics and that may prove to be their salvation."⁹ An Englishman puts the case for the British methods even more epigrammatically:

"The institutions of England *work*. That is their chief justification. There is no logical perfection about them. There are a thousand faults and anomalies within them. Nothing is more easy than to poke fun at them. And indeed they have always been the objects of scorn and laughter of the satirist and the cynic. . . . But under such a queer complicated arrangement, maintained with all the queer complicated motives which fill the lives of men, you have a system. . . ."¹⁰

ORGANIZATION AND PERSONNEL CAN REDEEM AN UNPOPULAR LAW

The imponderables of organization and a trained, experienced, permanent and incorruptible personnel can overcome, partly at least, the lack of formal organizational coordination. They are

⁸ A sharp and possibly significant difference in the attitude of British and German social insurance officials is suggested by the fact that the latter publish numerous manuals of social insurance law, regulations and procedures, available to the public; the former rarely. "We are reluctant to put down our organization in black and white." An exception is the so-called staffing-basis scheme in British unemployment insurance (see footnote 16, Chapter 19).

⁹ Munro, *Government of European Cities*, p. 73.

¹⁰ Charles F. G. Masterman, *How England Is Governed* (New York: Knopf, 1922), pp. 286-7. Italics are Masterman's.

able even to redeem, in large degree, a defective or an unpopular law. In the initial stages of operation this is a priceless advantage. European observers tell us that no social insurance laws of which they know were demanded by the people, even by those they were most directly intended to aid, and that no social insurance law is popular at the outset.¹¹ The solid advantage of civil service personnel may make the difference between failure or partial failure and success.

The influences culminating in the formation of the British Unemployment Assistance Board and a summation of current opinion on its record and its future are discussed in Chapters 11 and 23. The Board is of interest at this point for another reason: its demonstration of the superb capacity of organization and personnel to survive practical repudiation by its creator, the House of Commons.¹² Unemployment Assistance introduced into British unemployment relief in January 1935 two changes of enormous importance: it substituted central administration of the needs test¹³ for the former system of local determination of need and means and local spending of central funds; it imposed a national standard for the measurement of need and means. Since 1931 insured unemployed persons who had exhausted their benefit rights had been given so-called transitional payments according to need, paid out of the national Treasury but determined according to local Public Assistance standards by local welfare authorities. Hardly had the U A B relief scales been published and the first changes of benefit to individuals announced before a howl of rage rose around the country. The Board took over its clients on January 7, 1935. Three weeks later the whole basic question of the new national uniform regulations, approved in December by the House of Commons, was reopened. On February 15th Commons ignominiously called a retreat, passed the celebrated Standstill Act, the practical effect of which was to postpone application of

¹¹ "From 1881 to 1911 all the [German] social insurance bills passed were adopted against the votes of the labor party, the Social Democrats." (Alfred Manes, in *International Labour Review*, May 1925, p. 613.)

¹² This was exaggerated by the embarrassments and difficulties of a new and necessarily incomplete and defective attempt to coordinate unemployment insurance and relief.

¹³ The expressions, means test and needs test, though technically different, are in practice used rather indiscriminately. In reference to Unemployment Assistance, needs test is to be taken with this double meaning.

the new U A B scales in Unemployment Assistance until November 1936. In the meantime each applicant was to be given the higher of two benefits: those of the U A B scales or of the former transitional payments (local Public Assistance) scales.¹⁴

The important point here is not the reason for the Standstill, but its effect on a seven-month-old organization.¹⁵ This had been gotten together in great haste, and the majority of the lower ranks, including the investigating staff, were temporary appointments, transferred from the local government transitional payments committees. Despite the very real resentment of U A B officials at what they regarded as a desertion (they had offered four alternatives to the Standstill and considered it quite unnecessary), they kept at work all the harder, under new embarrassments and with a system at least twice as complicated as before. For a year and a half they found themselves in the difficult position of dealing with clients many of whom felt they had won a great victory over

¹⁴ *Report of the Unemployment Assistance Board for the Period ended 31st December 1935*, pp. 7-16.

¹⁵ Some of these reasons would seem of first importance for a country beginning a new social insurance system. Among reasons given by expert observers, as well as those officially ascribed, the following are of major importance for coordination:

(a) The new rates of relief resulted in reductions to approximately one-third of total applicants. But the deciding factors were the *distribution* of the cuts which were concentrated in the depressed areas: and the feeling, developed over years of practical obliteration of the difference between insurance and relief, that unemployment relief was a quasi-contractual right. Transitional payments had come to represent a standard; there was resentment at the fact of any reduction, even tuppenny cuts.

(b) High officers of the Board list as a major "blunder" failure to prepare public opinion for the changes by publicity and appointment of local advisory committees. This was not entirely the fault of the Board, with 6 months in which to construct a new organization embracing 300 area and district offices and a personnel of 6,000, and under pressure from Commons anxious to rid itself of a responsibility. But it is agreed that Whitchall failed grievously to estimate the reaction of local opinion: "An efficient bureaucracy made a typical mistake of trying to achieve perfection at once." Sheer inexperience with not only an enormous but an exceedingly intimate and complex problem, hitherto of local concern only, was another factor. (*P E P, Planning*, No. 47, March 26, 1935, p. 6.)

Local advisory committees are provided under the new regulations of U A B, effective November 1936.

(c) The collapse of U A B, or rather of Parliamentary support of U A B, showed that unemployment relief is always political. The Labour members particularly were forced to reconsider the question they had hopefully consigned to another body. No machinery can remove it from the political sphere, and in the fundamental sense of the term, rightly so: "No government dare allow real independence to such an important relief agency as U A B."

their oppressors, the local U A B officials. It is remarkable that in the circumstances U A B not only has been able to win back a position of public respect, but considerably to improve over its position of early 1935. There are very few responsible persons outside U A B itself¹⁶ in Britain who today approve of central administration of unemployment relief. It is rumored that even the Treasury is cooling off, since U A B is costing more than transitional payments ever did. But the most caustic critics of the principle of Unemployment Assistance distinguish carefully between this and U A B, the administrative organization. Critic after sharp critic says, "I disapprove of Unemployment Assistance, I think it is going at the problem the wrong end to; but—U A B is doing a good job and it will remain." The most hostile critics of Unemployment Assistance, as of any new category of the poor, are the private charity organizations. Yet after two hours of searching criticism, the Secretary of the London Charity Organization Society concluded, "It's a jolly good Board." Says a Ministry of Labour official, typical of the point of view of his Department, "Unemployment Assistance is unnecessary, but it works well now." Say two other experts, "It is a mistake but it will work."

There are several reasons for this really astounding recuperation, one of them, without a doubt, the resistive qualities of civil service personnel and traditions. "These things," says a civil servant who opposes Unemployment Assistance, "become more difficult to disestablish with every day." Another reason, oddly enough, is the surrender of Commons which gave U A B its second chance to make haste slowly. The Board realizes that "we made many blunders" and the chief of these, the failure to woo public opinion and to coddle local susceptibilities. It is the central purpose of the new advisory committees to keep U A B in touch with special local problems and factors deserving special treatment and variation in the standard scales. Also, very wisely, U A B in making reassessments under the new regulations of November 1936 put the changes into effect very gradually, with increased assessments first. The decreases were spread out over 18 months. But more important than either of these—and indeed really an

¹⁶ Says a high U A B official, "There are many misgivings about it even within U A B."

aspect of the second—is the respect U A B personnel and organization have gained for themselves. One need not claim too much on this score. It is true that the great mass of subordinate personnel, particularly the investigating force, was taken over from the local governments' transitional payments staffs. These were and are temporary (not in the permanent civil service) and in fact have already been weeded out considerably. Rather, this necessity of making up staff from all sorts of sources on short order emphasizes the quality of top personnel. This personnel is solid civil service, from the Secretary of the Board down. Headquarters staff, for example, is approximately one-third former Ministry of Labour, one-third former local government, one-third from other Whitehall departments. The new organization drew these men from a pool of officials for the most part trained and experienced, if not in their new jobs, at least in broadly similar jobs. More important, these are professional administrators, carefully chosen and their tenure protected from political reprisals. In many of its district offices it has been the policy of U A B to place former Ministry of Health inspectors, who had been stationed for years in the same district and are intimately familiar with local conditions, local susceptibilities, local sore spots.¹⁷ This top personnel will learn its new job and as it learns will inevitably raise the quality of under-officials.¹⁸ Bureaucracy is not everything and even the finest bureaucracy is incapable of certain functions. One of these may be unemployment relief. But it will not be because of a breakdown in the quality of U A B personnel.

POLITICS-RESISTANT QUALITIES OF ORGANIZATION AND PERSONNEL

Organization and personnel can resist pressures and dangers even more critical, more intensely political, than those experienced by the British Unemployment Assistance Board. Some of the difficulties of U A B were political, but in the broad impersonal

¹⁷ For example, in Newcastle-on-Tyne, Birmingham, Kings Cross District in London.

¹⁸ An interesting observation from a former Ministry of Health Inspector, now a U A B District Officer, is that a transfer of his investigating staff from local Public Assistance to U A B status has changed not only the attitude of the investigator to his job but also that of the clients.

sense and without the personal partisan vehemence of a revolution. German social insurance personnel and organization have gone through a strain a hundred-fold more difficult and fateful.

Political influences are essentially neither good nor bad. "Good" or "bad," politics is the art or science of managing human affairs. It is the way men devise for working together to achieve certain ends. In the long run all government institutions must and should conform to a nation's political ideas and ideals. Administration of social insurance is one of these institutions and is no exception. In the long run, like all other branches of public administration, it must conform generally to the national will or fall away. But in the short run and in the middle run—this last may endure for a decade or more and is an important span in the lifetime of any institution—and against the ravages of politics in the narrower and less admirable sense, personnel and organization can and do exert considerable powers of resistance.

No institution then is politics-proof in the broadest meaning of the expression. Recent German social insurance history provides a fascinating study of the extent to which it may be politics-resistant. The following pages seek not only to analyze the effects of five years of a totalitarian regime on an important branch of German public administration but to indicate as well its strengths and weaknesses and to estimate the staying powers of German social insurance administration.

The German record is not, as we shall see, perfect, and there are critics in and out of the country who regard recent social insurance changes with misgivings. But it is fair to estimate these changes only in terms of the fundamental changes in political and social philosophy that have come over Germany at the same time.¹⁹ For better or worse a nation has been reborn, the shocks of parturition have not yet been spent and will not be for years to come. One might expect such a nation, which has remade not only its political but its economic, social, religious and educational ideas as well, to make great changes in the organization and administration of social insurance. All the more so because the leader of the

¹⁹ There may be some who will consider that the National Socialist state represents rather a reversion than a change. The point stands regardless. The abruptness and the pervasiveness of the reversion or change were shocking. As a matter of fact, such departures as the abandonment of local self-government and the suppression of the free trade unions and employers' associations were breaks of the first order in the traditions of a century.

new state was elected on a broad (although implied) promise, intended to attract the large corporations, to reform the social services and reduce considerably their costs,²⁰ and because it is official German doctrine that practically everything that dates earlier than 1933 was imbued with Social Democratic inefficiency or worse.²¹ But with three exceptions, changes in or affecting social insurance since 1933 have not been basic. One, referred to in detail presently, is the so-called "restoration" of the civil service. Another is the policy of open preference, particularly in finding jobs, for charter members of the National Socialist Party. A third is the abolition of self-government.

Among impartial critics there are at least two opinions about the record of social insurance self-government, but no one denies that its suppression has brought about an important change in social insurance administration. It is generally agreed that social insurance self-government went out and the leader principle came in,²² not primarily for failures in social insurance but because of a general about-face in basic German political philosophy. Even with liberal allowance for these exceptions, the effects on social insurance of the 1933 overturn, compared with the force of political-social change and the importance of social insurance institutions, must be rated as small.²³ One former labor leader in Germany calls social insurance "the last remnant of liberalism."

There have been changes of course. The first place to look for change when one party has vanquished all others is in personnel. Changes were particularly extensive in health insurance, dominated by Social Democrats and generally unprotected by civil service. There was also considerable turnover in the local employment offices whose personnel is also almost entirely uncovered by

²⁰ Total insurance administrative costs have increased since 1933.

²¹ Martin, in *Der Deutschen Sozialversicherung Wert und Wirken*, Sonderheft der *Ortskrankenkasse* (values and results of German social insurance, special issue of *Ortskrankenkasse*), January 1, 1936, p. 1.

²² The principle that the only efficient organization consists of a leader, responsible only to superior leaders, and his loyal followers. Two corollaries to this principle are that leader and followers are unswervingly loyal to National Socialism, and that all places are filled by political appointment, usually by a leader.

²³ For a more complete analysis of the operations of self-government in German health insurance, where it was particularly important, see Chapters 9 and 22. In industrial accident insurance, where it was and is also important, 1933 changes have had practically no effect.

civil service. In more highly (administratively) centralized social insurance institutions and in those where civil service offered protection, personnel changes were far fewer and were confined for the most part to the chairmen and highest officials, who were in turn often replaced by other civil servants. The replacement of the chairmen of the various governmental supervisory organs made relatively small difference, owing to the long-standing custom of employing permanent professional vice-chairmen as the actual administrators. The greatest personnel changes took place at the bottom and at the very top. The great mass of middle-rank civil servants held on and are still holding.

It is interesting to note how general is the agreement among the "outs" and the "ins" that changes in personnel have been far fewer than one would have expected. With a few exceptions, the names of social insurance institutions have not been changed. In unemployment insurance not even the title "leader" has been substituted for the executive head. The unemployment insurance organization has been very successful in resisting Party pressure for places. Former labor leaders bemoan not the breakdown of administration but the loss of a principle. Impartial observers feel that the effects of the political purge of 1933 have already begun to wear off, and that most political appointees have by this time either been sloughed off or trained up.

On the other hand, social insurance organization has been definitely strengthened in a number of ways since 1933.²⁴ In the first months of the new regime the Federal Minister of Labor appointed a special committee of social insurance experts and others to examine the entire question of the position of social insurance in the Third Reich. Its conclusions, reflected in the Preamble and Part I of the basic Law for the Reorganization of Social Insurance,²⁵ are a thoroughgoing vindication of social insurance principles. Despite partisan clamor for drastic reform, the committee announced that "the National Socialist reform of German social

²⁴ For a discussion of the effect of the new regime on unemployment insurance, see Chapter 23. In health insurance the effect of the reduction of reserve requirements in 1935 is probably balanced by the advantage of consolidating the reserves in the hands of the territorial old age-invalidity insurance institutions (see Chapter 12).

²⁵ *Gesetz über den Aufbau der Sozialversicherung* (law for the reorganization of the social insurance system), July 5, 1934 (Reichsgesetzblatt I, p. 577). Cited hereafter in English.

insurance is no act of destruction and no rebuilding from the ground up but an improvement of details."²⁶ The important law of December 7, 1933²⁷ provided a stronger financial basis for old age-invalidity insurance and in principle restored the reserve system which had been abandoned during the inflation; the Reorganization Law in the next year reiterated not only the principles of social insurance but even the sanctity of existing social insurance institutions. Despite its ardent ambitions, the newly created German Labor Front has no important part in the task of social insurance administration.²⁸ Of even greater significance for administration are the increasing powers of control assigned in the new laws to the Federal Insurance Office and the Federal Ministry of Labor. Indeed some observers ascribe improvements since 1933, particularly in health insurance, mainly to this factor.

RESISTIVE POWER OF GERMAN SOCIAL INSURANCE ORGANIZATION

There appear to be at least four main reasons why German social insurance organization has withstood so well the stress of revolution and partisan struggle. Three of these are directly, one indirectly, connected with organization or personnel. Perhaps first should be ranked the recognition of politicians that social insurance organization is a field in which change must be made slowly and with a careful eye to popular traditions and prejudices. This in Germany is no empty phrase, where social insurance (for example, health insurance) is closely related to local government affairs, or to nationally organized industrial interests, as industrial accident insurance. The usual answer in Germany to the question of how social insurance has escaped so generally the new broom of National Socialist reform is a simple, "The roots of social insurance are too firm," or "Social insurance is part of our flesh and blood."²⁹ This answer need not be taken too naively

²⁶ Lutz Richter, *Sächsische Industrie* (Dresden: September 4, 1936), p. 478.

²⁷ *Gesetz zur Erhaltung der Leistungsfähigkeit der Invaliden-, der Angestellten- und der knappschaftlichen Versicherung* (law to maintain the solvency of invalidity, salaried employees' and miners' insurance), December 7, 1933 (R. G. Bl. I, p. 1039). Cited hereafter in English.

²⁸ The possibilities of the Labor Front's participation in social insurance administration are not entirely dissipated. Participation or management by the Labor Front is part of the "radical" program of Dr. Ley, its leader.

²⁹ But so were local self-government and the trade unions and employers' associations.

or too altruistically. In some cases it means simply that local political leaders resist all changes from the outside, including Berlin; many an order from the top has been softened or entirely muffled by the time it reaches the provinces. Local politicians resist personnel changes because they, as their predecessors, must provide places for the faithful.

An idea of the firm place of social insurance in Germany is conveyed in the statement of an official now in office that "*even* in the domain of social insurance the leader [Hitler] took hold boldly and valiantly."³⁰

The remaining reasons for the comparative immunity of social insurance are more directly related to organization and administration. Regard of the politicians for popular opinion is tied up very intimately with a recognition of the dangers of political meddling in a job as technical as social insurance administration. Even the most loyal insist this is no place for the tyro.³¹ One of the reasons why more Party members have not displaced the old civil servants is that there are not enough trained Party members to go 'round. As in 1919, the new masters simply could not discharge all trained civil servants and subordinate employees: "Although a Ministry can be improvised, a whole civil service cannot. The new . . . Ministers did not dare to oust the bureaucracy . . . for they were aware that such action would cause the whole mechanism of administration to break down."³² Even the most emotional Party leader is likely to sense the dangers of a mistake in this field. One may explain this caution on a number of grounds. Some critics say the Party has no ideas in the social insurance field. "This is one field in which demagoguery is not enough" is a more extreme statement.

On the other hand, there is little to gain by the Party's taking over social insurance administration. In the totalitarian state the surpluses of the various funds are even more available to the government by loan or otherwise than in democratic countries. In every practical sense, social insurance funds are always quasi-government funds. Jobs in social insurance administration can be

³⁰ Martin, *op. cit.*, p. 1. (Italics not in original.)

³¹ "He who uses social insurance for selfish ends sins against the spirit of National Socialism." (*Ibid.*, p. 4.)

³² Munro, *Governments of Europe*, p. 659. Written of 1919, it is equally apropos of 1933.

controlled through the appointing power, strengthened by the leader principle, without actually taking over social insurance. Against the dubious gains from assumption by the Party of social insurance administration the chances of loss are considerable. A failure in social insurance would be a failure for the Party, a particularly damaging failure because, up to now, on the whole social insurance in Germany has been an unquestioned success.

A third reason is the legal status of the special bodies or corporations which in Germany administer social insurance. Unlike the usual arrangement in Great Britain, in which the government itself operates the insurance system, in Germany operation is the function of specially created public corporations. None of these corporations today is as autonomous as before 1933, and in any event the actual degree of control by the government has always varied considerably between the various insurances, depending on the financial interest of government in the risk, the influence of the traditions of self-government and other factors. As is shown later, the events of 1933 and since have definitely continued the trends toward centralization and coordination in the social insurances. These trends inevitably mean a greater or smaller modification of the autonomy of the carriers. But it would be a mistake to assume that their autonomy is gone or has become meaningless.

Germany has no national civil service authority, so each institution manages its own. Each institution or related group of institutions makes its own budget, handles its own finances,³³ must account for its own results. The reasons for this separation between insurance body and supervisory body, as we shall see presently, are two: a deliberate encouragement of the occupational association by Bismarck, as a counter-influence to other and broader units presenting possibilities of greater political mischief (the occupational bodies became insurers); a feeling that since the government was not to contribute to social insurance it should restrict itself to supervision. When the Federal Institution for

³³ Important subsidies are provided by the federal government for old age-invalidity insurance, and in the past sums were advanced to the Federal Institution for Employment Service and Unemployment Insurance. The degree of actual control by government in these cases is naturally greater than in health and industrial accident insurance, which receive no aid. The principal change in industrial accident insurance in 1933 was the rechristening of "chairman" as "leader." Here employers alone contribute and administer and enjoy a near-perfect autonomy, financial and otherwise.

Employment Service and Unemployment Insurance was created in 1927 the tradition was continued. One important reason was that of the 1880's: to minimize the dangers of political interference and party exploitation.

It would be naive to ascribe too much importance to this device of separation, particularly in view of the leader principle, but its practical importance is a fact. Combined with civil service it provides the social insurance administrator with at least a strong first defense trench against direct exploitation and pressure. The relative independence of the Federal Institution for Employment Service and Unemployment Insurance, for example, is due to a number of causes, but its organizational form is of first rank. It is a great solace to the Ministry of Labor, more directly exposed to the currents of politics, to be able to say to political demands, "Sorry, that is a matter in the hands of the Federal Institution." As a matter of fact this separation leaves a twilight zone, a no-man's land, into which both Ministry and Institution may retreat when the chase grows too warm. Whatever the other connotations of the arrangement, its use as a political defensive weapon is obvious. A collateral advantage of the arrangement is the solid feeling among senior civil servants that they are acting neither for the government nor for the insured members, but as impartial judges.

THE GERMAN CIVIL SERVICE

Finally, these reasons for the resistive power of social insurance administration imply and are inextricably bound up with an old, strong and invulnerable civil service. Neither the government supervisory bodies nor the insurance bodies are or ever were manned exclusively by civil servants. As appears later, in the supervisory bodies the civil servant has been and still is important principally at the top or federal level. In the operation of the insurance bodies he was and is less important: there were and are no civil servants in industrial accident insurance, very few in health and unemployment. In old age-invalidity insurance for wage earners the number of civil servants depends on the laws of the state (province) in which the Institution is located but it has never been more than a small fraction of total personnel. The importance of the civil service influence is not measured in

numbers, particularly as it operates from the top: from federal, and to a lesser degree, state supervisory levels. "Had it not been for her civil servants Germany could not have come through the crisis" is the considered judgment of many German observers. The German civil service since the War has gone through severe trials, trials that have tested it as never before. It has not, and could not, have come through unchanged or unharmed. As with social insurance organization itself, the marvel is that it has not been changed more.

One cannot understand this unless one realizes the great age and the tough traditions of the German civil service. Where the British service dates back hardly 75 years, the German is over 200 years old. Originally created by the Great Elector of Brandenburg as a middle class ally against the pretensions and resistances of the nobility to centralization, it has steadily continued, despite its origins and occasional attempts to democratize it, to be bureaucratic and autocratic rather than democratic. "One shall be kind to the citizens without growing intimate with them" reads an instruction from Frederick the Great to his civil service,²⁴ and this spirit continued, if it did not in fact intensify, until our own day. The Prussian kings got probity from their civil servants, they got also haughtiness and caste rigidity. Despite the grant of unusually broad civil rights (civil servants could simultaneously serve in the Reichstag), the German civil servant kept himself remarkably free of external political controls; in fact he sometimes found himself obliged to execute policies quite alien to his private principles. The German civil servant has always exerted, indirectly for the most part, a very great influence on the making of policy, on the course of affairs. For better or worse he had a mind of his own and imposed it.

"The spirit of the German government before the war was largely moulded by the bureaucracy, the great mass of permanent professional functionaries who carried on the work of administration of the Reich, in the states and municipalities. In point of technical efficiency this body stood above the civil service of any other country. In thorough organization, training and discipline the old German civil service and the old German army were on a par. This bureaucracy not only administered the public services but in reality directed

²⁴ Cited in Fritz M. Marx, *Civil Service in Germany* (New York: McGraw-Hill, 1935), p. 186.

the administration; it provided most of the initiative and exercised most of the discretion. Its members were able to do so because of their technical expertness and their solidarity. These officials became a governing class, if ever there was one."³⁵

As with countless others, the War and its consequences tore the first breaches in this venerable institution. The Social Democrats in the 20's could not do without civil servants but they could and did begin the abridgement of their authority. Legislation in 1922 converted many higher positions in national administration from civil service to political offices; higher officers now could be retired "in the interest of consolidating the constitutional republican form of government."³⁶ More and more the schisms of Germany's multi-party system insinuated themselves directly into the service, made more and more difficult resolution of the fundamental dilemma presented by the double tradition of political liberty and impersonal service, gave considerable color to the charge of the National Socialists that the civil service had to be "restored." It remained for the present regime to make the dilemma acute, because the National Socialist dogma has for its first principle the infallibility of a single creed and a single party.

We have suggested that the effect of the storm of 1933 was much less than one might expect. Complete figures are not available: but in unemployment insurance, dominated in 1933 by Social Democrats, in the non-civil service ranks (94 per cent of the total) the percentage of discards was under 13; in civil service ranks, under 19.³⁷ In general, turnover in the public service was not over 10 per cent, and was highest at the upper levels. Replace-

³⁵ Munro, *Governments of Europe*, p. 658. "An estate of the realm . . . great and growing in size, efficient in the highest degree, respected and uncorrupt." (Herman Finer, cited in Marx, *op. cit.*, p. 163.)

³⁶ Marx, *op. cit.*, p. 256. A parallel instance of a pre-National Socialist trend ripening in the new regime is the excessive use (by Brüning) of the right to govern by decree, under Article 48 of the German Constitution.

³⁷ Out of approximately 26,500 employees in the Federal Institution for Employment Service and Unemployment Insurance, 3,455 personnel changes were made under the Civil Service Restoration Act of April 7, 1933, in the year following March 31, 1933. This does not include dismissals for cause. (*Sechster Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, 1933-34. Supplement to Reichsarbeitsblatt 1935, No. 4 [Berlin, 1935], p. 9.) Every new employee of the local employment offices today must have the sponsorship of the local National Socialist leader. But even in Bavaria, the cradle of the Party, 25 of 34 chairmen of local employment offices were retained.

ments have often been juniors as well qualified as their predecessors. In some cases, officials were demoted, not discharged. The senior servants in the Ministry of Labor hold remarkably intact, despite the watchful eye of the Labor Front intent on discovering political errors and evidences of non-solidarity. In the headquarters of the Federal Institution for Employment Service and Unemployment Insurance only 10 per cent are Party members. "German bureaucracy," says a former labor leader, "is still first class." Some former liberals claim that the civil service is more bureaucratic than ever, because today it is not responsible to any authority. "German social insurance administration is still standard for the world," says another.

How long this semi-armistice will continue no one can guess. Turnover figures vastly underestimate the moral, the psychological effects of the changes. The real test, say the old civil servants, will come only in a decade or two, when the present generation of civil servants has passed off the scene. To date the so-called duly acquired rights of civil servants have been scrupulously honored, including the important right to pension for those "dismissed for the good of the service."³⁸ But the Party has in process of creation an elite of its own, whose exclusive function and privilege it will be to manage the government. In the long run, unless basic counter-influences are set in motion, this means that in one way or another the civil service will surrender its ancient traditions of independence. Either it will change its traditions outright or only National Socialists will be eligible for entrance, which will come to the same thing.

One sign that perhaps social insurance administration has gone through the worst of its readjustment is the increasing frequency with which official statements identify social insurance with the history and traditions of the nation and the new regime. Far from being opposed to National Socialist tenets, goes the argument, social insurance is one of their ideal expressions. "Without social insurance, and especially health insurance, public health policy in the National Socialist sense is not possible. . . . National

³⁸ Marx, *op. cit.*, note 19, p. 266; and pp. 268-9. "I do not know," said Hitler to the Reichstag on January 30, 1937, "whether there has ever been such a thorough revolution as ours, which nevertheless left unmolested numerous former political functionaries and allowed them to work in peace and paid pensions to its bitterest enemies." (*London Times*, February 1, 1937.)

Socialist racial policy and provision for racial and hereditary health are impossible without social insurance and without the services of the German medical profession assured through it. . . . And how would we be able to defend Germany, if a healthy progeny were not assured through the help of social insurance and the health and population policies it directs!"³⁹ For this important task only experts need apply. "The goal of social insurance: to give the Fatherland new and enduring support to its inner peace."⁴⁰ Another sign is that Party members and others believe that they can already see the beginning of a program of moderation in the regime. Whatever the final issue, German civil service, particularly in supervision, has still an important role in social insurance. "It is no infallible insurance against political conflict," concludes an expert familiar with German conditions, and "public administration has necessarily been affected whenever the nation has been shaken by discord." But civil service can and "has mitigated political emergencies," it is "a stabilizing force."⁴¹

³⁹ Martin, *op. cit.*, pp. 2, 4.

⁴⁰ *Soziale Praxis*, April 18, 1936.

⁴¹ Marx, *op. cit.*, p. 275.

CHAPTER 3

DIFFICULTIES OF IMPROVING COORDINATION BETWEEN EXISTING ORGANIZATIONS AND INSURANCES

IT IS DIFFICULT to change the organization of a single social insurance scheme or insurance body once it is set. It is even more difficult to improve coordination *between* insurance bodies or insurance schemes and organizations. The factors that influence the shape and efficiency of social insurance organization are discussed in Chapter 17; here it is sufficient to suggest some of the factors which are particularly important when a matured scheme is to be reformed. The most important immediate difficulty is the resistive capacity of bureaucracy. When different social insurances are entrusted to different ministries, each highly centralized, this is even a greater obstacle. Coordination means more work, a change of viewpoint; it means making compromises. "Gladstone once said," says Munro, "that he could not remember a single administrative reform which the experts did not oppose when it was first suggested."¹ Pasadowsky, the German statesman, predicted 40 years ago that "only a dictator could carry through this reform [coordination]."² Says one English observer, "Civil servants are reluctant to give up power or assume new duties." One never expects *reforms* from a ministry.

It is quite true that other important factors support and largely justify this bureaucratic intransigence. The complexities of even a middle-aged social insurance structure are enormous. Any change in organization may have truly astounding ramifications and repercussions in every area of national life and welfare. So complicated and pervasive are the problems of coordination and their proposed solutions that the British research body, Political

¹ *Governments of Europe*, p. 86. This is not inconsistent with the general opinion in Great Britain that most administrative policies are formed in the ministries and not in Parliament. One of the enduring amazements among civil servants in Great Britain is that the idea of the Unemployment Assistance Board originated not with the civil service but with the government. It is said to be the sole important administrative concept so to originate in many years.

² Richard Freund, in *International Labour Review*, January 1925, pp. 13-14.

and Economic Planning (P E P), has recommended creation of a statutory commission as the only practicable way to acquire an "intelligent and progressive control over a complex of vitally important services which are already so unwieldy that they are virtually uncontrollable."³ Many British feel that a thorough-going reorganization of the social insurances must wait, like so many other reforms, for a review and reorganization of the entire financial-taxation structure. "Experience shows that coordination in the public services," says the venerable Secretary of the London Charity Organization Society, J. C. Pringle, "*between different responsible departments is extremely difficult, rarely possible. This does not depend either upon lack of goodwill or grasp of the desirability of coordination. It arises from the nature of public administration.*"⁴ "The manoeuvres of political parties" exaggerate the administrative complexities. Labor, organized and individual, seems strangely apathetic in Great Britain to the need and desirability of better coordination of the social insurances. One reason is that many trade unions are recognized as Approved Societies in health insurance and as paying agencies in unemployment insurance. They resist any suggestion of change that may reduce their usefulness to their membership. German health insurance funds, always an important political and social force, have been the principal factor complicating German plans for coordination within the health insurance system and between health and other insurances. Actuarial-technical features (e.g., British flat rates of benefit and contribution) become embedded in custom and it seems practically and socially impossible to change them.

These are formidable obstacles to coordination; but finally, in normal times and under normal conditions, there are no very determined champions for it. Organizations and people have to lose by the changes necessary to improve coordination, or at least are afraid they have; hardly anyone gains personally or directly and the losses of an uncoordinated system are usually not dramatic. The pro-coordination party is on the outside of things; it is

³ P E P, *British Social Services*, p. 33. The functions of such a commission would be very largely the same as those of a single supervisory department, as in Germany.

⁴ Rev. J. C. Pringle, *The Nation's Appeal to the Housewife* (London: Longmans, Green, 1933), p. 109. (Italics not in original.) This statement refers to the major problem of coordinating different insurances.

usually a shifting group of amateurs, and against it it has the accumulated wisdom of the departments and the great lethargy of the legislature and public opinion. "The British national system," says an Englishman, "is in a far greater degree the creation of administrators than of either Parliament or the Cabinet, or even the scattered enthusiasts throughout the country."⁵ The reference here is to education; it applies even more to social insurance where amateurs are less interested and pertinacious.

It is not surprising then that in Great Britain several commissions on the coordination of the social insurances have failed to produce positive recommendations or sometimes even to publish a report.⁶ German administrators and scholars, under the much more favorable conditions of unified social insurance supervision, discussed coordination fruitlessly for decades.⁷ It required a national revolution and a totalitarian state to allot to German supervisory authorities powers necessary for the task of coordinating health insurance funds with each other and with other social insurances. Even today the most drastic of these powers remain in abeyance and many Germans believe they will remain so indefinitely.⁸

⁵ Muir, *How Britain Is Governed*, p. 48. The importance of the British civil service in social insurance organization is discussed in Chapter 6.

⁶ Joseph L. Cohen, *Insurance by Industry Examined* (London: P. S. King and Son, Ltd., 1923), p. 78.

⁷ For examples that go back to 1897, see Richard Freund, *op. cit.*, pp. 4-6.

⁸ Some examples are given in Chapters 9 and 22.

CHAPTER 4

EVIDENCES OF AN UNCOORDINATED SOCIAL INSURANCE SYSTEM

THE EVIDENCES OF lack of coordination in German and British social insurance are countless, but the most significant may be classed under five heads.¹ The first three are organizational, the last two actuarial-technical.

Duplicate administrative or supervisory organizations, particularly the first.

Failure of supervisory or administrative bodies to collaborate on common or related tasks.

Dissimilar administrative or supervisory areas for bodies performing broadly similar or supplementary functions.

Inequalities in treatment between insured persons in substantially the same position and unjust differences in treatment between insurance and relief beneficiaries.

Conspicuous gaps in the social insurance program and conspicuous failures to attack admitted problems.

DUPLICATE ORGANIZATIONS

One of the major charges against British Unemployment Assistance is that U A B's investigating staffs duplicate in large part the organizations of other relief agencies, public and private, which cover the same area, enter the same homes, and even treat at the same time the same persons. "There is a good deal of overlapping between U A B and the local Public Assistance authorities."² In Germany, both local employment offices and local welfare authorities apply the needs test to the able-bodied unemployed, and often to the same persons at the same time. The German arrangements are temporary but the British are intended to

¹ There is no attempt here to treat these exhaustively. See Parts III, IV and V for fuller discussion. The failures are not absolute. They vary from faults universally admitted and deplored, such as the German lack of a plan for coordinating unemployment insurance and relief, to such debatable questions as whether the able-bodied unemployed are a distinct group. The factors involved are as various and as imponderable as those entering into the question of the desirability and the amount of government financial support, the proper definition of scope of membership, the proper relations of benefits and contributions to wages, the incidence of social insurance costs, etc.

² P E P, *British Social Services*, pp. 28, 112, 23 and 113.

be permanent. In Germany today three groups of able-bodied unemployed persons are recognized under three different plans, financed from two different sources.³ Both German and British health insurance funds, but particularly the British, duplicate organizations and facilities because of a failure to divide territory and the survival of the spirit of local rivalries or commercial competition. "Many Societies have to deal with a considerable number of members scattered in ones and twos in different towns throughout the country."² In Britain the local Health Insurance Committees perform certain duties in connection with medical benefits in health insurance. But the principal reason for their creation, the making of agreements with local physicians on the terms of their service to the scheme, has been in the hands of the Ministry of Health from the beginning, and "the local Insurance Committees perform no functions which could not be more appropriately performed by the local public health authorities, which are usually responsible for all other public medical services in their areas."² As early as 1926 the Royal Commission recommended that the Insurance Committees be abolished and their powers and duties transferred to the local authorities. "These Committees have not now sufficiently extensive or sufficiently important duties to justify their existence as independent administrative bodies."⁴ Since 1934 no fewer than four supervisory bodies are investigating the affairs of the German health insurance funds, at least three of which duplicate facilities and cover the same field. Multi-supervision is not necessarily duplicate supervision. The fact is that the examinations by the local Insurance Office and the state (provincial) old age-invalidity insurance institutions are admitted duplications. Ultimately they are to be eliminated; both still examine health insurance fund finances. Each regards its examination as "expert," the other's "superficial."⁵

FAILURE TO COLLABORATE

Division of the function of administering or supervising the social insurances among many bodies is of itself not a proof of

² Despite certain recent changes (December 1937) this statement is still essentially correct. See Table 4, Chapter 23.

⁴ *Report of the Royal Commission on National Health Insurance, 1926*, pp. 166, 282.

⁵ See Chapter 9 for effect of the 1934 reorganization law on this situation.

lack of coordination. Nevertheless, the multiplicity of German insurance bodies makes the coordinative program of the Ministry of Labor immeasurably more difficult, and German coordination is a triumph over this multiplicity, not the result of it.⁶

Since their administration is usually joined with supervision, the British division of social insurance authority between five ministries results in a considerable lack of coordination. In the health insurance scheme alone, for example, the Ministry of Health has general authority but the audit of the Approved Societies is made by an independent government agency, the National Health Insurance Audit Department, which in turn is separate from the Exchequer and Audit Department which audits all other government agencies. "There is closer coordination now," says a Ministry of Health senior servant, "between the Ministry of Health and the Ministry of Labour than between the Insurance Department and the rest of the Ministry (of Health)."

DISSIMILAR ADMINISTRATIVE AREAS

A somewhat similar kind of non-coordination may result from omission to provide common administrative boundaries for administrative or supervisory bodies which supplement or presumably supplement each other's efforts. When the German Federal Institution for Employment Service and Unemployment Insurance was formed in 1927 its administrative districts were deliberately laid out on a basis different from that of existing social insurance and other governmental organizations, which are essentially historical-political. The new basis, a reasonable one in itself, is homogeneity of general industrial and labor market characteristics. The 1929 British Local Government Act eliminated many overlapping jurisdictions but it is nearly as true today as it was in 1926, when the Royal Commission on National Health Insurance called attention to the situation, that the local administration of public health services is "provided by a multiplicity of local government authorities, either jointly or singly, within their own administrative boundaries."⁷ Fortunately, more or less coordination always results when local government must collaborate with the local offices of a central institution, as

⁶ See Chapter 20.

⁷ P E P, *op. cit.*, pp. 103 and 22 respectively.

in British Unemployment Assistance and in German unemployment insurance and provision for the uninsured able-bodied unemployed.

INEQUALITIES IN TREATMENT OF BENEFICIARIES

There will be less agreement on the next two groups of instances of imperfect coordination because they directly involve actuarial-technical (and social-economic) concepts and premises. Perhaps the most universally accepted instance of non-coordinated benefits in Great Britain is "the unjustifiable variations" in health insurance (additional) benefits between funds of different strength. In Germany the announced purpose of the reinsurance fund (Gemeinlast) authorized in 1934, is to "equalize the unjustifiable differences in the level of contributions and benefits" between health insurance funds.⁸ It is, as the British say, an anomaly that British health insurance provides no statutory (guaranteed) dependents' benefits while unemployment insurance does. Standard rates of benefit in the two schemes for the insured person are on different levels; "it is difficult to justify," said the Royal Commission on National Health Insurance, "a less generous provision for the invalid than for the man in good health."⁹ The British Royal Commission on Unemployment Insurance in 1932 referred to the same situation, but unemployment standard benefits today are still considerably higher than those prescribed in health insurance.¹⁰ On the contrary, German health insurance benefits are higher on average than unemployment and the latter are paid, after 6 weeks, only on proof of need. This discrepancy is particularly unfair in view of the fact that the surplus produced by the high (6½ per cent) unemployment in-

⁸ *Law for the reorganization of the social insurance system, July 5, 1934, Art. 8, sect. 3.*

⁹ *Report, 1926, p. 26.*

¹⁰ This situation is essentially the result of requiring two authorities, one single, national and official, the other multiform, and predominantly local and self-governing, to work together. Standard weekly cash benefits for adult males are 17s., unemployment insurance; 15s., health. In addition Societies covering 70 per cent of total insured persons gave in 1936 cash health benefits averaging 3s. 6d. Thirty per cent of total membership received no additional cash benefits and the amount of additional cash benefit varied from one to five "units" (a unit is approximately a shilling a week) for the rest. Over 80 per cent of all members received three units or less, limiting their total cash benefit to not more than 18 shillings weekly. (*Seventeenth Annual Report of the Ministry of Health, 1935-36, p. 183.*)

insurance contribution is used for other than insurance purposes.¹¹

Another form of inequity may occur when an insured person's benefit rights are not mutually protected by the different insurance schemes. Great Britain and Germany now protect, for example, the benefit rights of unemployed persons both in old age and health insurance, but in different degrees. British extension of the "free period" in health insurance (continuance of health benefit rights during unemployment) is limited to an average of 21 months. Regularly employed members may have their free period extended practically indefinitely but only for medical and maternity benefits.¹² The German extension is practically unlimited since "the unemployed person is insured for sickness as long as he receives unemployment insurance or emergency benefit (*Arbeitslosenunterstützung*; *Krisenunterstützung*),"¹³ and these benefits are unlimited in duration. German¹³ and British¹⁴ extension of rights to unemployment insurance, during the illness of the insured member of the unemployment scheme, on the other hand, is practically identical: the member is insured for unemployment during sickness. But it is not possible to say, on the basis of these facts alone, which social insurance system more adequately interlocks benefit rights. Bearing on the question are the reciprocal factors of the division of financial burden, the relative levels of benefits, the varying effect of standard regulations on different groups of insured persons within the same scheme, and so on. A few of the difficulties are suggested by the fear of the British Government Actuary that the British extension of rights during unemployment in old age insurance is on the one side unduly liberal, on the other unduly standardized.¹⁵

¹¹ The extreme complication of this coordination problem is suggested by the fact that for years the unemployment insurance fund borrowed heavily from the federal government and unemployment is regarded by all parties as a national problem. On the other hand, the federal government gives no current contributions either to unemployment or health insurance and both funds are self-governing, i.e., they are non-government insurance bodies, the latter retaining some degree of employer-worker participation.

¹² *Report of Ministry of Health, 1935-36*, p. 189.

¹³ *Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung* (employment service and unemployment insurance law), October 12, 1929, sects. 117 and 95. (R. G. Bl. I, p. 162.) Cited hereafter in English.

¹⁴ Ministry of Labour, *Summary of Unemployment Insurance Act, 1935*, U. J. Leaflet 8, p. 4.

¹⁵ *Report of the Government Actuary on the Widows', Orphans' and Old Age Pensions' Acts, 1925-32 (1935)*, p. 34.

In the field of relief it seems strange that many recipients of British *non-contributory* old age pensions must have this income supplemented by local Public Assistance authorities. One-tenth of all pensioners must have one form of relief to eke out another.¹⁶ Unemployment Assistance grants, on the other hand, are in general considerably in excess of those paid by local welfare agencies. Both are relief payments but the standards are those of two authorities, one national, the other local.

One of the knottiest coordination problems arises in the question of the proper relations between the levels of welfare and social insurance benefits. In 1935 public welfare bodies alone in Germany were forced to supplement inadequate social insurance pensions, mostly old age-invalidity for wage earners and miners, in nearly 585,000 cases. This is over one-sixth of all pensioners in these two schemes and one-eighth of the pensioners in all social insurance except unemployment.¹⁷ In addition private charities gave help: during the winter of 1935-36 an average of 853,000 social insurance pensioners (including dependents) received emergency winter relief.¹⁸ Allowing for other forms of charity and for duplications it appears that at least a third and probably a higher proportion of the beneficiaries of German social insurance, excluding unemployment, are to a greater or lesser extent the recipients of charity. In 1935 supplementary local welfare payments were made also to a total of 230,000 workers receiving unemployment insurance benefits; in the winter of 1935-36 the maximum number of unemployment insurance beneficiaries was 780,000.¹⁹ Perhaps even less defensible is the situation of the able-bodied German unemployed who, having exhausted their rights to insurance, are entirely on relief, i.e., certified unemployment welfare. In 1935, 672,800 of these were forced on to local welfare, although many had paid contributions

¹⁶ P E P, *op. cit.*, p. 149.

¹⁷ *Statistisches Jahrbuch für das Deutsche Reich*, 1935, p. 500; *Die Deutsche Sozialversicherung*, 1935 (Supplement to *Amtliche Nachrichten für Reichsversicherung*, No. 12, 1936), pp. 391, 518, 601, 614-5. The latter is cited hereafter as *German Social Insurance*, 1935.

¹⁸ *Rechenschaftsbericht des Reichsbeauftragten für das Winterhilfswerk des Deutschen Volkes*, 1935-36, p. 5.

¹⁹ *Achter Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* (Supplement to R. A. Bl. 1936, No. 34, p. 46). Emergency winter relief was given to 1,133,342 unemployed persons and their families.

to the unemployment insurance fund for years before their disqualification.²⁰

Great Britain also has her anomalies in this field. Partly because she came through the depression more successfully they are less extreme, but they are at least as numerous. An unknown but "large number" of pensioners receiving *contributory* old age pensions must also have welfare help. "Over 200,000 old age pensioners of both (contributory and non-contributory) classes were receiving Public Assistance in England and Wales in January 1936."²¹ This is one out of every twelve pensioners.²² It is already clear that the new Unemployment Assistance (unemployment relief) grants are averaging higher than the flat-rate unemployment insurance benefits.

CONSPICUOUS GAPS AND FAILURES TO COVER RISKS

Finally, a social insurance system characterized by serious gaps in coverage lacks coordination in still another way. Discussion of what are gaps and what are justifiable exclusions from coverage verges even further on to the broadly economic, the philosophic and even the ethical. The British have eliminated what they acknowledge was a gap by bringing into the health insurance scheme all boys and girls who have left school and have taken up work. Formerly because of the age limit no medical care was provided for the years between leaving school and entering health insurance.²³ Whether the extension of the privilege of voluntary contributory old age insurance to the white-collar classes, formerly excluded by their employment status, really fills a gap—in view of the way people usually do *not* join insurance schemes voluntarily—is a matter of opinion. One is inclined to say it does not, considering that there appears to have been no great demand for this privilege by the white-collared. At the same time nothing has yet been done to raise the maximum wage line for compulsory health insurance membership because the British Medical Association opposes it as a threat to its private practice.

²⁰ See Table 4 and footnote 5, Chapter 23.

²¹ P E P, *op. cit.*, pp. 24, 26.

²² *Statistical Abstract of the United Kingdom for Each of the Fifteen Years 1913 and 1922 to 1935*, 80th number, pp. 84-7.

²³ *London Times*, June 24, 1937.

Failure to include hospital and surgical benefits in health insurance has driven British workers to form voluntary hospital associations. Are these gaps? The British now include agricultural workers in unemployment insurance;²⁴ the Germans formerly included, now exclude them. In 1936 farm workers were given their own scheme because the British discovered their assumption of low agricultural unemployment to be fallacious although they believe agriculture requires a separate insurance organization.²⁵ The Germans say that they are still short of farm labor. Is the German omission a gap? The difficulties of answering questions like these suggest that in correcting lack of coordination, as in discovering it, there are limits which, if not always distinct, are at least strictly practical.

²⁴ British placement officials say they have difficulty in getting unemployed seamen to ship under flags of countries not requiring insurance. Farm workers until 1936 were reluctant to leave the towns for the country for the same reason.

²⁵ See especially *Report of the Unemployment Insurance Statutory Committee in Accordance with Section 20 of the Unemployment Act, 1934, on the Question of the Insurance against Unemployment of Persons Engaged in Employment in Agriculture*, pp. 16-20.

CHAPTER 5

LOSSES AND DANGERS OF AN UNCOORDINATED SOCIAL INSURANCE SYSTEM

THE LOSSES AND dangers that result from an uncoordinated social insurance system are financial,¹ political and social.

The financial dangers of an uncoordinated social insurance scheme arise partly but not entirely out of differences in benefits to persons in substantially the same position, which encourage a "run" on the more liberal fund. For example, the German health insurance funds tend to push their members on to unemployment insurance because the health funds are local or occupational and the unemployment fund national in financing and administration. Also the local welfare authorities (because they are supported principally by local taxes) naturally are tempted to put as many of their applicants as possible on to unemployment insurance (a national fund financed by employers and workers). In Great Britain it is generally agreed that the Unemployment Fund is carrying persons who should be on health insurance benefit. Health fund doctors, who also have the task of passing on the unemployment insurance applicant's ability to work, are likely (because the health fund is financed principally by employers and workers and is often local) to be over-liberal with the resources of the Unemployment Fund (on a national basis and subsidized substantially by the central government).² Inadequate old age pension and health insurance coverage also results in pressure on the Unemployment Fund. The lapsing of the health benefit rights of many persons unemployed for long periods "produced a minor crisis" for the British health insurance bodies in 1932. From 1928 to 1932 the Approved Societies had been required to credit a weekly contribution to insured members for every week of unemployment. The law of July 13, 1932 relieved the Societies and put the burden, not on the Unemployment Fund

¹ Sources on which this discussion is based include: *Final Report of Royal Commission on Unemployment Insurance, 1932*, pp. 406-7, 155; P E P, *British Social Services*, p. 171; and I. L. O., *Yearbook, 1932*, pp. 197-8.

² An example of how unification of function may produce the reverse of coordination.

or the Treasury but on the unemployed themselves. This was a de-coordinating step of the first rank.

Social insurance and unemployment relief finances are inter-dependent also. Unless they are coordinated an improvement in one may easily work equal harm on the other. Local government authorities both in Great Britain and Germany complain that they have been seriously handicapped in the past decade by changes in central unemployment insurance policy made without consideration of local financial and social conditions. Reduction of insurance benefit is followed inevitably by an increase in the local welfare load. This is particularly true of unemployment insurance.

There is a potential, and sometimes an active political danger in lack of coordination. Both in Germany and Great Britain there is normally a surprising absence of interest in social insurance coordination as such, including benefits, by the persons who have most at stake, the workers. To the present membership the whole edifice of social insurance is a matter of custom. The point at which members begin to take an interest in coordination is when they find they have somehow been left out of the scheme (for example, thousands of former self-employed persons in Great Britain who are shut out of old age pensions) or discover it is better for them financially to be on relief than on insurance. Or when benefits are reduced, as for a considerable fraction of persons transferred from British transitional payments to Unemployment Assistance in 1935. Then coordination or the lack of it becomes practical politics. The downfall of the second Labour Government in 1931 was largely due to the critical situation produced by its failure to coordinate unemployment insurance and relief to the satisfaction of the British voter. The ignominious Standstill on U A B scales in February 1935 was the result, partly at least, of the anomalous situation of the Minister of Labour, who found himself responsible for U A B scales but without control over U A B policy. Less dramatic but in the long run of equal importance are the political-social difficulties encountered by any program of real reform of social insurance organization once it has matured. The impregnable position of the large British Approved Societies, despite their universally admitted defects and their hindrance to inter-society and inter-insurance coordination, is axiomatic.

Sidney Webb goes so far as to declare that "the systematic coordination and completion of social insurance . . . is one of the greatest political problems of the century."³ One does not need to claim so much. Social insurance coordination is of first rate political importance if not always of current political interest.

The social losses and dangers are certainly the greatest. A series of even well-intentioned changes in a scheme whose actuarial-technical features are poorly coordinated may endanger the very principle of insurance. The U A B in Great Britain is paying higher average grants to persons off insurance than they received while enjoying their contractual rights. Even more dangerous to the insurance principle is the provision that U A B may pay supplementary benefits to certain persons at work and on insurance benefit: those in intermittent employment. That the need for supplement is a proof that insurance benefits are too low is beside the present point. It is difficult enough now for many Britishers to distinguish on the benefit side between unemployment insurance standard benefits, unemployment insurance transitional payments and Unemployment Assistance. The proper solution of the unemployment problem may be abolition of insurance entirely. The Germans practically say so. But a sound decision is not made by default, by a genial policy of stretching whatever part of the banket is most flexible to cover the nearest or the most annoying bare spot.⁴

A quite different fear is that of the welfare official. An uncoordinated social insurance-relief system becomes inevitably a categorical scheme. Each new group of clients as it is recognized is consigned to its own organization, particularly constructed to fill another particular need and little concerned with the rest of an individual's needs or his whole problem. It encourages what Pringle, in his brilliant chapter on "New Types of Administratively-Created Pests," calls "the cool hand" who "after careful study and hearing a good deal of dodges successfully brought off by others . . . perceives that it is possible to live at the public expense on (1) sickness benefit; or (2) unemployment benefit; or (3) transitional payment; or (4) on Poor Law relief

³ Cited in Cohen, *Social Insurance Unified*, p. 98.

⁴ Apropos of the U A B's liberal policy toward its beneficiaries, a high official says, "It will be better to overpay a few than to stir up resentment among the many." The author cannot agree with this.

as a sick person; or (5) on Poor Law relief as an able-bodied person."⁵

These losses and dangers are much more than financial, although those are real enough. Perhaps the greatest danger is the unregulated, unrelated competitive building up of social security departments and systems erected on ever-subdividing categories, with less and less attention to the whole problem and to the effect on initiative or human character. One need not argue for a return to an all-comprehensive Poor Law to appreciate this danger.

And finally a system without coordination is a system without general control. "We do not know what is happening. . . . While physical science has been classifying everything in the world . . . the community services are carried on largely in the dark."⁶ Up grows a complex of social insurances and related services, all more or less effective in themselves, but as time goes on, increasingly full of gaps and inconsistencies, out of touch with each other and with realities. Unless there is a plan of some sort and a sense of direction, changes in the system are necessarily piecemeal and haphazard, and dictated by all sorts of considerations other than social. Even a committee on coordination ends up with complicating additions to the laws. The failure of the British to extend medical service in health insurance is ascribed to the dead spot resulting from the division of authority between the local Insurance Committees (health insurance) and the local medical authorities. Party politics get mixed up the more readily in legislation. "Although it works, the system is wasteful, cumbersome, difficult to understand or to control and difficult to adjust to altered circumstances in any point without adding still further to the confusion."⁷ Commission after commission glances casually at the impinging areas to the right and left of its own interest, pays a nod of respect, notes that its terms of reference do not permit it to go into these other matters, and leaves the whole, the central problem untouched. Indeed it may add to it.

Except in times of great national financial and social stress

⁵ Rev. J. C. Pringle, *The Nation's Appeal to the Housewife*, p. 106. This was written before the U A B and while "unearned" transitional payments were given the able-bodied unemployed out of insurance funds.

⁶ P E P, *Planning*, No. 10, September 26, 1933, p. 6.

⁷ *Ibid.*, No. 64, December 17, 1935, p. 2.

~~These~~ these consequences are not dramatic enough to attract popular attention. Then the motive of reform is likely to be economy, with varying effects on other phases of coordination. As much may be lost in the shifting of added financial and other burdens to, say, the workers, as is gained in reduction in government or other expenditure. E.g., the continued 6½ per cent unemployment insurance contribution rate in Germany, which produces enormous surpluses that go to the federal Treasury. So vast is the task of coordination, so pervasive and comprehensive the effects of any program at once so technical and so full of values and considerations, subjective and even ethical, that it demands an authority no less than permanent, impartial, independent and full-time to attack and persist in it.⁸

⁸P E P recommends a statutory committee, whose functions would be two-fold: "To report annually on the finances of all the social services, to study the efficiency of grant-aided work done by local authorities, and to secure explanations from them where necessary, and to carry out the long-overdue review and coordination of rates of contribution to the social insurances . . . to go far beyond merely financial issues and to give its view on the general working, efficiency, and benefits or defects of the services." (*British Social Services*, p. 179.)

PART II
THE TREND TOWARD CENTRALIZATION

Introduction

THE STUDENT OF social insurance organization and administration in Great Britain and Germany makes almost immediately two fundamental discoveries. He learns first that the various parts of the social insurance system do not work together to make the integrated unit he has assumed from their common purpose. But at the same time he discovers two important counter-forces or trends. There is, he finds, a *direct* movement toward improved coordination. More important, he discovers that coordination is also achieved *indirectly*, through increasing centralization.

As we noticed in Part I, these two trends or forces—centralization and coordination—are intimately related. Sometimes, we shall see, they are so mixed that it is impossible to say which if either is controlling. It is difficult in fact to discover a pure example of the one without the other. Which trend, for example, is illustrated by recent developments in German health insurance, in which very definitely one part of the program has produced stronger control of the insurance bodies from above, another the closer working together of health funds with each other and of all health funds with the old age-invalidity insurance bodies? The creation in Great Britain of the Unemployment Assistance Board presents a similar difficulty. The Board is at once an example of administrative centralization (the most extreme in the entire British social security system) and of coordination (because of the close relations between the Board and the Ministry of Labour). Here again centralization seems to be the primary result, but this is hardly more important than the creation in one step of a new nation-wide cooperative machinery for handling the able-bodied unemployed, made up partly of existing organizations, partly of one that is brand new.

This is of course not to say that the distinction between the two trends is unimportant. On the contrary. The possibilities of coordination, it soon develops, will be realized principally through

centralization, but these possibilities are different in every situation. Indeed, centralization, as we shall see, is as likely to discourage coordination as to encourage it. The possibilities of coordination through centralization are conditioned by many factors: one of the most important, for example, is the basic cause for the centralization, which in turn determines the degree to which coordination is welcome to the central authorities.

Because social insurance and governmental institutions are so closely allied, we shall find the root causes of German and British social insurance trends in the general political, social and financial developments of the two countries. "Centralization of the State breeds centralization elsewhere."¹ Governmental coordination, or the lack of it, has the same repercussive effects.

The following chapters of Part II will discuss centralization as a way to increased coordination. Direct programs of coordination are discussed in Part III.

¹G. D. H. Cole, *The Future of Local Government*, p. 33.

CHAPTER 6

THE GERMAN AND BRITISH GOVERNMENTS

THE TREND TOWARD centralization in a social insurance organization is only in part a product of conditions within social insurance. It is more an aspect of a much broader and more fundamental movement running through the political, social and financial structure of the entire country. In Germany this fundamental movement, moreover, is not a creation of the totalitarian regime; by common agreement it goes back at least to the World War, and some German students see its plain origins in the chancellorship of Bismarck. Centralization in Great Britain is even an older development than in Germany.

THE TREND TOWARD CENTRALIZATION IN GERMANY¹

Even the formation of the German Empire in 1871 may be regarded as simply one stage in an unmistakable trend toward governmental centralization which originated in 1815; after his victories Napoleon abolished five-sixths of Germany's petty states; the Peace of Vienna following his defeat created the German Federation. Certainly from the advent of Bismarck the direction of events is clear. His Imperial Constitution "centralized the responsibility for administration" and although considerable autonomy was left the German states, gradually by amendment and otherwise the smaller and weaker members of the federation were pulled into the central orbit. German government grew steadily but slowly more "Prussianized" and more centralized. The struggle between Prussia and the Empire on the one side and the smaller states on the other was an unequal one, but the stubbornness of the resistance made the contest long and difficult.

¹ For detailed accounts of the historical background, see Munro, *Governments of Europe*: Chaps. XXXI, "Rise and Fall of the Hohenzollern Empire" and XXXII, "The New German Constitution;" Ray, *Major European Governments*: Chaps. XXI, "Government of the German Empire" and XXII, "Constitution of the German Reich;" Ogg, *Governments of Europe*: Chap. XXXIV, "The Hohenzollern Empire;" Roger H. Wells, *German Cities* (Princeton: 1932): Chaps. IV-VII; and Arthur T. Starr, *Topical Analysis of Comparative European Government* (Burgess, 1934), pp. 138-41.

The proponents of centralization had to proceed slowly and cautiously against feelings of deep-grained local patriotism and ancient traditions of states' rights.

In the Weimar Constitution of 1919 the centralizing parties generally got their way. The states were removed as agencies of the federal government in the administration of purely national laws,² Prussia's special privileges were taken away, the local governments³ were made democratic. Universal, equal, direct and secret suffrage was made compulsory in state and municipal elections. For the first time the right of the federal government was declared supreme over taxation. It was expressly declared in the new Constitution that "national law overrules state law." The Bill of Rights in the Constitution places restrictions on state as well as on federal government. The Constitution lays down standards for certain state laws and where state and local officials administer national laws "the national government . . . retains a degree of control over state officials which is quite unlike anything in the United States." Federal authority extends even to legislation over civil and criminal law and procedure.⁴

Legislative developments since 1919 have been in the same general direction. Gradually by combination of small territories some of the most absurd political vestigia of localism and particularism have been eliminated. The state post offices have been suppressed. Central appellate courts may and do declare state laws unconstitutional. A federal welfare law was passed in 1924 which imposed basic standards on state and local governments in return for partial financing of welfare by remission of certain tax revenues. A federal child welfare law was passed in 1922. Since 1922 federal legislation largely regulates the relations of landlord and tenant, formerly a local concern. The federal government practically supports the state police; the states may in

² Social insurance laws are not in this class. The important effect of this difference in status on organization and administration is discussed in Chapter 18.

³ The term "local government" in Germany includes all governmental divisions lower than the state or province (Land). Of these the most important are the commune (Gemeinde) and the city (Stadt), both generally referred to as Gemeinde. Unless otherwise indicated, the expression "local government" throughout this book refers to the Gemeinde, or Gemeindeverbände which are associations of Gemeinden.

⁴ Ray, *op. cit.*, p. 349.

emergency take over the functions of local government. Since 1924 the federal government strictly regulates municipal borrowing and at times has practically forbidden it.

Politically, it is significant that the parties making the greatest headway during the critical times between 1923 and 1933 were precisely those whose grand objectives directly and indirectly demand the ultimate of centralized government: the Communists and the National Socialists.

GERMAN CENTRALIZATION AND PUBLIC FINANCE

On the one hand the federal government has imposed new restrictions and duties involving new costs on the states and local governments, particularly the latter; on the other it has taken over for itself tax sources formerly reserved to state and local governments. It is quite true that considerable fractions of these taxes are returned for local purposes but the fact of control and supervision by the central power is all-important. There is probably no German law of greater significance and pervasiveness than the financial equalization law of 1923,⁵ which rearranged drastically the entire tax structure of the country, including reallocation of the spheres of federal, state and local taxation.⁶

The years 1930-32 brought local government financial autonomy to its lowest level. Under the twin burden of declining income and immensely increased expenditures for relief, the cities almost without exception were bankrupted. The local governments especially are the residual legatees of the relief load: central social insurance authorities make decisions abridging benefits, central authorities in the Ministry of the Interior reduce the amounts of grants-in-aid for local welfare, and the residual relief problem is left to the government nearest the people. The cumulative net effect is always more state or federal control,⁷ and experts as early as 1932 went so far as to say that "local autonomy is almost extinct."⁸ If one takes this practically rather than legally,

⁵ *Gesetz über den Finanzausgleich zwischen Reich, Ländern und Gemeinden (Finanzausgleichsgesetz)* [law for the equalization of financial relations between federal, state and local governments], R. G. Bl., 1923, I, p. 494.

⁶ Cf. the interesting parallel of the British Local Government Act of 1929, discussed later in this Chapter.

⁷ The states are in general the supervising authorities over municipal affairs. The very largest cities are excepted.

⁸ Wells, *op. cit.*, p. 13.

this is saying too much even in 1938, because in practice the federal government must and does still take into account strong states' rights feelings, particularly in South Germany, and state supervisory authorities actually exercise fewer rights over local government than they are in law entitled to. But there is no mistaking the trend toward centralization, a trend which events of 1933 and since have capitalized and sped up.

Even a cursory analysis of debt and taxation figures for the federal, state and local governments⁹ shows the drift of power and responsibility during the last 10 years. Two facts are clear: the states and local governments are caught between a rapidly rising debt on the one side and gradually decreasing opportunities to raise their own tax revenue on the other. The federal government, forced to take over the bulk of financing German recovery and rearmament, shows an even more rapidly rising debt, only partially offset by its increasing control over taxation. Whatever the offsetting factors, the net result on German economic and social institutions, including those furnishing social security, is inevitably in the direction of greater centralization.

THE TREND TOWARD CENTRALIZATION IN GREAT BRITAIN

Because, with the exception of health insurance, the central government and the insurance body in Great Britain are one, there

	1928		1936	
	Amount	Per cent	Amount	Per cent
<i>In millions of Reichsmarks</i>				
A. PUBLIC DEBT				
Federal government.....	7,190.7	47	33,000.0	70
State governments.....	1,499.7	53	2,522.5	30
Local governments.....	6,541.7		11,547.7	
	1927-28		1934-35	
B. TAX INCOME				
Federal government.....	8,449.2	100	8,261.8	100
Remitted to local governments...	3,011.8	35	2,494.7	37
State and local governments.....	7,060.0	100	6,104.7	100
Own tax income.....	4,048.2	57	3,610.0	59
From federal government.....	3,011.8	43	2,494.7	41

Sources: A—*Statistisches Jahrbuch für das Deutsche Reich*, 1936, p. 470; *Konjunkturstatistisches Handbuch*, 1936, p. 171.

The federal government debt figure for 1936 includes not only "public debt" as usually published but also a larger sum representing what Germans call their "unrecorded debt"—"future short-term obligations... advance tax certificate transactions... short-term financing of the employment creation program, national highway construction and rearmament." In March 1936 the federal Finance Minister announced a total federal government recorded and unrecorded debt of RM 33 billions. Of this total about RM 19 billions is unrecorded. (*Deutsches Institut für Konjunkturforschung*, Supplement to *Weekly Report* of August 12, 1936, p. 3.)

B—*Konjunkturstatistisches Handbuch*, 1936, pp. 165-6

is in that country a closer tie between political, and social, and social insurance institutions than in Germany. Centralization is even an older story. The political antiquarian goes back to Napoleon in searching out the first evidences of centralization in Germany. In Britain he goes to the time of the Norman conquest.¹⁰ More to the point are the beginnings in each country of the systems of government as we have them essentially today. The most direct impetus toward and the greatest speed of centralization in Germany date from the World War; by that time the British system of central and local government was nearly a century old. The first important break with the traditions of local government¹¹ autonomy in Great Britain was made in 1835. Reluctantly and partially, in the British way, Parliament moved to end the amazing confusion of local areas, authorities and jurisdictions that had grown unchecked and unplanned for 400 years. The Municipal Corporations Act of 1835 applied only to boroughs and cities (except London), but it was the first great break in the solid power of the old squirearchy: for the first time in centuries Whitehall reached out to regulate the local units. It took another 50 years to apply the same general principles of popular control, administrative simplification and central supervision to the counties, where the old aristocratic order was more strongly entrenched than in the industrial towns; but the reforms of the famous Local Government Act of 1888 are the basis of British local government today. Succeeding laws, particularly the Acts of 1894 and 1929, have progressively strengthened the hand of the central government in its direct relations with local government institutions.

A parallel and closely related process of centralization was taking place at the same time in other social-political areas. Parliament reached out to control and supervise industry in the Factory Act of 1833, established the first central control of the Poor Law in 1834,¹² the first central authority for public health

¹⁰ For detailed accounts of the history of local government in England, see Ogg, *op. cit.*, Chap. XIII; Munro, *Governments of Europe*, Chap. XVI; Marriott, *English Political Institutions*, p. 248.

¹¹ Unless otherwise indicated the expression "local government" includes all administrative subdivisions of government below the central government: the historic and administrative county, the borough and county borough, the urban and rural district, the parish and poor law union.

¹² For further details see John J. Clarke, *Social Administration Including the Poor Laws* (London: Sir I. Pitman & Sons, 1935), pp. 32-37, 415; Muir, *How Britain Is Governed*, pp. 44-46.

regulation in 1848.¹³ In 1839 it made the first grants-in-aid for popular education with the counter-consideration of the rights of inspection, supervision and ultimately control. The second half of the nineteenth century not only continued the trend toward centralization, it saw the consolidation of central power in the creation of what came to be permanent central government departments or ministries. In 1871, for example, the scattered functions of the Poor Law and public health officials were conferred on the newly created Local Government Board, ancestor of the present Ministry of Health. Agriculture and fisheries were entrusted to a new central board in 1889; today the Ministry of Agriculture. In 1889 the Board of Education was established. The pre-War Liberal reform movement added a national system of labor exchanges, trade boards for minimum wage law administration and national social insurance. But without any question the most important landmark in the trend to centralization was the creation in 1855 of the Civil Service Commission. Itself partly a product of the influences that moved for centralization, it swiftly grew to be such an important instrumentality of the trend that it deserves special explanation.

THE BRITISH CIVIL SERVICE

Like many another honorable British institution, the British civil service was a quasi-accident. Long before its formation (since 1820) the Customs and Excise Board had been examining candidates for responsible Treasury posts. The Indian Government had begun in 1853, in pure self-defense, a system of competitive examinations that, despite Conservative forebodings, was working remarkably well. But it was the Order in Council of 1855 that "for the first time in modern government created a civil service commission" for the home services, and for the first time on a national scale required that "minimum of competence" which is the keystone of the British and other systems today.¹⁴

¹³ These were not automatic or unopposed stages toward centralization. The General Board of Health was appointed for 5 years only. At the end of that time it was renewed for a year only and proponents of a scheme for transferring its functions to a central ministry were decisively defeated. Said a current issue of the *London Times*, "The British people declined to be bullied into health." (Clarke, *op. cit.*, p. 338.)

¹⁴ Leonard D. White, *The British Civil Service* (New York: McGraw-Hill, 1935), pp. 1-2. The German service is much older but at no time, including the

By 1870 the principle of the open competitive examination as the usual although not the exclusive method of entering the service was firmly set: it has not been questioned since. The British find it hard to explain the reasons for the reform at this particular time; it was achieved over stern opposition and required an act of the executive, not the legislative branch to achieve it. But there is no lack of agreement on the permanent service's capacity, its integrity, its immense influence on the direction of British affairs. Even more strictly neutral in the purely political sense than their German brothers, the British civil service in more ways than one runs Britain. It has been for over a half-century a main spear-head of the drive toward centralization. Nominally under Parliament and the Cabinet, it actually goes its even way largely on its own, transmitting from generation to generation an enormous and complicated mass of written regulations, administrative practices and traditions, strongly influencing when not actually determining policies as well as routine details.

On the dangers and the defects of the British service we need not here decide: all parties agree on its high and still expanding place in British public affairs. The British civil service is more important in the development of governmental centralization than the German. In Britain the central civil service affects local governments directly; in Germany, through a welter of middle jurisdictions—states, provinces, and the like—all extremely jealous of their rights and traditions. In Britain self-government for the local units has never meant, as it has in Germany, freedom from central domination, but freedom from *legislative* domination. This explains why in Britain centralization grew up side by side with expanding local self-government, British style. It was the central Parliament in the 1830's that delivered the towns from the squires and instituted popularly elected bodies; at the same time it instituted a reign of Whitehall supervision and regulation. The British, that is, are content with decentralization of local government *function*, leaving *control* at the top. Partly they have been forced into acceptance of central administrative domination;

recent past, has it been under a single national or central control. In Germany each ministry or institution operates its own civil service system. German standards have been at least as high as the British but they were never as uniform. Cf. discussion of the German civil service, in Chapter 2.

partly they have become gradually accustomed to a system in which the local official whom the citizen knows does the work subject to a Whitehall inspector whom he does not.¹⁵ These characteristics of the British situation go far to explain why the growing influence of the civil service is not only an evidence of increasing central control, it has also been an agency operating more or less directly to promote it. "When a body of able and hard-working men are entrusted with public functions to which they are called upon [sic] to devote the whole of their time, it is inevitable that they should incessantly strive to extend their activities."¹⁶

BRITISH CENTRALIZATION AND PUBLIC FINANCE

Capable observers of the British scene distinguish of course other influences shaping the developments of British nineteenth century political-social events in the direction of greater centralization. One was the proven impracticability of local government units in the administration of the increasing number of functions which require application over larger areas. It is much simpler all round, for example, in dealing with depressed areas to appoint a new official from Whitehall than to create a new local unit or rearrange old ones.¹⁷ A related cause was the rapid massing of Britons in great cities: complete local discretion in such matters as the protection of health, poor relief, provision of police and the like is not possible when the acts or omissions of one city affect so intimately the administration of its neighbors. Local misgovernment was also a factor although it has never been the bane it has been in America. Local waste and abuse, particularly

¹⁵ Munro, *Government of European Cities*, p. 50; Ogg, *op. cit.*, p. 228; Cole, *op. cit.*, p. 6. "The cardinal problem of democratic government today," says the *London Times* of February 23, 1937, in a leading article, "is to secure the degree of centralization which all social planning demands without complete abandonment of the principle of democratic control."

¹⁶ Muir, *op. cit.*, p. 47.

¹⁷ Cole, *op. cit.*, p. 22. The Royal Commission on Local Government in the Tyneside Area, for example, in 1937 recommended creation of new regional districts because "the full benefits capable of being derived from such [public health, education, Public Assistance, police, etc.] services are not available over the whole area. . . . 'We are unable to justify the existing conditions under which certain advantages are available in the larger and wealthier towns while the same are unobtainable in the smaller and poorer places which are perhaps not more than a mile or two distant and which are no less thickly populated.'" (*London Times*, March 19, 1937.)

in poor relief administration, was a leading reason for the Municipal Corporations Act of 1835.¹⁸ "Deterioration in the quality of elected representatives on local governing bodies" has been noted as recently as 1910; significantly it has been counter-balanced by an improvement in the permanent (civil service) officials.¹⁹ But the most important, the most pressing reason for local abdication of historic rights, as in Germany at a later date, was financial.

Long before the War the existing rates (local tax) basis was recognized as too narrow for adequate local government financing. The first central grants-in-aid were given in 1839; at first tentatively and sparingly, but since 1885 they have continued on an ever larger scale, so that today local governments receive on the average something like two-fifths of their total income from central sources. Ostensibly only for functions performed locally but vested with a national character, these grants are given for local education, police, street construction, health, housing, poor relief and other purposes all more or less of national as against local importance. A more realistic reason for the rapid spread of the grant-in-aid idea is the persistent demand of land owners (the rate-payers) on whom the burden of local taxation has always fallen that local government tap other sources of wealth. Since the tradition of Britain for centuries has allocated other tax sources to the central government and real property rates to the local governments, this has amounted to a demand for central relief of local burdens. Land owners also agitated for transfer of local functions to central hands.²⁰ For decades Britons have been urging the necessity of a general and thorough-going revision of the entire tax, rates and grant-in-aid structure; in practice it has been much easier from time to time simply to increase the amount of national aid. The War exaggerated the financial problems of the local governments by raising prices and increasing local debt, without giving them a corresponding opportunity to increase their income from rates. Local government finances, particularly in the North and in South Wales, were crippled further by the depression, which made even more difficult a basic and permanent solution.

¹⁸ Munro, *op. cit.*, p. 50.

¹⁹ Marriott, *op. cit.*, p. 286.

²⁰ Masterman, *How England Is Governed*, pp. 64-65.

THE LOCAL GOVERNMENT ACT OF 1929

The Local Government Act of 1929 was the first British legislation to take steps to reduce to a more logical basis the making of current central government grants to local governments. It is, as we shall see, not a complete solution. In effect it applies only to Treasury grants for general local government purposes: education, police, housing, roads, etc. In the latest reported year, 1934, these so-called block-grants accounted for only a third of total grants-in-aid to local government. Indeed, because of reductions in other grants the net increase in central aid compared with the last year under the old system is only 10 per cent.²¹ In return the local governments surrendered their former so-called percentage grants for public health, all local rate income from agriculture, and 75 per cent of rate income from railroad and industrial property;²² moreover they assented for the first time to imposition of a standard formula for determination of annual grants, uniform for the Kingdom. Grants for the 5-year period beginning April 1, 1937 pay to the local governments one-half their losses in rates and in grants resulting from the new arrangement, and an additional amount (approximately one-half the total) to be based on the "weighted population" of each county or county borough. Five subfactors make up the formula for determining weighted population: estimated population, the number of children under 5 years, ratable value of property, the sparsity of population and unemployment.²³ Their purpose is to measure as nearly as a formula can the merits of local requests for money, award grants not exclusively in accordance with the rate of local spending (the defect of percentage grants) but with local need.²⁴ The law gives the Minister of

²¹ *Statistical Abstract of the United Kingdom to 1935*, 80th number, p. 217. It should be added that at the same time the central Treasury has further lightened local financial burdens by taking over former local government functions, e.g., Unemployment Assistance.

²² *Local Government Act, 1929*, 19 Geo. 5, Chapter 17, sects. 67, 68.

²³ *Report of the Ministry of Health, 1935-36*, p. 160. In the 1937 revision of the formula the weights for unemployment and sparsity of population were increased. Beginning in 1942 the block-grants will be determined entirely by this formula.

²⁴ Ministry of Health, *Financial Relations between Central Government and Local Authorities in England and Wales* (unpublished official memorandum, no date).

Health the right to reduce a grant by any amount he considers wise if the local authorities fail to maintain a reasonable standard of efficiency in spending the grants.²⁵

Even if we ignore completely the great future possibilities of the new block-grants, there is no mistaking their import. The fact is that the central authority has imposed standards in another important area of local-central relations. The formula itself is not final: after extended discussions with local government associations of every kind it was revised for the current allotment period beginning April 1, 1937, with the particular purpose of increasing aid to the depressed areas.²⁶ But a principle is established.²⁷ There are great difficulties, practical and technical, in the way of a complete reorganization of local and central government finances. Entering into the complex situation are the general problems not only of taxation and rates, but such questions as those of national policy for the depressed areas, national planning and (now) national defense. There will probably never be a complete fundamental reorganization: that is not the British way. As an attack on this whole problem the Local Government Act of 1929 is a very tentative and partial bite (e.g., relief to the railroads and agriculture, the equalizing of local government rates).²⁸ But it opens a wider breach in local self-sufficiency. Local government, increasingly dependent on Whitehall, will have to pay for this help in the ever increasing scope and intensiveness of central supervision, inspection, audit, regulation and order. There has recently been some discussion of the desirability of what the British call "devolution," i.e., restoration of certain governmental functions to local government units, possibly on a new regional basis. There is no reason to believe that devolution will have great practical importance in the foreseeable future.

Today British government is so highly centralized that it has been said that only Japan is more closely controlled from the capital.²⁹ This is an exaggeration. But if one distinguishes between

²⁵ *Local Government Act*, 1929, sect. 104.

²⁶ *London Times*, February 18, 1937.

²⁷ Cf. the formula used in Germany for determining central subsidies for support of the able-bodied unemployed, footnote 5, Chapter 23.

²⁸ The Local Government Act of 1929 was also intended, among other things, "to lower the weight of taxation that falls upon the costs of production." (*London Times*, December 29, 1936.)

²⁹ Muir, *op. cit.*, p. 278.

decentralization of function and of control, it is a fair judgment that in fact British local governments are at least as closely controlled as German. Five central departments share responsibility for central regulation of local affairs: the Ministries of Health and Transport, Home Office, Board of Education, and the Electricity Commissioners, not to mention the Treasury. Health today is the most important of these. It would take volumes to describe all of the relations, administrative, advisory, financial and even legislative, that the Health Ministry bears to local government.³⁰ Typical of their range and their effect on local autonomy are the right of Ministry veto or amendment of local ordinances contrary to statute and the requirement of Ministry approval of local regulations; the issuance of detailed Poor Law and public health regulations and the right to rearrange local government boundaries. But practically none of these legislative-administrative powers and rights is as important in influencing local government as the advisory and financial, particularly the latter. For example, the Ministry of Health, in addition to making grants-in-aid, scrutinizes all local government proposals to issue bonds, audits local government accounts. It is the power of the purse applied directly and indirectly that has made the greatest breaches in local self-government. This does not mean that central duress is applied crudely or brutally: it is rare that the Ministry, in attempting to improve a local situation takes the extreme step of withholding a grant-in-aid, issuing a mandamus against a city council or appointing a commissioner to take over local administration. The advisory and the financial functions, the right to express opinion and to withhold money grants, the functions of inspection, audit and administrative supervision are so inter-related that it is difficult even in a specific case to distinguish their relative values. But there is no question of central financial power over local government. The Law of 1929 adds immeasurably to this central financial influence.

Since the last pre-War year local government income from central government grants has multiplied five and a half times;

* See Munro, *Government of European Cities*, pp. 52-65, for an excellent brief outline of the functions of the Ministry of Health, as of 1927. Since then the Local Government Act of 1929 has added the new function of administering block grants.

income from rates only twice.³¹ In 1913-14 the central government contributed less than a quarter of total income from these two sources; since the Local Government Act it has not fallen below two-fifths.³² British local governments have not gone through times as critical as their German prototypes but their dependence on central aid seems hardly less pronounced.

³¹ Local government income from 1913 to 1934 was as follows:

Year	From rates	From grants	Year	From rates	From grants
<i>In million pounds sterling</i>					
1913-14.....	71	22	1927-28.....	166	90
1920.....	151	63	1928-29.....	166	89
1921-22.....	170	76	1929-30.....	156	107
1922-23.....	157	75	1930-31.....	149	130
1923-24.....	143	78	1931-32.....	148	126
1924-25.....	141	81	1932-33.....	146	120
1925-26.....	148	84	1933-34.....	148	121
1926-27.....	158	86			

Source: Statistical Abstract of the United Kingdom, to 1935, 80th number, pp. 210-11. Data cover England and Wales only. Local governments also have income from other sources, e.g., from municipally owned business. The figures above are designed to show the relative burden on central (tax) and local (rates) sources.

³² In the depressed areas the proportions are much higher. In 1937 percentages of local government expenditure borne by the Treasury in Welsh counties are: Monmouth 66, Glamorgan 62, Brecknock 61, Carmarthen 66, Merthyr Tydfil 58 (*London Times*, March 3, 1937). The Minister of Health told Commons in February 1937 that the proportions are still rising (*London Times*, February 25, 1937).

CHAPTER 7

SOCIAL INSURANCE IN GERMANY BEFORE 1933¹

THE TREND TOWARD greater centralization in German government since the War has been accompanied by a parallel development in the social insurances. This trend in the social insurances is clearly distinguishable even before 1933, but for two reasons it is not as uniform or as strong as the other. Certain branches of German social insurance, as we shall see later in some detail, have always been relatively highly centralized, particularly the old age-invalidity institutions, and changes in the direction of greater administrative centralization, until 1933 at least, have been correspondingly minor although not always unimportant.² (Health insurance, on the contrary, administered under a system highly autonomous and extremely decentralized, shows as plain a picture of this trend as the developments of government finance.) But a more important modifying factor is the practical and social difficulties encountered by any proposed change in German social insurance. Even today many a reform cherished by the central supervisory authorities is held up because public opinion will not stand for it; the tradition of self-government, until 1933 a feature of every social insurance scheme, has always acted as an important counter-influence to centralization. This tradition, stemming from and reenforced by a parent development and tradition in local government, could not be broken down in pre-Hitler Germany. It could be and was gradually being worn away. Naturally the process was a slow one.

UNEMPLOYMENT INSURANCE³

Unemployment insurance and the employment service furnish a clear example of the trend toward centralization, principally administrative, before 1933. Supervision of local employment offices

¹ No attempt is made in this Chapter to discuss in detail the causes of the trend. For an analysis of the trend in German health insurance, see Chapter 9.

² Centralized within themselves. The autonomy of the numerous territorial and occupational insurance bodies, however, left a large place for an increase in *supervisory* centralization. For an example, see the discussion of old age-invalidity insurance later in this Chapter.

³ This section is based in part upon the discussions of the development of unemployment insurance in Germany in the following: Oscar Weigert, *Ad-*

was not assigned to the federal Ministry of Labor until 1919;⁴ the law of July 22, 1922 created a national employment service only in the sense that it provided for coordination by a federal office of the district offices directly supervising the local offices. The German placement system that was reorganized in 1927 into a single and relatively (administratively) centralized Federal Institution for Employment Service and Unemployment Insurance was decentralized, with the bulk of actual authority at the state and not the federal level. On the side of unemployment benefits the turn toward centralization was a slower development. The first German unemployment benefit plan to contain even the semblance of insurance was started in 1923.⁵ On the one hand the scheme was compulsory for all covered by health insurance; the cost was shared principally between employers and workers (the states and the federal government assumed only the cost of extraordinary unemployment) and the expenses of the employment offices were transferred to the new scheme. On the other, rates of contribution and benefit were standard only within an office area, benefits were dependent on satisfaction of a means and work test and it was administered by the executive committee of the employment office, a local government authority. This departure marked a turn not only to insurance but to administrative centralization: the employment offices were made an integral part of an unemployment benefit plan, and for the first time "control

ministration of Placement and Unemployment Insurance in Germany (New York: Industrial Relations Counselors, 1934), especially pp. 36, 48-50; R. R. Kuczynski, *Postwar Labor Conditions in Germany* (Washington: U. S. Bureau of Labor Statistics, Bulletin No. 380, 1925), especially pp. 159-77; Karl Goerdeler, in *Jahrbuch der Kommunalwissenschaft* (Stuttgart: 1936), especially pp. 53, 55, 56; *Fünfzig Jahre Reichsversicherungsamt, 1884 bis 1934* (Festschrift, supplement to *Amtliche Nachrichten für Reichsversicherung*, 1934, No. 7), p. 35; Bernhard Leheldt, in *Jahrbücher für Nationalökonomie und Statistik* (Jena, 1927), Vol. 127, Part II, pp. 935, 948; Mollie Ray Carroll, *Unemployment Insurance in Germany* (Washington: Brookings Institution, rev. ed., 1930), pp. 25-28, 100; National Industrial Conference Board, *Unemployment Insurance and Relief in Germany*, 1932, p. 31; Industrial Relations Counselors, *An Historical Basis for Unemployment Insurance* (University of Minnesota Press: 1934), p. 28.

⁴Weigert, *op. cit.*, p. 36. Cf. Kuczynski, *op. cit.*, p. 167, who places the date at May 6, 1920.

⁵*Verordnung über die Aufbringung der Mittel für Erwerbslosenfürsorge* (order for the raising of funds for unemployment relief), October 14, 1923 (R. G. Bl. I, p. 984).

of unemployment relief began to shift from the local government (as such) to the exchanges."⁶ In 1924 the unemployment relief system was further standardized and centralized, edged closer toward insurance. Eligibility rules were tightened, payments were limited to 26 weeks, contributions were scaled to wages, and the health insurance funds were authorized as agents for the collection of contributions. Also, the Minister of Labor was authorized to arrange contribution percentages on any basis he should consider proper, an abandonment in principle of local financial responsibility for unemployment relief. But as before, administration remained with the authorities of the local employment offices and in the comparatively normal times of 1924 to 1926 local financing worked fairly well. Unemployment in 1926, however, was so severe that neither employers and workers nor the local governments could carry it. A national reinsurance pool was created out of part of the local contributions to assist the hardest pressed communities. More important, a new form of emergency unemployment benefit was introduced to care for persons exhausting their regular benefit rights; the federal government assumed three-quarters, the local governments one-quarter of the cost. These benefits are the basis of the emergency unemployment benefits of the present system.⁷

The net result of German experience with unemployment relief up to 1927 was a gradually increasing federal control marching with increasing federal financial responsibility. In the new insurance scheme that began in 1927, administration both of emergency and what may be called normal unemployment benefits was entrusted to a new institution, which is autonomous and, compared with the old system, (administratively) centralized. The local governments lost their long and bitter fight to retain their employment offices.⁸ Employers and workers, that is, began to operate their own insurance and placement organization under principles uniform for the nation; in the new Federal Institution for Employment Service and Unemployment Insurance power was concentrated at the top, and there was relatively slight state

⁶ Carroll, *op. cit.*, p. 25.

⁷ For recent changes (December-January, 1937-38), see Chapter 23.

⁸ In 1927 there were approximately 900 local employment offices, in 1936 only 359.

supervision.⁹ Finally a distinction was made, following pre-1927 developments, between financial and administrative responsibility. For the cost of normal benefits employers and workers continued to be solely responsible; for emergency benefits the federal Treasury took the major, the local governments the minor share of the financing.

Developments in unemployment insurance between 1927 and 1933 ran in the same general direction.¹⁰ For example, certain discretionary powers of the local employment office authorities over seasonal unemployment benefits were transferred in 1928 to the headquarters of the Federal Institution for Employment Service and Unemployment Insurance. Prior to 1930 headquarters only had to be consulted on the local and state office budgets; thereafter it enjoyed the power of veto. Since 1932 the budget for the entire Federal Institution, including state and local offices, has been made by headquarters.¹¹ In 1931 the executive committee of the Federal Institution was authorized, if in its judgment the solvency of the Institution were in danger, to change contribution rates, or to reduce the amount or the duration of benefits.¹² In 1932 these powers were taken over by the federal government itself, with the further important provision that payments of all insurance benefits could be made dependent on proof of the applicant's need.¹³ Since then the unemployed German worker re-

⁹ That important functions were left to the local employment offices (decentralization of function) does not disturb the fact that their execution was largely controlled by orders from the top of the organization (administrative centralization).

¹⁰ The delegation in 1932 to local welfare authorities of the duty of applying the means test for unemployment insurance benefits indicates that this trend is not without exceptions. *Verordnung des Reichspräsidenten über Massnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden* (order of the Federal President for the maintenance of unemployment relief and social insurance and for the lightening of the burden of public welfare expenses on local governments), June 14, 1932 (R. G. Bl. I, p. 273), cited hereafter as *President's Emergency Insurance Order. Erlass über das Zusammenwirken der Gemeinden und Gemeindeverbände mit den Arbeitsämtern bei der Prüfung der Hilfsbedürftigkeit* (decree on the cooperation of local governments and local government associations with the employment offices in administering the means test), August 16, 1932 (R. A. Bl. I, p. 175).

¹¹ *Employment service and unemployment insurance law*, October 12, 1929, sect. 161 (5) amended March 21, 1932.

¹² *Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen* (second order of the Federal President to assure economic and financial stability), June 5, 1931 (R. G. Bl. I, p. 279), Part III, Ch. 1, Art. 2.

¹³ *President's Emergency Insurance Order*, June 14, 1932.

ceives his insurance benefits as a right, without any test of need, only for the first 6 weeks of unemployment. Earlier the Federal Auditor accepted written reports of financial condition from the Federal Institution; in 1929 this was changed to requirement of a thorough audit on the ground, including check of all operations directly or indirectly financial, and spot checks of state (provincial) and local offices.¹⁴ So, for some time before the suspension of unemployment insurance self-government in 1933, the powers of local and state employment office committees, through these and many other minor changes, had been undergoing a gradual but unmistakable process of attrition.¹⁵ Both employers and workers were critical of this development, particularly the latter who hated bureaucracy and had always regarded the Federal Institution as too highly centralized in any event and palatable only because administrative centralization had been neutralized by the counter-weight of self-government. Employers and workers indeed had been induced to give up their own employment offices in return for the protection of self-government. These rights, under pressure of depression, they could see being drawn up, one by one, to higher levels.¹⁶

HEALTH INSURANCE

In health insurance the recent trend to supervisory centralization is at least as plain and its course even swifter.¹⁷ The depression problems of the health funds led the President of the German Federation in July 1930 to issue the first of a series of important emergency insurance orders "reforming" health insurance, that is, reducing its liabilities, strengthening its resources. Designed to reduce hasty applications for benefit and increase the responsibilities of fund physicians, the effect of the first order was drastic: "curative and preventive [services] momentarily pass into the background—a complete but inevitable reversal of the benefits

¹⁴ *Neunter Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung, 1936-37*, p. 66. Cited hereafter as *Ninth Report of the Federal Institution*.

¹⁵ One prominent ex-official of the Federal Institution places the decisive point of shift as early as 1930. The degree of centralization prior to 1933 was always much less in the employment service than in insurance.

¹⁶ For a more complete statement of the nature of and the reasons for the loss of self-government, see Chapter 22.

¹⁷ For more complete details, see Chapter 9.

policy followed since the War by all branches of social insurance."¹⁸ The fourth order of the series in December 1931 abolished all additional benefits: benefits extending for more than 26 weeks and paying more than one-half of wages, furnished formerly by funds able to afford them.¹⁹ To avoid an increase in insurance contributions, considered impossible because of the rising costs of unemployment insurance, the funds were authorized to levy on their reserves, and payments into reserves were for the time discontinued.²⁰ Since 1931 also the Superior Insurance Office (Oberversicherungsamt) must pass on all proposed increases in contribution rate.²¹

But even more important than this growth of central statutory power is the increasing influence of the Ministry of Labor through suggestion and advice. In their years of financial difficulty the health funds were all the more willing to follow this informal direction. Almost exclusively by these indirect methods the Ministry has been able to bring about two results of vast importance not only for health insurance, but for the entire social insurance structure. Many health funds have been induced to reduce contribution rates considered by the Ministry to be redundant; average contributions per member dropped from RM 98 in 1929 to RM 58 in 1933. In the long run even more important is the Ministry policy of reducing as rapidly as possible the number of health insurance funds. In 1919 the total stood at 9,203; by 1932 it had been cut to 6,789, by 1936 to 4,725.²² Entirely apart from

¹⁸ International Labour Office, *Annual Review*, 1930 (Geneva), pp. 288-9; *Verordnung des Reichspräsidenten zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände* (order of the Federal President on relief of the financial, economic and social emergency), July 26, 1930 (R. G. Bl. I, p. 311). Cited hereafter in English.

¹⁹ *Vierte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zum Schutz des inneren Friedens* (fourth order of the Federal President to assure economic and financial stability and to preserve internal peace), December 8, 1931 (R. G. Bl. I, p. 699). Cited hereafter in English.

²⁰ I. L. O., *Industrial and Labour Information*, January 4, 1932, pp. 14-17. These additional benefits were later restored.

²¹ *Verordnung über die Festsetzung der Beitragssätze in der Krankenversicherung* (order on establishing the rates of health insurance contributions), August 1, 1931 (R. G. Bl. I, p. 427).

²² *Die Krankenversicherung 1934, mit vorläufigen Ergebnissen für das Jahr 1935*, Statistisches Reichsamt (Berlin), pp. 4, 45, 49. Cited hereafter as *Health Insurance*, 1934. Peter Esser, in *Die Arbeiten des Ersten Internationalen Kongresses der Sozialversicherungsfachleute* (Budapest: 1935), pp. 166-7 (cited hereafter as *Proceedings* of this congress); *German Social Insurance*, 1935, p. 648.

the wisdom of these changes, they indicate clearly a consistent trend toward centralization.

OLD AGE-INVALIDITY INSURANCE

The history of old age-invalidity insurance has been one of increasing coordination rather than of greater centralization. There are elements of each, but it is not possible, up to 1933, to distinguish many unmixed evidences of growing centralization either in supervision or within the insurance institutions. Old age-invalidity insurance institutions, to begin with, have always been highly centralized, so that in general they arrived long ago at the destination to which unemployment insurance is travelling. The nature of the risk²³ and the territorial or occupational basis of organization have made possible an administration centering at the top not only most powers but most of the actual operations.²⁴ There have been as many as 40 parallel old age-invalidity insurance bodies. Now there are 32, each highly centralized in its own operations.

Government solutions of inflation problems have, in a sense, produced increased supervisory centralization. The financial crises beginning with the inflation of the early 1920's made imperative a series of drastic emergency measures by the government and its supervisory bodies in order to maintain the solvency of the institutions. Already in 1921 the reserve principle had to be abandoned on account of depreciation of the currency. In the inflation the funds lost nine-tenths of their assets.²⁵ On the one hand assets melted away; on the other benefits had to be restored to at least part of their lost purchasing value. Between 1929 and 1933 order followed order from the Ministry of Labor, shortening the duration of benefits, reducing additional benefits, in all sorts of ways attempting the enormously difficult task of restoring a financial balance, exaggerated by the deepening world depression. The fed-

²³ For an analysis of the effect of the risk on social insurance organization, see discussion of technical factors in Chapter 17.

²⁴ Old age-invalidity insurance for salaried employees has always been administered by a single institution for the entire country. It represents the most extreme example of German social insurance administrative centralization. Practically all operations are handled at the headquarters of the Institution in Berlin. In the field the Institution maintains only the most rudimentary organization. Miners', marine and railroad workers' institutions are similarly centralized.

²⁵ Sonderheft der *Ortskrankenkasse*, January 1, 1936, article by Storck, p. 72.

eral government between 1925 and 1932 increased its subsidies nearly 200 per cent, contributions rose only 11 per cent.²⁶ Even these heroic measures were not enough: by 1931 all the institutions were drawing on assets in order to pay their share of benefits; they fell into debt to the Post Office for unpaid advances.²⁷ It is a mere accident that the law for preserving the solvency of old age-invalidity insurance for wage earners, salaried employees and miners of December 7, 1933 happened to fall in the new political regime; it was the inevitable climax to 15 years of continuous financial crisis.

But these developments indicate better organizational and actuarial-technical coordination at least as much as increased centralization. Interference by the government has been almost exclusively on the broadest financial lines, it has aimed at adjusting total income and outgo, it has affected the actuary more than the administrator. There has, in this sense, been an increase in governmental control but within the insurance institutions it produced no major changes. It is true that he who controls or considerably influences finances in any institution *may* have a great deal to say about its administration. May, but not must. In fact, supervisory control in old age-invalidity insurance for wage earners has not increased; indeed between 1924 and 1935, for reasons of economy, the audit of the insurance institutions by the Federal Insurance Office was completely dropped. On the other hand, a number of important changes in old age-invalidity insurance since the War have been aimed directly at better coordination.²⁸ The law of December 7, 1933, for example, for the first time considered together the hitherto separate old age-invalidity insurance for wage earners, for miners and for salaried employees, a coordinating measure of first importance. But none of these events is half as important as the abandonment in fact in 1924 of the principle of insurance by territories. By this step wage earners' old age-invalidity insurance was converted, for greater safety and economy, from the financial responsibility of over 30 territorial carriers allied in a federation, to a single national scheme. For

²⁶ *Konjunkturstatistisches Handbuch* (Berlin: 1936), p. 148.

²⁷ Sonderheft der *Ortskrankenkasse*, January 1, 1936: article by Strebels, p. 77; by Storck, p. 73.

²⁸ The trend toward coordination in old age-invalidity insurance is discussed in Chapter 12.

administrative purposes the territorial organizations remain but the benefit payments for which they are responsible have ever since been shared out of what amounts to a national insurance pool. The administrative units remain for collecting contributions and paying out benefits; financially the institutions are one.²⁹ In all the history of German social insurance there is no clearer illustration of organizational and actuarial-technical coordination. Better coordination may and often does result from increased centralization. This is an instance of coordination achieved by direct rather than by indirect means.

²⁹ *Reichsversicherungsordnung* (Federal Insurance Code), December 15, 1924, sect. 1405 (R. G. Bl. I, p. 779), now sect. 1386 (R. G. Bl., 1937, I, p. 1393). Cited hereafter in English.

CHAPTER 8

SOCIAL INSURANCE IN GERMANY, 1933 AND SINCE

THE EVENTS OF 1933 and since continue the long historic trend in German social insurance toward centralization. But except in health insurance the trend has not been speeded up; indeed it would be difficult to establish for social insurance other than health that the past 5 years show as much evidence of the trend as those immediately preceding the new regime. In unemployment insurance, for example, there have been no major changes in this direction.¹ One reason is that these other institutions have always been relatively centralized; another is that when organizations and administrative systems work well, even a revolution is not likely to increase supervisory control.² It is fair to say that most of the changes since 1933, including health insurance, have been as much in the direction of improved coordination as of greater centralization.

In health insurance the direction of events is clear. Within the last 5 years special health insurance commissioners have been appointed by the Ministry of Labor to take over temporarily the administration of a number of funds,³ and the privilege of self-government has been completely taken away and only in part restored.⁴ These are clearly steps toward greater supervisory centralization. Preliminary steps have been taken toward the ultimate merger of health with old age-invalidity insurance and in the establishment of the principle of reinsurance.⁵ These last, as we shall see presently, are intended primarily to produce better actuarial-technical coordination between the funds, although in-

¹ For examples of increased centralization since 1933, see Robert Frase, *The Administration of Unemployment Insurance and the Public Employment Service in Germany* (Washington: Committee on Public Administration of the Social Science Research Council, 1938), pp. 45, 48, 65. Multilithed.

² For a discussion of the effect of 1933 changes on social insurance personnel, see Chapter 2.

³ *Erste Verordnung zur Neuordnung der Krankenversicherung* (first order for the reorganization of health insurance), March 17, 1933 (R. G. Bl. I, p. 131). Cited hereafter in English.

⁴ *Law for the reorganization of the social insurance system*, July 5, 1934, Part II, Art. 7.

⁵ *Ibid.*, Part II, Arts. 1-3, and Art. 8, sect. 3.

identally they will result in greater supervisory centralization as well.⁶

In the field of governmental supervision as distinct from insurance administration, there is another clear example of recent centralizing tendencies. From the beginnings of German compulsory social insurance the local Insurance Offices (*Versicherungsämtter*) have presented a curious anomaly. Although administratively they are the subordinate agencies of the Federal Ministry of Labor and the Federal Insurance Office, and the base of the pyramid of government supervision, they have been in fact and are today local government bodies. Nearest the insurance bodies themselves and the people they serve, they provide appeal facilities from the decisions of the insurance bodies and supervise their operations. The chairman of the local Insurance Office is the local *Bürgermeister* or equivalent official (in practice he appoints a professional full-time vice-chairman). Until 1933 appeal and executive committees of insured workers and employers exercised important powers of self-government, now again partly restored. The local Insurance Office was and is a definite and important part of the machinery of local government, its director an official ranking in prestige and influence with the welfare director, the health director, the housing and financial officials.⁷ Nominally under the supervision of the Superior Insurance Office, the local government's administration of the local Insurance Office in fact has been highly autonomous.⁸

One order under the new regime restricted considerably the autonomy of the local Insurance Offices, a second transferred certain of their functions to other bodies. The First Order for the Reorganization of Health Insurance, March 17, 1933,⁹ for the first time placed the local Insurance Offices squarely under the supervision of the Superior Insurance Office for the state (province). Berlin supervisory officials intend this as a long step toward increased central control.⁹

⁶ For more complete details, see Chapters 9 and 12. Where motives and results are mixed, as in health insurance, no attempt is made in this book to arrive at an impossible or artificial separation, but the major significance of each development is indicated. ⁷ Wells, *op. cit.*, pp. 220-1.

⁸ Sonderheft der *Ortskrankenkasse*, January 1, 1936, article by Grünewald, p. 89.

⁹ It is no accident that this important local Insurance Office legislation is a part of the health insurance law. Both local Insurance Office and health fund

Probably even more important in the long run is the assignment to the health insurance funds of all local functions of old age-invalidity insurance.¹⁰ Practically this amounts, or will amount when the program is in full swing, to a transfer of functions from the local Insurance Office which now in Bavaria and parts of Prussia issues new contribution stamp books to wage earners insured for old age-invalidity, takes in the filled books for forwarding to the appropriate insurance body. Even where this stamp book function is not performed, as in Berlin where health insurance funds do it,¹¹ the local Insurance Office is the social insurance agency nearest the average man, where he seeks information, makes application for benefit, sometimes enters appeals. These local Insurance Office functions in the merged old age-invalidity-health insurance scheme will be eliminated. It is generally agreed among the higher supervisory authorities that within a relatively short time the local Insurance Offices will entirely be superseded, their work as supervisory and appeal agencies taken over by the Superior Insurance Offices, their old age-invalidity insurance duties by the health insurance funds.¹²

are important local government institutions. Personal and political relations, particularly between the local Insurance Office and the general community health insurance fund (Ortskrankenkasse) are generally very close. For further details, see Chapters 9 and 22.

¹⁰ *Law for the reorganization of the social insurance system*, July 5, 1934, Part II, Art. 3, sects. 2, 3.

¹¹ B. Kappenberg, *Grundriss des Verwaltungsdienstes der Träger der Invalidenversicherung* (Deutschland), (Geneva: International Labour Office, no date). Unpublished manuscript.

¹² The reasons ascribed officially and otherwise for the proposal to eliminate or increase central regulation of the local Insurance Offices are typical of the factors working for centralization generally. They include: local political influence and interference in Insurance Office affairs as a result of the fact that the chairman and Bürgermeister (an elected official) or leader are one; the need to improve personnel, admittedly less carefully selected and efficient at local government levels, partly because of the political factor, partly because often local government personnel spreads its efforts over tax, school and other local affairs in addition to social insurance; the comparative unimportance of the local Insurance Offices except for health insurance. It is distinctly agreed in Berlin that elimination of the local Offices is not expected to reduce administrative costs. Indeed, rather the contrary. (See Schieren, in *Deutsche Verwaltung* [Berlin, October 20, 1936], p. 311.)

CHAPTER 9

A CASE STUDY: GERMAN HEALTH INSURANCE

HEALTH INSURANCE IN Germany¹ undoubtedly provides the clearest picture of the trend toward supervisory centralization. It is the more distinct because health insurance has a tradition of at least a hundred years of autonomy, and the roots of the funds go back much farther still. Bismarck for political and other reasons is responsible more than any other for the general form and the multiplicity of the German health insurance scheme today, but he built on the firm foundation of traditional mutual aid institutions.

HETEROGENEITY OF EARLY HEALTH INSURANCE FUNDS

It is a commonplace that the workers' protective guilds, providing health benefits in particular, go back to the Middle Ages. The Prussian General Code of 1794 specifically recognized and regulated artisans' guilds, journeymen's unions and miners' associations for mutual aid. The first establishment fund (Betriebskrankenkasse) dates from the early eighteenth century. In the nineteenth century various local and state (provincial) governments introduced the principle of compulsion, particularly in the mining industry; the number and heterogeneity of the funds continued to increase, and by the 1870's all Germany was covered (although not completely or thoroughly) by a network of "multiplex organizations . . . old and new, compulsory and voluntary funds, related in part to individual employers, in part to unions, in part to industries, highly dissimilar in the level of benefits, in the participation of workers, in the level of contributions."² Almost without exception the benefits provided were for health, the insurance risk best adapted to the financial resources and ama-

¹ The sources on which this historical discussion is based include: I. L. O., *Compulsory Sickness Insurance*, especially p. 10; Ogg, *Governments of Europe*, p. 68; *Der Deutschen Sozialversicherung Wert und Wirken*, Sonderheft der Ortskrankenkasse, January 1, 1936, article by Münz, especially pp. 84, 85, 88, and article by Grünewald, pp. 88-90; Esser, in *Proceedings of the First International Congress of Social Insurance Specialists*, 1935, p. 166; and Barbara N. Armstrong, *Insuring the Essentials* (New York: Macmillan, 1932), especially p. 304.

² Münz, *op. cit.*, p. 85.

teur management of the funds. The close relation of the funds to the labor movement, growing rapidly in the third quarter of the nineteenth century, gave them a foundation of immense potential economic, social and political importance. It was Bismarck's strategy in the historic health insurance law of 1883 to minimize or neutralize the political possibilities of the funds by channeling and diffusing them among many bodies of diverse social and economic interests. Already in 1874 and 1875 Prussian laws began to regulate the funds; the federal law of 1883 reorganized and formalized health insurance institutions for the whole Empire on the multi-fund basis which exists to this day.

PRINCIPLES OF GERMAN HEALTH INSURANCE

So, Germany began its health insurance organization, not as a paper-perfect plan but out of mixed motives and many compromises. Bismarck performed prodigies of political manœuvering to get the law through a hostile Reichstag, and even so it took over a year to win a majority. The result was the first compulsory social insurance law in the world. It would be difficult to exaggerate the importance of this precedent. In one law were introduced the principles of compulsion, of employer responsibility for financial aid to his workmen in certain contingencies, and of the so-called corporative association, or occupational responsibility. None of these, and particularly the last, was carried out without exception; but the impress of decisions—the exceptions as well as the principles—made in Germany in the 1880's is clear today not only on German social insurance but on the social insurance institutions of the whole world.

From the standpoint of social insurance organization and co-ordination the third (corporative) principle and the deviations permitted from it are of the greatest importance. Bismarck meant to encourage industrial self-government under the corporative principle, so the old organs, heterogeneous as they were, were taken over and many additional similar funds created. Establishment funds, miners' and marine funds, guild or union funds and a few industry funds,³ were qualified as statutory insurance bodies. But because this still failed to cover great portions of the industrial population, exceptions to the corporative principle had

³The bookprinters' assistants' voluntary plan covered all of Germany.

to be made and a new variety of fund created. Every insured worker who was not already a member of a corporative fund was required to join one of the new community (including rural) health insurance funds. These territorial bodies were intended to be supplementary and subordinate. The corporative principle was to be controlling, with the logical corollaries of a high degree of industry responsibility, decentralized administration and a minimum of interference with going institutions.⁴ The entire emphasis was on industrial autonomy and initiative. As late as 1933 the central supervisory authorities were complaining of their lack of real authority over the "power-drunk kings" of the health funds.

DECLINING NUMBER OF HEALTH FUNDS

When German health insurance went into operation in 1885, 17,511 funds qualified as insurance bodies. The next years of rapid industrial and population growth, supported by a movement in the direction of greater lay participation in local government,⁵ saw the total go (1909) to over 23,000.⁶ Even after passage of the Federal Social Insurance Code in 1911, which weeded out thousands, there were still over 10,000 funds. Since the War the trend, principally because of the decline in the number of establishment funds including miners', has been downward: from a total of 10,011 in 1914 to 4,725 in 1936. The establishment and miners' funds in 1914 accounted for 4.3 million of 16.9 million total membership; in 1934, 3.5 million of 19.9 million. The predominance of the territorial (community, rural, miners') funds is shown in Table 1.

⁴ *Draft of Federal Social Insurance Code*, p. 53: "When statutory sickness insurance was originally introduced, the legislature was guided by the principle of a system of insurance on a corporative basis and as decentralized as possible, while maintaining existing institutions." (Cited in I. L. O., *Compulsory Sickness Insurance*, p. 562.)

⁵ The movement for local self-government in Germany grew side by side with a slowly developing trend toward centralization under federal control. The two movements were essentially complementary and not competitive. This is difficult to understand unless one recognizes the German tradition of the double sphere of local government: first, as an agency of the state (province) and the Empire; second, within clearly defined limits, as an independent government. The functions in which German local governments enjoy relatively high autonomy include: poor relief, welfare work, highway administration, schools, fire protection. (Blachly and Oatman, *op. cit.*, p. 303. See Marriott, *op. cit.*, pp. 281-3, for a parallel development in Great Britain.)

⁶ Figures in this section are taken from *Health Insurance, 1934*, pp. 4, 11, 13, 45; *German Social Insurance, 1935*, pp. 636, 648; I. L. O., *Compulsory Sickness Insurance*, p. 576; I. L. O., *General Problems of Social Insurance*, p. 116.

TABLE 1. PERCENTAGE DISTRIBUTION OF MEMBERSHIP OF GERMAN HEALTH INSURANCE FUNDS, 1914-1935

	1914	1931	1934	1935
TOTAL MEMBERSHIP.....	100.0	100.0	100.0	100.0
Community funds..... (Ortskrankenkassen)	58.8	65.3	60.8	59.8
Rural funds ¹ (Landkrankenkassen)	12.7	9.2	9.1	8.6
Establishment funds ² (Betriebskrankenkassen)	20.6	14.2	15.1	16.0
Union funds..... (Innungskrankenkassen)	2.4	2.7	2.7	2.7
Miners' funds..... (Knappschaftskrankenkassen)	5.5	3.3	2.8	3.0
Substitute funds ³ (Ersatzkrankenkassen)	—	5.3	9.5	9.9

¹ Principally for domestic and farm workers.

² Funds for the employees of a single employer.

³ Special inter-occupational, and predominantly white-collar funds.

Sources: Knoll, in *Die Reichsversicherung*, Vol. 1, 1933; *Health Insurance*, 1934, p. 13; *German Social Insurance*, 1935, p. 636.

The decline in the total number of health insurance funds is the result in part of a definite Ministry of Labor policy, particularly in later years; in part of legislation (in 1925, 79 miners' funds were consolidated into one; since 1909 no new substitute funds may be authorized); and in part of financial crisis, which disclosed the weaknesses of the smaller and less well managed funds. A great but incalculable factor in the decline has been the increasing strength of the territorial funds, particularly, the general community type. Except for the miners' funds, these have consistently had the largest average membership: since 1914 this has nearly doubled.⁷ Ten of the first 17 health insurance funds in size of membership are community funds; Berlin's is the largest in Germany, with over 800,000 members. The community funds have been the principal gainers by the events, political, social and legislative, that have caused the relative decline of the corporative funds. The community funds (together with the rural funds) have the advantage of enrolling automatically any person not electing to join a corporative or substitute fund.⁸ The increasing prestige of organized labor and the rapid and successful development of effective employer-worker collaboration in and out of

⁷ *Health Insurance*, 1934, p. 11. Partly estimated by the author.

⁸ *Federal Insurance Code*, sect. 234 (1).

social insurance, made increasingly less attractive the establishment and union health insurance types. The community funds are quasi-departments of local government, they are staffed by quasi-local officials; they are a part in fact of the local political scene, an index of the efficiency and popularity of local government officials.⁹

Whatever the causes of this downward trend, it encouraged when it did not positively indicate a growth of centralization. Increasingly with time, supervisory centralization has been the result of definite Labor Ministry policy, particularly since 1931.

HEALTH INSURANCE FUND AUTONOMY

This heterogeneity of health insurance institutions was matched by a really unusual degree of local autonomy. It is difficult for Americans to imagine either the scope or the pervasiveness of the German tradition and practice of self-government. As a public corporation, the health insurance fund was even more autonomous than local government. It¹⁰ was managed by committees of employers and workers of the two parties' own choosing. Insured persons elected their representatives to the Ausschuss, or policy committee, which had direct responsibility for making budget estimates, the annual audit of accounts, amendments to the rules including changes in rates of benefit and contribution. Service rules for employees and all actions of the governing or executive committee had to be approved by the policy committee. As a board of directors, the policy committee was in general the final authority on all matters not delegated to the executive committee. Even more important in health insurance administration was the full-time Vorstand, or executive committee, which had responsibility for the actual conduct of business. This committee was selected at the annual meeting of the policy committee, and in turn selected from its own number a chairman and vice-chairman, key officials of the organization. The important duties of the executive committee were to manage the fund, represent the fund in legal

⁹ Legally the health insurance bodies are public corporations without the powers of a government authority (*Öffentlich-rechtliche Körperschaften ohne Behördeneigenschaft*). (I. L. O., *Compulsory Sickness Insurance*, p. 622.)

¹⁰ These general references are to the territorial funds unless otherwise indicated. The greatest deviation from this average picture occurs in the establishment fund.

actions, make rules for and select officers and subordinate personnel. Within the limits of a set of rules drawn up initially by the local government¹¹ and by the broad proscriptions of the Federal Insurance Code, each fund was largely on its own. It set its own bases and rates of contribution and of basic benefit; it could and did supplement basic benefits with additional benefits of a variety and a quality that made German health insurance the model of the world.

In the all-important matters of control of finances and personnel, the thousands of German health insurance funds approached a degree of self-government that, considering their mixed constituency and political-economic character (particularly the territorial funds), is truly remarkable. This autonomy, the popular habit of centuries, meshed as it was with a parent development of local government autonomy, had its good and its bad sides. Whether good or bad, or something of each, is not the question here.¹² Self-government until 1933 was a fact. Unless this is understood, the factors discouraging and opposing the centralizing forces in German social insurance have small meaning.

German health insurance, then, began in a traditional, although in part a deliberately fostered heterogeneity. As we have seen, this heterogeneity persists to this day; at the same time a number of forces have been pushing toward homogeneity. Indeed until very recently most of the increase in centralization has been the result rather than the objective of health insurance policy, in so far as there was a policy.¹³ The emergency order of July 26, 1930 was the first important deliberate attempt from above to interfere directly with the affairs of the funds, and this was the product of crisis and unplanned. In 1931 the insurance bodies were relieved of certain personnel functions and model plans for setting up job

¹¹ *Federal Insurance Code*, sect. 320.

¹² The gains and losses of self-government in health insurance are discussed and balanced in Chapter 22. Here we are outlining trends, the direction of events; Parts IV and V are a summing up.

¹³ A partial exception may be the regulations governing the appointment and status of health insurance fund officials, dating to 1919. But there were and are very few officials (who have tenure and pension rights) as compared with salaried employees (who have not). (*Verordnung der Reichsregierung über die Wahl des Vorstandsvorsitzenden bei den Ortskrankenkassen und über die Kassenangestellten* [order of the federal government on the election of the chairman of the governing body of the community health funds and on the employees of health funds], February 5, 1919, R. G. Bl. I, p. 181.)

classifications and salary scales were issued for use of the funds. It remained for the new regime that came into power early in 1933, here as in many other directions, to speed up and capitalize old trends, embroider them and even claim credit for them. For the first time the central authorities announced a close interest in and a plan of centralized control for Germany's thousands of health insurance funds.¹⁴

EVIDENCES OF GROWING CENTRALIZATION

Centralization has been increased in German health insurance both by indirect and direct methods—indirect first. Under the first order for the reorganization of health insurance (March 17, 1933), the Ministry of Labor appointed special commissioners to take over and operate 120 funds. While most of these served less than a year and then turned back the funds to their own officials (by 1937 only one remained in office¹⁵), the precedent was of vital importance. At least two-thirds of all insured persons in the nation were more or less intimately affected by and interested in a policy which naturally enjoyed the greatest publicity.¹⁶ The functions of the commissioners were to take over powers that had been the customs and symbols of self-government for 50 years; they reorganized funds when possible, merged them with other funds when not.

Even before 1933 it was becoming increasingly more difficult to secure permission to start a new fund; it is now legally impossible.¹⁷

The basic Law for the Reorganization of Social Insurance (July 5, 1934) and supporting regulations contain even greater *possibilities* of centralization. Following German practice the basic law is very short, leaving to orders, executive orders and emergency orders its gradual and discretionary application. While many of the broad grants of authority have not yet been and may

¹⁴ The Ministry of Labor had been working for years on these plans, prior to 1933. Certain of its unpublished proposals, for example the *Gemeinlast* (reinsurance fund), it had never expected to get into legislation. Higher officials still doubt if the *Gemeinlast* will be possible even in the present regime. (I. L. O., *Industrial and Labour Information*, August 1, 1932, p. 166.)

¹⁵ Federal Ministry of Labor, Berlin: Memorandum sent to the author. September 23, 1937. (Unpublished)

¹⁶ Because of the charges by the incoming National Socialists of extreme abuses of the right of self-government. For a discussion of the validity of these charges, see Chapter 22.

¹⁷ *Siebente Verordnung zur Neuordnung der Krankenversicherung* (seventh order for the reorganization of health insurance), October 10, 1934 (R. A. Bl. I, p. 976).

never be utilized, the direction in which things are going cannot be mistaken. The first steps toward the ultimate merger of old age-invalidity and health insurance have already been taken.¹⁸ On one side the health insurance funds are made the local agencies of the state old age-invalidity institutions for wage earners, without their own local organizations up to now, and health funds are represented on the advisory committees of the latter.¹⁹ On the other, the so-called community duties (*Gemeinschaftsaufgaben*) of the health funds—those which individual funds find difficult or impossible to carry out alone²⁰—are turned over to the state old age-invalidity institutions. Very significant is the section (Art. 3, sect. 3) of the Reorganization Law that definitely assigns, for both these functions, the health funds to the authority of the state (provincial) old age-invalidity insurance institutions. The leader (formerly the executive committee) of the state institution represents and is an officer of a whole state, subject to direct control by the federal authorities (Art. 7, sect. 2). This marks a great change from the situation of the old decentralized autonomous days.

¹⁸ This merger provides an excellent example of the difficulty and the impracticality of trying to separate too precisely the centralization and co-ordination aspects of certain social insurance developments. It is easy to see that the first result is closer coordination between hitherto fairly uncoordinate insurances. But one method of control of health insurance is the strengthening of the government's supervisory powers. A second is assignment of supervisory powers to the old age-invalidity body, already under greater central control. These two methods show increased centralization.

¹⁹ This change follows general Continental practice. (I. L. O., *Compulsory Pension Insurance*, Series M, No. 10 [Geneva, 1933], pp. 602-3.) At present the German institutions use as local agencies the police, the local Insurance Office, special representatives, and in some parts of the country the health insurance funds.

²⁰ *Dritte Verordnung zum Aufbau der Sozialversicherung: Gemeinschaftsaufgaben* (third order for the reorganization of the social insurance system: community duties), December 18, 1934 (R. G. Bl. I, p. 1266), lists these as: the operation of healing and convalescent institutions, the carrying out of preventive health measures, the regulation of the system of confidential medical counsel (as a check on the efficiency and probity of the funds' own doctors), custody and administration of health fund reserves, audit of the accounts and examination of the other operations of the health insurance funds and their associations. One community duty has not yet been transferred: administration of the proposed *Gemeinlast*, or reinsurance fund, for all health funds. This is "for the equalization of unjustifiable differences in the level of contributions and benefits" (*Law for the reorganization of the social insurance system*, July 5, 1934, Part III, Art. 8, sect. 3). While this same paragraph specifically requires that the economic liability and responsibility of the funds shall remain undisturbed, the *Gemeinlast* has great possibilities in the direction of unification, at least of finances. (See Chapter 21; cf. the old age-invalidity *Schlüssel*, discussed in Chapter 12.)

But centralization has been introduced even more directly. Regulations in April 1933 removed all non-Aryan doctors.²¹ All employees (there are very few officers with civil service rating) of health insurance funds are required henceforth to pass examinations in order to qualify for appointment or promotion.²² The health funds are made subservient not only to the old age-invalidity bodies; they are also placed for the first time directly under the local Insurance Office and directly aligned in the orbit of central authority.²³ Formerly supervision was limited to assurance that the law and the fund's regulations were observed. Now it was extended to questions of discretion and economic operation.²⁴ The organs of self-government, the policy and executive committees, were abolished, and a leader—an employer named by the leader of the old age-invalidity institution—replaced them.²⁵ Whether or not changes in the rank and file and subordinate officials were numerous, these changes were of prime importance in principle. Gone the democratic principle, the mainspring of self-government; in place of a leadership elected by the whole membership, decisions were henceforth to be made by a state official, a politician, or at least an official appointed by politicians. As we shall see below, there are distinct limits even in Germany today to the rate and the direction of the centralizing process. But the adoption of the leader principle was an important victory for the centralizers.²⁶

One other power, still in abeyance, will likewise increase central authority over health fund administration. The Ministry of

²¹ *Verordnung über die Zulassung von Ärzten zur Tätigkeit bei den Krankenkassen* (order on the admission of medical practitioners to health fund practice), April 22, 1933 (R. G. Bl. I, p. 222).

²² *Vierte Verordnung zur Neuordnung der Krankenversicherung* (fourth order for the reorganization of health insurance), February 3, 1934 (R. G. Bl. I, p. 84).

²³ *Law for the reorganization of the social insurance system*, July 5, 1934, Part IV, sect. 2.

²⁴ *Verordnung des Reichspräsidenten über Krankenversicherung* (order of the Federal President on health insurance), March 1, 1933 (R. G. Bl. I, p. 97); amended 1934 (R. G. Bl. I, p. 1274), Part I, Arts. 1-4.

²⁵ *Law for the reorganization of the social insurance system*, July 5, 1934, Part II, Art. 7, sect. 1.

²⁶ The leader principle has already been considerably modified. *Vierzehnte Verordnung zum Aufbau der Sozialversicherung: Leiter, Beirat* (fourteenth order for the reorganization of the social insurance system: leader, advisory committee), April 25, 1936 (R. G. Bl. I, p. 400) reintroduces employer-worker participation in administration through the advisory committee. This is likely to have an increasing importance in health insurance.

Labor is authorized by Part II, Article 8, section 4 of the Reorganization Law to issue regulations at any time for the combined collection of contributions to health and old age-invalidity insurance.

The weapon of centralization that will perhaps prove to have the longest life and the greatest long-run influence is the power granted in this important sentence from the Law for the Reorganization of Social Insurance (Part IV, section 1): "Supervisory authorities are to see that the insurance bodies observe the law and regulations. They [the former] may extend their supervision to questions of discretion." The paragraph goes on to limit this wide grant of power to "weighty matters" and to prohibit unnecessary interference with "the individuality and individual responsibility" of the funds. The fact remains that Berlin officials consider this unprecedented right to question funds on matters of general policy and judgment their most effective method of control.

But it is important to stop and note that even this drastic legislation leaves many reforms for the future; it sets itself important limits. Its preamble states that the purpose of the law is to eliminate "disunity and complexity" ("Zersplitterung und Unübersichtlichkeit"). The law not only leaves undisturbed, it distinctly approves a principle which is the greatest single obstacle to the organizational and actuarial-technical coordination of the German social insurances: the multiformity and multiplexity of the insurance bodies. It suppresses a few insurance bodies (for example, the substitute health funds for salaried employees), authorizes the merger of the miners' health funds and proceeds within these limits to legislate for uniformity, not unification.

ANTI-CENTRALIZATION FORCES

What are the reasons why the Germany even of 1938 must make haste slowly? Arrayed on the side of centralization are influences so strong and so pervasive that they would appear to be able to shape developments almost at will. These influences and considerations are, as we have implied, financial and technical as well as broadly political-social. Greater central control of the health funds has been urged by specialists in order to provide better medical service, improve the quality of management and of

personnel, improve the amount and quality of preventive work, improve coordination between health and other insurances and reduce administrative expense. After the War and particularly in 1931-32, Germany's resources were so strained she had to look in every possible place for new economies, and social insurance did not escape scrutiny. The possibilities of the marriage of health with old age-invalidity insurance, an indirect but a considerable influence toward centralization, have long attracted German students. Even more powerful are the social-financial-political forces culminating in the regime of 1933, signalized in social insurance by the abrogation of the right of self-government.

But centralization goes slowly not only for traditional but for technical and social-political reasons of great weight. The statement which follows is from six of the highest ranking officials of the German Ministry of Labor today; it is significant because it expresses compactly the important fact that continuance of multi-funds in health insurance is due as much to traditional causes as to purely technical. It would be hard to find a better statement in any number of words of the importance of conserving public support for social insurance institutions:

"The reform by the federal government proceeds from the knowledge that the former regulations had not only disadvantages but also very special merits; indeed that the multiformity of the social insurance system expresses best German ways and German needs. Extreme subdivision of function (particularly in health insurance) permits that close relationship with insured persons which is absolutely necessary for speedy and economical operation. It also permits social insurance to adapt itself closely to the special needs of trades, occupations and industries and thus makes social insurance as economical as possible. Finally, through this adaptability to and regard for the special interests and needs of insured groups and their employers, it keeps alive their interest in social insurance and prevents degeneration into sterile bureaucracy and lifeless administration. The reform dared not under any circumstances destroy the advantages of this multiformity. Consequently the legislation rejects all efforts to create unified social insurance funds, particularly in the health insurance scheme. Indeed it considers the preservation and strengthening of the feeling of responsibility of each individual social insurance body the best protection against degeneration."²⁷

²⁷ Introduction to *Die Gesetzgebung über den Aufbau der Sozialversicherung*, by Krohn, Zschimmer, Eckert, Knoll, Sauerborn, Dobbernack (Verlag für Sozialpolitik, Wirtschaft und Statistik, Berlin). Loose leaf commentary. Cited by Esser, *op. cit.*, p. 163.

Finally it is a mistake to believe that all social-political influences in Germany are pro-centralization. Some officials of the old age-invalidity insurance bodies mistrust the ability of health fund personnel to carry out their new duties. Allied and mixed with traditional-technical reasons for going slowly with reform are political and social factors. For half a century the only practicable place for talented but uneducated labor union members to get ahead had been in local (political) self-government, in the co-operative movement and in health insurance. The community, rural and trade union health insurance funds were the stronghold of the Social Democrats and the labor movement. Health insurance was theirs; they had resisted for years the centralizing predilections of the civil service, predominantly conservative. (Certain individual funds gave their personnel long-term contracts but there were very few civil servants.) It was and is a part of the local political situation and system; it was and is a local institution:²⁸ the people of Leipzig for instance regard their general community fund as one of their city's finest accomplishments. It was and is financed entirely out of non-government funds. While there were criticisms of health insurance by the membership these were far fewer than of any other social insurance. Among labor groups health insurance was considered the most human of the social insurances, the least ossified. The risk was and is best suited to relatively small organization units, and to lay management or participation. Health insurance was and is a vital local institution. The supervisory body nearest the health fund, the local Insurance Office, while the lowest rung of the central government's supervisory system, was and is really a local government office. To this day control of health fund personnel is local, not central.

In summary, whether or not the present regime continues its policies, the movement toward centralization is a permanent one. The trend is certain. That does not mean it will not be interrupted or even at times reversed. Local pride and tradition may gradually wear itself out but it will take a long time; moreover, it is not correct to assume that the totalitarian state automatically means

²⁸ Local politicians, having placed their followers, are today reluctant to give up to central control. Business men oppose suppression of their establishment funds.

the completely centralized state.²⁹ It is of some significance that after 5 years of the new regime, a great, perhaps the greater part of the health insurance reorganization program is still to come. The rate of change has slowed down remarkably since 1934 and central officials doubt if very much more centralization is possible on the present wave. Workers and employers are still represented on appeal committees at every level of authority. The individual fund still selects its investments, fixes its contribution basis, its contribution rates (within the maximum), its basic benefit schedules. Every fund is a financial unit as it always was, sharing neither income nor liabilities with any other. The present organization is of course not sacred. Laws can be passed changing these features also. But the federal government today is not using all the rights it has arrogated; indeed by inserting the advisory committee it has already modified a basic Party principle. The forms of social insurance in Germany, all parties agree, are not final. We may be sure of this: that the push to centralization dare not, will not, get very far ahead of the public opinion that must support it.

²⁹ An example of an important definite local government point of view and program today is the current controversy over the future of unemployment relief and placement. This is discussed in Chapter 23.

CHAPTER 10

SOCIAL INSURANCE IN GREAT BRITAIN

AT FIRST GLANCE two characteristics of British social insurance organization present a paradox. The British system is centralized far more than the German; at the same time the trend to centralization is far less distinct. The reason lies in two related facts. One, which we have already noted, is the far earlier origin of the British movement toward centralization. The other is the comparative youth of British social insurance organizations. Unemployment and health insurance date only from 1911; old age insurance (contributory) only from 1925; equally important, all were entrusted at once to existing central government organizations. The Ministry of Health dates only from 1919 and the Ministry of Labour from 1916, but each took over functions from older and highly centralized government departments. By the time social insurance came along the pattern was well set. Centralization was taken for granted: it had become a national custom. In Germany there is a vast literature on organization and the trends toward centralization and coordination; in Britain there is in this field little criticism or discussion, positive or negative. "In a country traditionally of private initiative and of 'self-government' of local institutions," comments an observer for the International Labour Office, "this centralization has been kept covered but it is very real and it is certain the British social insurance organs are less autonomous than the analogous Continental organs."¹

Where the level of centralization has been conspicuously high for a long time, there are naturally fewer evidences of an upward trend. The two important areas in which the centralizing trend in Great Britain is visible since the War are those in which local responsibility and old traditional ways have persisted after the formation of the new ministries: in health insurance and in unemployment relief. The trend here as in Germany is not always without opposition; indeed, as in the creation of the Unemployment Insurance Statutory Committee, not without an occasional

¹ International Labour Office, *Administration Pratique des Organismes d'Assurances Sociales en Grande Bretagne* (Geneva, unpublished manuscript, no date), Chapter 1; also Chapter 2.

reversal. But the fact and the direction of events are clear.

HEALTH INSURANCE

Changes in the organization of the British health insurance scheme have been very gradual. The most important evidences of central intervention between 1911 and the Royal Commission Report of 1926 are the introduction by statutory requirement of two devices designed immediately to protect the solvency of the individual health insurance bodies, indirectly to reduce somewhat inequalities between different bodies: the so-called contingency (individual body) and central (country-wide reinsurance) funds.² As in Germany, health insurance organization in Great Britain has characteristics resulting from historical and political as well as technical and social influences. The guilds of Britain are as ancient as the mutual aid societies of Germany. Over 26,000 different societies providing every variety of facility for savings and for mutual life and health insurance were registered in Great Britain between 1793 and 1855.³ When the English established the compulsory system in 1911, they found they should have to recognize and somehow accommodate into their scheme thousands of Friendly Societies, collecting societies, trade unions, provident societies and other mutual aid organizations already providing insurance or wishing to qualify under the new scheme. In 1910, for example, 26,948 Friendly Societies alone, with 6.5 million members, had paid out over 6 million pounds of health, death and other benefits.⁴ Also a politically more important set of interests demanded a share and an influence in the new organization: the industrial (commercial) insurance companies. They demanded that the law be written to permit them to qualify as non-profit insurance bodies by setting up special non-profit departments for government business and already in the first year of the new system covered 43.2 per cent of total insured persons.⁵ The only bodies with nation-wide organization, equipped with

² These were coordinative (principally actuarially-technically) as well as centralizing measures. Cf. p. 140.

³ *Encyclopaedia Britannica*, v. 11 (13th ed., 1926), p. 220.

⁴ *Report of the Chief Registrar of Friendly Societies, 1934*, p. 47.

⁵ National Health Insurance Joint Committee, *Report on the Administration of National Health Insurance, 1914-17*, p. 46.

experienced agents and reenforced by an immense market for non-compulsory insurance, the industrial companies have continued to hold their leading position, indeed have improved it.

This complex of health insurance bodies, a few organized territorially, the great majority not, a few highly centralized, the great majority not, was perhaps a demonstration of the principle of democracy no less than an experiment in social betterment, but it would be difficult to imagine one less entitled to be called a health insurance "system." The results of a policy so liberal that it permitted admission of 16,869 bodies including branches (2,481 headquarters) are felt to this day. Alone of British social insurance, health insurance administration is still comparatively decentralized, and decentralized in control as distinct from function. Even after years of legislative and administrative pressure from the top, it is admittedly the chief bar to coordination of the social insurances. Flat contribution and benefit rates were held in 1911 to be necessary because of the extreme heterogeneity of the bodies. More important, it is said that the industrial companies in particular demanded low rates, in order not to spoil their private insurance market. Finally the failure to organize the insurance bodies territorially, combined with the attitude of the British Medical Association, prevented assignment of the administration of medical care to the insurance bodies, and the special Insurance Committees peculiar to Britain had to be organized for this special job.

The law of 1911 gave the Approved Societies (approved for compulsory health insurance) "almost complete autonomy, and although it appeared to be implied throughout the Act that the Minister, as representing the Central Government, was to exercise some kind of general supervision over the administration of the Scheme, this was nowhere expressly stated and the powers assigned to him under the Act were extremely limited."⁶ The only important powers originally granted the central ministry were to pass on an applicant Society's proposed rules, and completely to withdraw approval of the Society as an insurance body in case of violation of the law. The first power was cancelled, practically, because of the impossibility of checking adequately the tens of

⁶ *Report of the Royal Commission on National Health Insurance, 1926*, pp. 108-9, 110, 94 respectively.

thousands of rules that had been submitted almost all at once in 1911; the second because the Societies were immensely important politically, even the very smallest, and withdrawal of approval was too drastic a penalty to be of practical use.⁶ Only very gradually have these powers been expanded by statute; the most significant development of the early years, the marked decline in the number of funds, came not as a result of central pressure or advice but mainly because "among the smaller Societies many officials decided that the task of administering national health insurance was beyond their powers."⁶ In 1912 there were 2,481 Approved Societies, in 1922, 1,161; including branches the decline was from 16,869 to 8,427.⁷ There is general agreement that central pressure had practically nothing to do with this decline.

INCREASING CENTRAL CONTROL IN HEALTH INSURANCE

In the earlier years a number of statutory changes gave a measure of additional power to the central authorities, then the Insurance Commissioners. Thus in 1913 "maladministration" of Society affairs was added as a reason for withdrawal of approval; in 1918, penal provisions to apply to officials for negligent acts. But the Royal Commission, appointed in 1924, decided that these powers had been plainly insufficient for adequate supervision of an institution supported partly by the taxpayer. The period of effective central control dates from the Report of the Commission and the laws that resulted from its recommendations. The majority of the Commission decided that, all things considered, the Approved Society system should be retained: "that no case for the abolition of the Societies can be established on the broad ground of defects and shortcomings in administration."⁸ But it made a number of recommendations aiming at fundamental changes in the system. All involved substantial increase in central control of health insurance administration.

Not all of the Commission's recommendations were followed by Parliament, particularly the proposal that, in order to "mitigate inequalities of benefit," a system of "partial pooling" of surpluses be instituted.⁸ But other and equally drastic restrictions on self-

⁶ *Royal Commission on National Health Insurance: Appendix to Minutes of Evidence*, pp. 59-60.

⁷ *Report of the Royal Commission on National Health Insurance, 1926*, p. 103; pp. 119-20: note the parallel with the German *Gemeinlast*.

government were imposed in 1928. The Ministry of Health was granted the right to investigate the affairs of a Society, that is, for the first time it could check on suspicions of "general mal-administration," discover conditions to be corrected before they should reach a seriousness sufficient to justify withdrawal of approval. The Ministry was now able to follow Society affairs currently. This new power was supplemented by another also recommended by the Royal Commission: the right of the Ministry to require an amendment of a Society's rules when "they do not properly provide for the administration of the affairs of the Society under this Act, or [are] likely to prejudice unfairly any member of the Society;" or, failing submission of a satisfactory amendment by the Society, to amend the rules itself.⁹ The disposition of certain Societies to adopt the tactics of the claim-resisting commercial insurance company by requiring onerous deposits and imposing long and wearisome delays in their claim procedure, an absurd situation in a mutual self-governing institution, was the announced reason for this change.¹⁰ But by all odds the most important new weapon of central supervision and control was the specific authority granted the Ministry to reduce the so-called annual administration allowance (normally 4s. 6d. a member) as a penalty when a Society refuses or fails to introduce suggested reforms.⁹ It is in fact the Ministry's chief reliance today.¹¹ Quietly and unostentatiously fiscal control, combined with moral suasion, operates to limit increasingly the autonomy of the health insurance bodies.

Finally, central control is working in still another direction: to reduce the number of health insurance bodies. For years there have been no applications to establish new Societies; as a result of merger or transference, the number of Approved Societies is declining with every year. This is the result of a steady Ministry

⁹ *National Health Insurance Act*, July 14, 1936 (26 Geo. 5 and 1 Edw. 8, Ch. 32), sects. 82, 80.

¹⁰ *Report of the Royal Commission on National Health Insurance*, 1926, p. 111.

¹¹ Other powers were conferred on the Ministry, for example, to surcharge Societies for improper expenditures and to appoint a manager to take over all administrative functions. They are rarely used. One manager was appointed in 1934-35, none in 1935-36. In the latter year there were only 80 unlawful items of expenditure. (*Report of the Ministry of Health*, 1935-36, pp. 186-8.) For a comparison with the powers of the German Minister of Labor, see Chapter 19.

policy. In 1926 there were 1,020 Societies, and including branches a total of 7,876 insurance units.¹² By 1932 the number of units had dropped to 7,505, by 1933 to 7,377, by 1935 to 6,253.¹³

UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT RELIEF¹⁴

Responsibility for unemployment relief in Great Britain until 1909 was almost entirely in the hands of the local authorities. It is true that the central government had interested itself in poor relief since long before the reign of Queen Elizabeth. Important Poor Law reforms were instituted in the Act of 1834, under which the first central authority over poor relief was created. But the purpose of the central government, even after 1871 when the Local Government Board was created, was solely to assure greater uniformity in the local treatment of the poor; administrative and financial responsibility remained with the local governments. Until 1886 at least, and probably until the early 1900's, it is fair to say that the interest of Whitehall in poor relief was nominal. There were increasing rumblings of criticism of the way the local authorities performed the task, but the criticisms were aimed at the evils of a principle of assistance and not at the source of administrative and financial responsibility. For centuries distinction has been made in Britain between the able-bodied needy and others, an implicit recognition of the unemployed as a special group. But not until the Unemployed Workmen Act of 1905 and the Report of the Royal Commission on the Poor Laws and Relief of Distress in 1909 was there a clear expression of a national interest in and responsibility for the unemployment problem. The Commission unanimously agreed on the desirability of unemployment insurance: the majority favored the Ghent system and the minority recommended a national system of labor exchanges,

¹² *Report of the Royal Commission on National Health Insurance, 1926*, p. 94.

¹³ *Twenty-first Report on the Work of the National Insurance Audit Department, 1934* (National Health Insurance Acts, 1924-32), p. 21; P E P, *British Social Services*, p. 112.

¹⁴ Based upon the following sources: John J. Clarke, *Social Administration including the Poor Laws*, especially pp. 37, 49-55, 547-8, 583, and Chapter 4; Mary B. Gilson, *Unemployment Insurance in Great Britain* (New York: Industrial Relations Counselors, 1931), pp. 49, 327-35; Percy Cohen, *The British System of Social Insurance* (New York: Columbia University Press, 1932), especially pp. 117-27, 144, 147; A. C. C. Hill, Jr., and Isador Lubin, *The British Attack on Unemployment* (Washington: Brookings Institution, 1934), p. 205.

public works and "imperial grants-in-aid" to local authorities. A national system of labor exchanges under the Board of Trade was established in 1909, the experimental national unemployment insurance scheme in 1911. The era of national responsibility for the unemployed had begun. Unlike their German cousins the British jumped directly from local responsibility and financing¹⁵ to a completely and typically British national system of unemployment insurance.

The British system of unemployment insurance, being completely centralized administratively to begin with and partially financed out of government moneys, shows few evidences of increasing centralization since 1911.¹⁶ But the War had hardly ended before the rapidly increasing unemployment of 1921 forced central attention on to unemployment relief problems hitherto considered local. The problems developed all the sooner in Great Britain because depression hit almost immediately after the scheme had been expanded in 1920 from 4 to 11 million members and before the great majority had been able to establish substantial benefit rights. The central authorities were drawn into unemployment relief indirectly and unwittingly; once in they have never been able to withdraw.

INCREASING CENTRAL CONTROL OVER UNEMPLOYMENT RELIEF

The history of central interest in and central responsibility for unemployment relief¹⁷ between 1921 and today breaks into four periods, each successively involving the central authorities more certainly and permanently: 1921-27, 1927-31, 1931-34, 1934 to date. Between the first uncovenanted benefits of March 1921 and the Steel-Maitland Act of December 1927 the unemployment insurance system completely lost its insurance character. At first paid on the assumption that they were advances to be returned

¹⁵ Except for the indirect and largely unrecognized connection between grants-in-aid to local governments and local unemployment relief. See p. 60.

¹⁶ A few minor exceptions occur: e.g., concentration of all unemployment insurance records for the entire country at Kew; the current experimental plan to secure a higher degree of uniformity in the work of the insurance officers, by merging districts and replacing part-time with full-time officers.

¹⁷ Direct relief only. The British Unemployed (Relief Works) Act of 1920 and subsequent works programs have never been an important factor in unemployment relief.

out of future contributions after improvement in employment, these extra-contractual benefits gradually disclosed themselves as simply the most convenient and politically expedient way of meeting a grave national emergency. During these six years government after government talked about the need of reform; at the end they always extended, with technical changes only, the emergency device. From the point of view of the effect on central control, and on actual as distinguished from nominal or legal responsibility for unemployment relief, this period is marked by two important developments. In the second of the many acts extending extra-contractual benefits (July 1, 1921) the Minister of Labour was authorized to limit payments to those he should consider "expedient in the public interest." Under this authority he excluded from insurance, unless "deprivation would inflict real hardship," single persons living with supporting relatives, married women and men living with employed spouses and a few other classes. Except for a short break in 1924 and 1925, with the Labour Party in power and a temporary improvement in employment, this important administrative control was continued during the entire period. It was a precedent of first importance: Whitehall in effect setting up its own local relief administration,¹⁸ Whitehall expending relief funds. This new function had at first the color of a lamented but temporary modification of the insurance scheme, but as the local governments came more and more to depend on this new form of central assistance, the real nature of the relations between central and local governments grew apparent. Labor protested at the conditions, if not the aid, but the new power of the Ministry of Labour was based on a solid foundation. Beginning in 1921 the national finances were drawn upon to meet the growing discrepancy between contributions and benefits. By the end of 1927 the Treasury had advanced nearly £25 millions to the Unemployment Fund.

The second period of rising central influence in unemployment relief runs from the legislation following the Blanesburgh Report of 1927 to the drastic reorganization of the insurance-relief system resulting in 1931 from the Report of the May Committee and the Preliminary Report of the Royal Commission on Unemploy-

¹⁸ Through especially created "rotas" of local employment committees attached to each employment exchange.

ment Insurance. Encouraged by the improved employment of 1927 and imbued with the laudable ideal of restoring the actuarial solvency of the Fund, Parliament in the Act of December 22, 1927 abolished all discretionary powers of the Minister, restored all payments as of right. "The principle of the Act," says Percy Cohen, "was to suspend extended benefit,"¹⁹ but the great masses of unemployed persons who could not establish contractual right to benefit stood waiting, an inescapable political and social fact which had to be recognized. Hence the transitional benefits beginning in that year, which were expected to be purely temporary; indeed the Blanesburgh Committee anticipated within a few years not only a return to Fund solvency but even extinction of Fund debt. The reasons for what, in the clear light of aftersight, proved so grievous an error in judgment are not important here;²⁰ the fact is that the transitional extra-contractual payments continued in one form or another until 1937.²¹

While this second period saw on one side a recession of central influence in the abolition of the Ministry of Labour's discretionary powers over de facto relief payments, the responsibility of the Treasury grew rapidly greater. At the end of 1927 Treasury advances were still under £25 millions, in March 1928 they were actually a bit less; but the figures for the same date in 1929, 1930 and 1931 were £36, £39 and £75 millions respectively. By the end of September 1931 the debt stood at just over £100 millions; it had been growing since March of that year at the rate of a million a month.²² In the calendar year 1931 the Treasury had contributed to the insurance-relief system not only £50 millions in loans; it was bearing also £16 millions in current contributions and £28 millions in transitional benefits and payments which it had been asked to assume since 1929.²³ It was plain to everyone that things could not go on much longer at this rate and in this direction. The May Committee was a Committee on National

¹⁹ *Op. cit.*, p. 127.

²⁰ For example, the Government Actuary assumed an average unemployment rate of 6 per cent for the trade cycle. The monthly range for the period 1926-36 was 9.1 to 23.0 per cent.

²¹ This despite the creation of the Unemployment Assistance Board in 1935, which was scheduled to eliminate the need for transitional benefits or payments. (See next Chapter.)

²² *Twenty-first Abstract of Labour Statistics of the United Kingdom, 1934*, pp. 60-1.

²³ *Report of the Ministry of Labour, 1931*, pp. 126-7.

Expenditure and its report reviewed the entire national financial structure; it is significant of the importance of unemployment costs that more than two-thirds of its proposed savings were to come from drastic reforms in the unemployment insurance scheme. Unemployment had become a national issue: the failures of the second Labour Government to meet it led largely to its downfall in the summer of 1931. With the making of the budget by the new Coalition Government, borrowing by the Unemployment Fund ceased. Significantly the title of the Act which marked the end of this second period is the National Economy Act (September 30, 1931). It eliminated certain so-called anomalies, reduced benefits and raised contributions, and—this is important—reintroduced the needs test for transitional benefit recipients. Extra-contractual benefits were once again, in the national crisis, recognized for what they actually are: relief payments. Whitehall was back in direct relief. The period had opened optimistically with the hope if not of abolishing, at least of sharply reducing non-contractual payments to the insured victims of unemployment. It ended by reassumption of central responsibility for a large part of unemployment relief.²⁴

The third period in the scale of increasing central influence began with the National Economy Act of 1931, ended with the Unemployment Act of 1934. Under the first the Minister of Labour was entrusted with responsibility for supervision of the new transitional *payments* (successor to transitional *benefits*), superseding in effect the Ministry of Health in an important area of local government supervision. Even more significant, a central authority became for the first time an acknowledged agency for unemployment relief.²⁵ Briefly, all persons exhausting their standard benefit rights were now to succeed to transitional payments, be treated by the Minister of Labour precisely as standard beneficiaries, with one important exception. Having satisfied the statu-

²⁴ *Final Report of the Royal Commission on Unemployment Insurance*, 1932, pp. 28, 348-9. In 1930-31 local governments in England, Wales and Scotland expended only £3.9 millions for out-relief to the able-bodied. The Unemployment Fund expended £101.3 millions.

²⁵ The Ministry of Health continued to have general supervision over local government finances, including poor relief. But it had little control over transitional payments, which came not out of Ministry of Health grants but (up to the level of unemployment insurance benefits) out of the general funds of the Treasury. They were paid at the local employment exchange.

tory prerequisites for benefit at an employment exchange, they were next to be referred to the local Public Assistance authority for determination of the fact and the amount of need, on the basis of local relief standards. This was another major break with tradition. Between 1921 and 1931 the Minister of Labour, for legislative purposes, had merely been lending insured persons certain sums in the ordinary way of business. On the arrival of better times employment would improve, the loans would be repaid and the Unemployment Fund would return to a "business basis."²⁶ Never a complete fiction, this premise that the Ministry of Labour would sometime withdraw from unemployment relief was restated officially by the Blanesburgh Committee as late as 1927. The importance of the development of 1931 is not that a particular ministry but that a central authority was selected for a large part of the administrative task in unemployment relief. Indeed the Royal Commission on Unemployment Insurance suggested that the arrangement itself was an emergency one. "In the emergency it was no doubt impossible to improvise machinery *in place of the Poor Law* for determining the amount of assistance, or to define by statute the details of a test of needs."²⁷ But the principle of central interest and responsibility is clearly stated. The Unemployment Assistance Board lies just over the horizon.

The main purpose of the Economy Act was to offer relief to the Treasury; the May Committee expected a saving of £10 millions on the new needs test alone, a total of £36 millions on the whole Act. But the worst unemployment of the entire post-War era set in in the fall of 1930, raising the amount of the transitional payments obligation of the Treasury high over the estimates. Beginning in April 1933, the number of payments to transitional claimants actually exceeded those for regular insurance benefit, and continued to do so in almost every month until passage of the new law in June 1934. In 1933-34 transitional payments exceeded regular benefits in total amount by £8 millions, in 1934-35 they were only £2 millions short; in 1935-36 only £1 million short.²⁸ For this the Treasury alone was responsible; it was in addition

²⁶ Beginning in 1930 the cost of transitional payments was carried by the government as a non-repayable subsidy.

²⁷ *Final Report*, 1932, Par. 102, p. 63. Italics not in original.

²⁸ *Statistical Abstract of the United Kingdom*, to 1935, 80th number, p. 128.

keeping up its current equal-thirds. Small wonder perhaps that in June 1934 Parliament passed a law centralizing for the first time in the history of the modern state all relief of the able-bodied unemployed in the hands of a single central authority. This was the Unemployment Act, June 28, 1934, which created the Unemployment Assistance Board.

CHAPTER 11

A CASE STUDY: BRITISH UNEMPLOYMENT ASSISTANCE

UNEMPLOYMENT ASSISTANCE is remarkable for several reasons; perhaps most significant is that it carries the trend toward centralization of unemployment relief in Great Britain to a higher level than it has ever reached there or in any other country.¹ If we exclude the national system of employment exchanges, it is the only new national department with local facilities established in Britain for the last two centuries.² For the first time British poor relief is administered, down to the last local office, by a Whitehall authority³ and is financed almost entirely out of central funds.⁴ It is not intended here to describe the new Unemployment Assistance scheme in detail or make a critique of it; the following summary description of its main features is intended to indicate how far the centralizing trend has gone in this new field and to help explain the forces encouraging and opposing its creation.⁵

The Unemployment Assistance Board, which administers Unemployment Assistance, is first and foremost a central and not a local relief authority. A new category of poor is created; it consists of practically all unemployed able-bodied persons between the ages of 16 and 65 willing to work who have exhausted, or who have never been eligible for unemployment insurance benefits. The latter have always been entirely a local responsibility, the

¹ Payments by the Federal Institution in Germany are nominally not relief, and unemployment relief is administered and partly financed by the local governments.

² Ronald C. Davison, *The New Unemployment Act Popularly Explained* (London: Longmans, Green and Co., 1934), p. 24.

³ Local authority personnel may be authorized to act for the Unemployment Assistance Board, but the direction is entirely central. This compromise was necessary in the rush of organization, and large numbers of transferred personnel have already been separated from the Board. Appeal and advisory bodies are selected by U A B from local residents.

⁴ In practice it has been 95 per cent central money.

⁵ As in the discussion of German trends toward centralization, the purpose of this Chapter is to explain the direction of events and the reasons for it. It confines itself to those phases of Unemployment Assistance that are related closely to centralization. For a survey of Unemployment Assistance as it has operated in its brief history, see Chapter 23.

former whenever benefits ceased or have been insufficient. Not only are the local authorities now released from this responsibility, they are legally forbidden to continue it.

But centralization goes farther still. U A B in its regulations provides relief according to a national standard by which the amount of need is measured. The Board is given important powers of discretion in applying this standard, but the range of discretion is determined not locally but centrally. Centralization is administrative and not merely supervisory; the source of Unemployment Assistance funds in the national Treasury provides a solid basis for that.

Unemployment Assistance has importance in the trend toward centralization for one more reason. It has segregated unemployment relief administration under a new national department but it has not disturbed the responsibility of the Ministry of Labour for supervision and regulation of the entire national labor market. There is no talk in Britain as in Germany of "devoluting" employment exchange administration; a national system of employment exchanges is taken for granted and the Ministry of Labour is regarded as the only competent authority for the purpose. U A B investigates need and administers benefits in kind but the Ministry of Labour performs all other administration of Unemployment Assistance: the unemployed must register at the exchanges, they call there for their benefits, they may be ordered by U A B to Ministry of Labour training or instructional centers, they are treated exactly as insurance beneficiaries. The Ministry is responsible for Unemployment Assistance in Parliament. Thus—since the scheme covers millions not insured for unemployment⁶—the principle of central control is extended to a large section of British workers never before affected.⁷

FORCES FAVORING CENTRALIZATION

What appear to be the chief forces or influences pressing in Great Britain for central control and even detailed administra-

⁶ All persons between 16 and 65 are included, whose "normal occupation" places them under Widows', Orphans' and Old Age Contributory Pensions, or would have placed them had "industrial circumstances" permitted. (*Unemployment Act*, June 28, 1934, sect. 36, a, b.)

⁷ This is not to ignore the indirect relations that existed when local Public Assistance authorities referred relief applicants to employment exchanges as a way of applying the work test.

tion of unemployment relief? Basic is the broad and apparently resistless trend and predisposition toward centralization that permeates not only British social insurance but the entire social and political structure. No important segment of public opinion seems to oppose this trend, or at least not seriously.⁸ Even organized labor, while it officially opposed any needs test,⁹ was content to accept a national assistance scheme because it expected that central administration would remove most of the odium of relief and central financing would provide more liberal benefits. It seems that labor rank and file had never had as many or as sharp criticisms of transitional payments as labor politicians; indeed as individuals they found it hard to distinguish between persons drawing insurance and persons drawing transitional payments. For two or three decades the trend in Great Britain had been strongly toward specialized categorical treatment in the social services, illustrated in the growth of the social insurances and the special assistance schemes for the blind and the dependent aged.¹⁰ The national presumption in favor of centralization is illustrated by the conclusion of the Royal Commission on Unemployment Insurance that "closer central supervision of the arrangements for the assistance of able-bodied unemployed workers is imperative" and its anticipation that "most of the inequalities in the present system can be removed by a greater degree of central control and direction of local administration." The Commission did not go so far as to recommend a completely centralized department for unemployment relief but it insisted on the impossibility of continuing the old arrangement of central appropriating and local spending: for example, the only reason it submitted for not recommending extension of the grant-in-aid principle was that this principle was too complicated and inflexible. There was and is general acceptance among all groups in Great Britain of the premise that unemployment relief is a national problem and requires national treatment.¹¹

⁸ The proposals of P E P and of various commissions for the creation of new regional administrative units have not made much headway. For a statement of the former, see *Planning*, No. 47, March 26, 1935, p. 11. Local welfare authorities' opposition has developed principally since, not before, the new law. See also Chapter 23.

⁹ *Final Report of the Royal Commission on Unemployment Insurance, 1932*, p. 108.

¹⁰ P E P, *British Social Services*, p. 11.

¹¹ *Final Report*, pp. 147, 148, 140, 106-13.

There were of course more immediate pressures for centralization. The strongest, as has been suggested in preceding pages, was financial. The era of unlimited borrowing by the Unemployment (Insurance) Fund from the Treasury had ceased in 1931, but the drain on the taxpayer of transitional payments continued. In the financial year 1930, for example, net contributions from the Treasury (including net Treasury advances) totalled in round numbers £22 millions, in 1931 £71 millions; the figures for each of the three years after the 1931 Economy Act are respectively £88, £72 and £63 millions.¹² The Treasury was losing more in transitional payments than it was saving through cessation of "loans" to the Fund. It was impossible and undesirable to transfer this load to the Fund; it was almost equally impossible for the Treasury to make good these enormous overdrafts. There seemed no way practically of asking the local governments to take over a larger share; rather these (and particularly in the depressed areas) were clamoring louder and louder for further relief on their overburdened rates.¹³ A test estimate made by the Ministry of Health in 1934 showed that 28.3 per cent of total outdoor relief in England and Wales would be eliminated by the new law; that of total local expenditure for persons normally in work "nearly two-thirds was attributable to persons in respect of whom the primary cause of seeking relief was unemployment." Between 1923 and 1934 local governments had spent, for persons ordinarily engaged in some regular occupation and their dependents, never less than 28 per cent of total outdoor relief expenditures.¹⁴

By and large unemployment must be paid for and no insurance or relief scheme is or should be expected to abolish or even markedly reduce the cost. But there is no doubt that the Unemployment Act of 1934 was intended to be at least as much a financial as a welfare-relief measure. Particularly since the local governments were expected to bear part of the cost and because the Minister of Labour must go to Commons for annual appropriations for

¹² Based on *Statistical Abstract of the United Kingdom*, to 1935, 80th number, p. 128. The figures are for years ending March 31st.

¹³ See table in footnote 31, Chapter 6; see also *Final Report of Royal Commission on Unemployment Insurance*, 1932, pp. 348-50.

¹⁴ *Report of the Ministry of Health*, 1935-36, pp. 140, 123. In 1927 the proportion rose to 62 per cent. See also P E P, *Planning*, No. 47, March 26, 1935, p. 4.

Unemployment Assistance, the Treasury hoped for a net saving. A senior civil servant says, "It was a Treasury scheme, an economy measure, a control measure." Much was made, during the debates in Commons of "£2 millions more for relief" but the Treasury expected a net saving.

Closely allied with this question of financing was the very general feeling that only central control could end the wastes of local spending of central funds. These were not universal or everywhere equally serious. There was some pushing of Public Assistance cases on to transitional payments; this could hardly have been avoided with Public Assistance authorities administering the needs test for both but responsible financially only for the former. The Royal Commission on Unemployment Insurance detected many authorities giving transitional payment cases more generous allowances than their own Public Assistance cases.¹⁵ Even the friendly critic admits that variations in local assistance and living standards could not account for all of the variations in benefits between communities. Labor officially admitted its unwillingness to have the needs test applied rigidly.¹⁶ In two districts the government found abuses so grave that commissioners were appointed to supersede local Public Assistance authorities.¹⁷ On the whole, the Royal Commission was able to trace the "remarkable disparity" and "unwarranted variations" between the rates of allowance on transitional payment claims among the various local authorities to the defects of local administration. It recommended closer central supervision to eliminate or greatly reduce them.¹⁸

WHY UNEMPLOYMENT ASSISTANCE?

This failure in local administration was partly due to political causes. At the time of its passage Unemployment Assistance appealed to many members of Commons as a neat way out of what had become an annoying political situation. For years unemployment relief had been both a local and a national issue. Members, particularly from the depressed areas, stood and fell on their record on unemployment relief. Before each local election, reports

¹⁵ *Final Report*, 1932, pp. 61-3.

¹⁶ *London Times*, December 18, 1936.

¹⁷ P E P, *Planning*, No. 47, March 26, 1935, p. 3.

a former Ministry of Health inspector, he could observe an increase in the average transitional payments grant. The number of poor had grown greatly during the depression; since 1919 popular suffrage had increased their political importance. While administration of the needs test for transitional payments was entirely local, its financial, social and moral aspects and implications were ceaselessly debated in the House of Commons. The Unemployment Assistance Board was conceived as a new application of an old British device for getting out of political hot water: the independent commission.¹⁸ It was welcomed because it promised the local governments some relief from their financial difficulties. It was perhaps more welcome because it was expected to relieve the individual politician of the ceaseless demands of his followers for special treatment. And it was to relieve the government of the day too: "No Cabinet Minister will forever be answering a catechism in the House of Commons as to why John Smith or Mary Roberts is only receiving so much a week from this or that local office."¹⁹

A wide resentment at the needs test, particularly as administered in the general Poor Law, was undoubtedly of considerable influence in paving the way for Unemployment Assistance. Labor, we have noted, has always officially been opposed to the needs test and at first held out against any test at all. But it compromised on a national system separate from local politics and finance. Some observers believe that the exposure of a new group of unemployed, the white-collar workers, to the austerities of poor relief did as much to produce the break with the Poor Law as any other. Rightly or wrongly, people distinguish in Britain between relief through the Poor Law which carries a social stigma even more dread than in this country, and the new national Unemployment Assistance scheme in central hands.

A final factor for centralized administration is mentioned in

¹⁸ The highly successful British Broadcasting Corporation is an example.

¹⁹ Davison, *op. cit.*, pp. 24-5. P E P, *Planning*, No. 75, May 19, 1936, p. 3. Here, as throughout the discussion of the forces for and against centralization, there is no attempt to evaluate each critically. This list represents what appear to have been the principal factors in the situation at the time. Certainly one might criticize the relative validity of any of them. Some have already proved to have been delusions. For example, this hope of the politicians. See Chapter 23.

official reports: the so-called anomalies or inequalities that resulted from application of the test of need for transitional payments under 200 different statutory, personnel, political, social and financial standards. Not only were persons on transitional payment treated quite differently; in the same community there were illogical differences between persons on transitional payment and those on Public Assistance. The sole difference was that the first had once been insured, the second not. There was a general feeling, at least in certain circles, that these anomalies were inappropriate in unemployment relief financed by the nation.²⁰ The reason cited by the Royal Commission on Unemployment Insurance for closer central supervision of unemployment relief was the hope of a "reasonable uniformity."²¹ Indeed any proposal to make a separate group of the able-bodied unemployed implies an intention of relatively uniform treatment of the group. One doubts, however, whether the desire for a fair coordination of the benefits of the able-bodied unemployed would have been sufficient to produce the Unemployment Act of 1934.²²

FORCES OPPOSED TO CENTRALIZATION

To this imposing list of reasons for greater centralization in unemployment relief were opposed essentially only two influences. They were the opposition of local welfare authorities, and local suspicion of a new central department and insistence on preservation of unemployment relief for local self-government. The second of these was remarkably weak: most opposition got no further than asking for local administration of funds provided largely or exclusively from the Treasury.²³ Most British con-

²⁰ *U A B Report*, 1935, p. 7.

²¹ *Final Report*, 1932, p. 63.

²² A good example of the relative and even the philosophical nature of coordination. Actuarial-technical coordination of one kind would be secured in a plan of absolutely standardized treatment of all able-bodied unemployed in Great Britain. But absolute uniformity of benefit, irrespective of variations in local and personal conditions, is not coordination either. And, having put all able-bodied unemployed on uniform benefit, what of coordination between unemployment relief and other relief? Particularly on this last the answer will be empiric when it is not philosophical. Coordination like centralization is always relative.

²³ The alternate proposal of the Royal Commission, a system of central grants-in-aid to local governments under Ministry of Labour supervision, was so intimately connected in the popular and political mind with hatred of Public Assistance, it was never seriously considered by Parliament.

sider the fear of loss of self-government in this sphere academic: a meaningful commentary on their attitude toward centralization.²⁴ The position of the local welfare authorities, essentially professional and not political, was much more firmly taken but it was weakened immeasurably by local government dependence on central financing. Centrally administered Unemployment Assistance was and is undesirable because "poverty is indivisible."²⁵ The only sound approach to a dependency problem is through the family and the family needs help for many reasons, often inextricably mixed, other than unemployment. It is not possible to make a separate category of the able-bodied unemployed and preserve this unitary family case work approach. It is undesirable too because it is unnecessary: Public Assistance staffs cannot be eliminated or even measurably reduced. Public Assistance must always stand by for the residual, as well as the comprehensive relief job. A new agency will merely duplicate facilities, duplicate administration of the needs test even in the same cases. A new central agency cannot hope to recruit the efficient staff commanded by most Public Assistance officials. Central regulations are bound to be less flexible. Finally, transitional payments administration was never the disgrace that politicians like to say it was, and in any event, concluded the Royal Commission, the remedy for abuses lies in closer central supervision, not creation of a new central administration.²⁶

A trend is an approximation of the direction of a movement and the movement never ceases. Over three years have elapsed since Unemployment Assistance was presented to the British; in this time U A B has continued to be almost a daily headline and Parliamentary interest. There has been, interestingly enough, much more discussion of the principles of centralized unemployment relief since 1934 than before. It is too soon to make long-term predictions but it is a fact that to date nearly all criticism of Unemployment Assistance has been directed toward improving centralized administration, not toward abolishing it. Unemployment Assistance has not reached its final form. It never will; the

²⁴ For a statement of the opposite view, see P E P, *Planning*, No. 47, March 26, 1935, p. 6.

²⁵ P E P, *Planning*, No. 75, May 19, 1936, p. 2.

²⁶ *Final Report*, 1932, pp. 147, 110-12, 140.

British may conceivably even reverse their direction.²⁷ It does not seem probable.

²⁷ Allocation of Unemployment Assistance to a new central agency instead of an existing department is hardly an instance of reversal. Indeed the present system is much more centralized (in administration, not merely supervision) than was the proposed plan of the Royal Commission, which would have given the Ministry of Labour *supervision* over unemployment relief spending by local government authorities. This recommendation would have resulted in unification of Unemployment Assistance supervision at the top but not at the local level.

Creation in the 1934 Unemployment Act of the Unemployment Insurance Statutory Committee provides a somewhat similar instance. Here the need of an independent authority in unemployment insurance finance was the impelling motive. But this authority is entirely a central one. Its creation represents a sort of (administrative) decentralization at the top level; relations between it and the Ministry of Labour are partly those of equals, partly those between a supervising and supervised agency. For a critique of British unemployment insurance-assistance arrangements, see Chapter 23.

PART III
THE TREND TOWARD COORDINATION

Introduction

CENTRALIZATION IN social insurance, despite opposing forces, is, as we have seen, a strong influence. It is important in a study of coordination because it is usually the means, if any, by which better coordination is achieved. Centralization, as German and British experience shows, does not always or usually have better coordination for its purpose. Centralization *within an insurance institution* is in fact a deterrent to inter-insurance coordination; but centralization, particularly of supervisory powers, i.e., exercised over insurance bodies, is almost always the method by which coordination is accomplished. In the illustrations of the trend toward improved coordination which follow, many cases are mixed, but it is always possible to indicate the significance of each case in terms of better coordination. Coordination through centralization is not perhaps the ideal way to more rational organization and administration but it is the surest, the most reliable way.

The forces operating most *directly* in behalf of better coordination are principally two, and both financial: the slow pressure of increasing financial burden; the sharp pinch of financial emergency. Of these the first is much the more common. A very weak third factor working for improved coordination is recognition of and a frontal attack on the inequities and wastes of a badly coordinated system. Again it is hardly possible to find an unmixed case. Examples of the first tend to shade off toward examples of the second, particularly in Germany where since the War it has been the fashion to ascribe most radical reforms to the compulsion of financial crisis. It is impossible to find a single illustration of the third cause entirely untinged by financial considerations.

It is the purpose of the following discussion of British and German coordination trends, not to attempt an impossible precision of distinction between evidences of centralization and coordination, but to discuss those aspects of social insurance developments that illustrate most clearly the possibilities of improv-

ing coordination in a going system. Change comes much more slowly and tentatively than in centralization; the showing will on the whole not be as impressive. There is no broad social and political background to support and help explain it. Usually there is no long chain of events that builds up neatly to a climactic peak. But the possibilities of achieving coordination directly, as contrasted with indirectly through centralization, are still considerable, and none the less so because they must be achieved sporadically and under special difficulties.

CHAPTER 12

SOCIAL INSURANCE COORDINATION IN GERMANY¹

COORDINATION FOR FINANCIAL REASONS

FINANCIAL CAUSES lead to improved organizational and actuarial-technical coordination both directly and indirectly. Whether the law happens to mention it or not, one important force operating for coordination in social insurance is the practical necessity of equalizing, roughly at least, the financial burden among the various insurances or among those who pay contributions, and of assuring that the total burden does not become unbearable. This produces, indirectly and with varying success, a form of organizational and actuarial-technical coordination. Administrative specialists, honest and capable as they may be, are enthusiasts; each group, intent on its own objectives, tends to lose sight of the whole picture, and works busily at "improving" or defending its own sector of the line. Legislators or their totalitarian equivalents must keep an eye on the whole. Resentful as they are at political dictation, broad-gauged administrators admit this coordinative function of the layman-politician. In Germany the increasing scope and cost of social insurance in times of increasing national financial strain has naturally led to reconsideration of the social insurance burden and its effect on the national income. Despite pressure from various international commissions supervising reparations payments to reduce this burden, the Germans held solidly for the essentials of their social policy. But increasingly and with closer attention they have scrutinized the financial

¹The materials which form the basis of this Chapter include: I. L. O.: *Industrial and Labour Information*, May 12, 1930, p. 205, August 3, 1931, p. 168, January 4, 1932, pp. 14-17, *Annual Review*, 1930, pp. 288-9, *Benefits of the German Sickness Insurance System* (1928), pp. 153-73, and an unpublished manuscript by B. Kappenberg, *Grundriss des Verwaltungsdienstes der Träger der Invalidenversicherung* (Deutschland); *Proceedings of the First International Congress of Social Insurance Specialists* (Budapest, 1935): Esser, p. 165, Görling, pp. 187-99; Federal Ministry of Labor (Berlin): unpublished Memorandum to the author, September 23, 1937; Schieren, in *Deutsche Verwaltung* (Berlin: October 20, 1936), p. 311; *German Social Insurance, 1935*, Summary 71, p. 555; *Abrechnung in der Invalidenversicherung für 1935*, Reichsversicherungsamt (Berlin, no date), pp. 3, 10; E. C. Donaldson Rawlins, *Economic Conditions in Germany to March 1936* (London: H. M. Stationery Office, 1936), p. 221.

aspects of their social insurance system, particularly its administrative costs.

HEALTH INSURANCE

The first reforms in health insurance in 1930, for example, were announced with the explanation that the "government considered that the increase in the health insurance budget should be considered in relation to the expenditure of other branches of social insurance, the general economic position and the new requirements of unemployment insurance, which would shortly call for an increase in contributions."² The total burden of social insurance costs had become so great it could not be increased, so health insurance contributions were lowered to conserve resources for unemployment. The Federal President's order of July 26, 1930 placed a maximum of 6 per cent on contribution rates and reduced health insurance fund obligations; on the average, contributions to health insurance were decreased by 10 per cent. An order in 1931 made possible reduction of contributions to miners' health insurance funds by requiring use of reserves exceeding a specified level. The announced reason was to permit a concurrent increase in contributions to miners' old age-invalidity insurance, which had been in financial difficulties for a long time. In the fourth order of the Federal President, issued December 8, 1931 "to assure economic and financial stability," health insurance funds were authorized to levy on reserves, to discontinue payments into reserve funds. This was specifically intended to obviate increases in contributions.³ All these events had as their central purpose the better actuarial-technical coordination of the various health insurance bodies with each other and with the other social insurance organizations.

With two exceptions other developments toward coordination in health insurance in the past 5 years have been incidental or due to causes primarily other than financial. Both illustrate direct attempts at coordination. One, the transfer of the custody of health insurance reserves to the old age-invalidity bodies of the state (province), has already gone into effect.⁴ It has already

²I. L. O., *Industrial and Labour Information*, September 15, 1930, p. 351.

³For full citation see footnote 19, Chapter 7.

⁴*Third order for the reorganization of the social insurance system*, December 18, 1934.

produced important advantages, in the reduction of money and security transfers and in higher interest earnings. The individual funds formerly kept their moneys principally in savings banks and cash and averaged only a 2 per cent return. The average now is approximately 4 per cent.⁵ The significance of this step, which in one area of operation extends organizational coordination practically to unification, is important and provides a precedent, if any were needed, for the much more ambitious proposal to set up a *Gemeinlast* or national equalization or reinsurance fund. This remains for the future and will have to be introduced very carefully and gradually if at all; its introduction in health insurance, as in old age-invalidity, would have the practical effect of modifying extremely or eliminating the century-old tradition of inter-fund benefit inequality and the *financial* autonomy of each fund. Even if only partially applied, the *Gemeinlast*, by supplementing the income of poorer funds out of a common pool contributed by all, would practically eliminate inequalities in the cost burden between rich and poor funds, industrial and non-industrial populations. It would take away the chief advantage of the privilege of operating establishment and other special funds. It would be a long and decisive stride toward a single health insurance fund for the entire nation. That the idea has as much as achieved the publicity of the statute books is token of the rapidity of social change in Germany in the past 5 years. It had been discussed for many years among the experts in the Ministry of Labor, but without any real expectation that it would come to pass.

UNEMPLOYMENT INSURANCE AND RELIEF

Unemployment insurance and relief developments show directly and indirectly the influence of financial considerations. We have already noted how unemployment and health insurance costs are considered together. Germans consider that unemployment insurance and local relief problems are even more intimately related. In 1930 a new tax was levied on tobacco. Because this was expected to throw workers on the street, a provision was included

⁵ Further savings resulted from other steps in the old age-invalidity merger, taken primarily for non-financial reasons. For example, the state old age-invalidity Institutions sold or otherwise disposed of numbers of convalescent institutions formerly operated by health insurance funds with no or small need of them.

in the tax act to assure unemployment insurance benefit, even though the unemployed persons had not satisfied the qualifying period requirement. The Federal Institution for Employment Service and Unemployment Insurance was instructed to pay the unearned benefits, charge the federal Treasury. Similar orders were issued in the same year to protect persons discharged from the Army and federal police. In 1930 the Federal President and the Ministry of Labor progressively increased unemployment insurance contribution rates from 3.5 to 6.5 per cent of wages, and shortly thereafter announced payment of emergency unemployment relief (*Krisenunterstützung*) to practically all trades because of the startling increase of persons on relief in the cities. "The increase in the number of unemployed receiving relief from municipalities was a great danger to the financial stability of the towns."⁶

A striking, though a severely criticized, example of attempted coordination in the unemployment insurance-emergency unemployment relief field is the cooperative arrangement by which since 1933 the Federal Institution finances the entire cost of both kinds of benefits,⁷ entrusts administration of the needs test (a condition of practically all payments) to the local authorities.⁸ The reasons are directly and starkly financial. Progressively as the crisis of 1931-32 developed the Federal Institution was forced to take over financial responsibility for unemployment from the local governments; to minimize this as much as possible, insurance benefits were reduced in 1932 by an average of 23 per cent and were made dependent on satisfaction of a needs test after the sixth week of unemployment. Application of the needs test was transferred from the local employment offices to local welfare

⁶I. L. O., *Industrial and Labour Information*, November 10, 1930, p. 233. There were important social and political reasons also. In recognition of these, Germans call all social, and particularly unemployment insurance, "window-pane insurance."

⁷*Gesetz über Änderungen der Arbeitslosenhilfe* (law on modifications of the unemployment relief system), September 22, 1933 (R. G. Bl. I, p. 656). See Chapter 23 for a description of the current situation.

⁸*President's Emergency Insurance Order*, June 14, 1932, Part I, Ch. 1, Art. 1; *Verordnung über die Höhe der Arbeitslosenunterstützung und die Ausführung öffentlicher Arbeiten* (order on the amount of unemployment benefit and the execution of public works), June 16, 1932 (R. G. Bl. I, p. 305). Both modified by *Verordnung des Reichsarbeitsministers über die unterstützende Arbeitslosenhilfe* (order of the Federal Minister of Labor on unemployment benefit), December 22, 1937 (R. G. Bl. I, p. 1410), sect. 2.

authorities in order to secure uniformity of standards between unemployment and other relief.⁹ The significance of this cooperative arrangement between the local authorities and the Federal Institution lies not in the precise degree of its success or failure, but in the possibilities it suggests and the questions it raises on the organizational and actuarial-technical coordination of central relief financing and local relief spending, and on the policy of treating all able-bodied unemployment relief cases on the same general principles. Before the advent of insurance in 1927, the unemployed on relief had also been treated more or less as a group, but on a completely local basis which varied for each community; this variation continued after insurance began. It continued indeed until 1932.¹⁰

OLD AGE-INVALIDITY INSURANCE

Old age-invalidity insurance also shows a trend toward closer coordination. The so-called Schlüssel or formula for apportioning the obligations of the territorial bodies for wage earners (as distinguished from salaried employees), unheralded on its introduction and except by a few experts unnoted today, has practically abolished their financial autonomy.

The Schlüssel has the effect of creating a complete Gemeinlast, or reinsurance fund, for all old age-invalidity bodies for wage earners. The partial Gemeinlast, or partial pooling of resources, is an old story in German old age-invalidity financing. Ten years after the original law of 1889 the first modification of territorial fund autonomy was made by requiring that all of the basic invalidity benefit (Grundbetrag) and 75 per cent of the old age benefit should be met out of common and not individual insurance

⁹ A parallel development was embodied in an Executive Order in 1932, requiring all so-called AWE (Anerkannte Wohlfahrtserwerbslose), able-bodied unemployed supported partly by the local governments, partly by federal subsidy, to be certified as such by the local employment offices of the Federal Institution. (See footnote 5, Chapter 23.)

¹⁰ This development illustrates admirably the distinction between organizational coordination and centralization. It was a step away from both administrative and supervisory centralization, perhaps a permanent one. But not necessarily from coordination. Indeed, one might reason that the less centralized the organization of an institution or group of institutions, the greater the need for a plan of coordination between the decentralized members. Actually, the less the centralization the less usually the control of the parts.

For details of the unemployment insurance-relief controversy, see Chapter 23.

body funds.¹¹ In one form or another a partial *Gemeinlast* was continued until the inflation crisis of 1921 when, in the general breakdown of old age-invalidity financing, all distinction between common and individual fund responsibility disappeared.¹² The *Schlüssel* of today dates from the reorganization of old age-invalidity insurance after the inflation. It permits continuance of the German tradition of territorial organization for wage earners' old age-invalidity insurance and retains this organization for administrative purposes. To minimize the administrative difficulties and wastes of a system of completely autonomous bodies and to equalize the financial burdens of bodies of different strength, it imposes a rough and simple division of current pension costs.

Under the *Schlüssel* each state body maintains its own facilities and personnel for collecting contributions on behalf of and paying benefits to wage earners currently *living within the state*. But at the end of each year "pension expenditures, in so far as they are not supplied by the Reich, are assumed by the insurance bodies as a group, in proportion to their contribution income for the same year."¹³ There are no figures to show to what extent current pensioners originated in or at some time contributed to other state institutions, but even in a country like Germany, where until recently internal labor migration has been relatively small, the proportion after 50 years is considerable. On the purely administrative side, some such compromise with autonomy is necessary (cf. the rough average allowances in settlements between German industrial accident and health insurance bodies discussed in Chapter 13) to eliminate the insupportable mass of correspondence, detailed records and elaborate cross-accounting that would be required to maintain an orthodox debit and credit for each insured member's contributions and benefits in his original state institution.¹⁴ The direct financial effects of the *Schlüssel* on the sharing of pension costs among the state bodies are even more important.

¹¹ Two other minor costs were also transferred to the common responsibility.

¹² The Law of July 23, 1921 intended that each territorial body was to be responsible for one-tenth of its own pensions, but "this requirement did not prove practicable." (Memorandum from the Federal Ministry of Labor to the author, September 23, 1937.)

¹³ *Federal Insurance Code*, sect. 1386.

¹⁴ Precise records and strict territorial autonomy become increasingly less meaningful and justifiable when the federal government contributes important sums to old age-invalidity insurance finances.

The Schlüssel is admittedly and intendedly an approximation and does not pretend to hold a balance between the numerous complicated and changing factors that determine pension costs over a period of years. Indeed the contrary. Its purpose is "equalization of the burden which is justified by the different paying abilities of the insurance bodies."¹⁵ One reason why German officials do not worry overmuch about precision in allocating old age-invalidity costs is that the federal government is now contributing nearly 40 per cent of total old age-invalidity expenditures.¹⁶ Another is that inflation and deflation have impressed on them, if they were not impressed before, the complete inter-dependence of the old age-invalidity bodies not only with each other but with the federal Treasury. As a matter of fact, the results produced by the Schlüssel work out differently, not only from what would happen if all the factors influencing cost were scrupulously regarded, but also if the individual Institutions absorbed without redistribution each year's pension payments to beneficiaries, including sums obligated for other Institutions. For the year 1935, for example, the proportion of pensions paid to beneficiaries by the Berlin Institution to total pensions paid for the entire system was 7.09 per cent. The Schlüssel, based on current ability to pay, i.e., on the current proportion of Berlin to total contribution income, apportioned to Berlin 8.78 per cent of total pension payments. East Prussia had percentages of 2.77 and 2.35 respectively; Pomerania, 2.34 and 2.37.

It is impossible from published statistics to check the extent to which this equalizing factor influences the financial burden of the individual funds. One can make a few crude assumptions, draw from them a few crude conclusions. One can assume, for example, that states with relatively declining populations, such as Pomerania, will have a relatively high proportion of pensioners, a relatively small proportion of current contributors, and that Berlin, with a rising population, will have the opposite. Given these

¹⁵ Esser, *op. cit.*, p. 162.

¹⁶ Since April 1, 1938, the federal government specifically guarantees the funds required to provide benefits over and above those produced "by contributions and other income." (*Gesetz über den Ausbau der Rentenversicherung*: law for the extension of pensions insurance, December 21, 1937 [R. G. Bl. I, p. 1393] sect. 32.) An important new source of "other income" in the future will be the Federal Institution for Employment Service and Unemployment Insurance. For recent changes, see Chapter 23.

crude assumptions and ignoring all other factors that influence pension costs and contribution income, Pomerania would be expected to withdraw today relatively more in pension expenditures than she contributes to income. Under the Schlüssel, for 1935 at least, the disproportion is the other way. On the other hand, the relation of the Berlin and East Prussian percentages coincides with the expectations of the simple assumption (the former with a rising, the latter with a declining population). A further rough test of the effect of the Schlüssel may be applied by comparing the ratios of contribution income to pensions expenditure for the individual Institutions with the average for the whole system. The 1935 national average was 85.2 per cent; i.e., the contributions failed to cover pensions by about 14.8 per cent.¹⁷ The ratios for Berlin, East Prussia and Pomerania were 102.4, 72.5 and 86.5 respectively. Both East Prussia and Pomerania, given our assumptions, would be expected to cover their pensions less adequately than the average. Under the Schlüssel Pomerania takes more than its share, East Prussia less. Berlin not only exceeds the average, it more than covers its own pension payments out of contributions. We can be sure of only one result of the Schlüssel. Whatever the reason for these variations, there is no question of its equalizing effect on the old age-invalidity insurance financial structure, that is to say, its coordinative effect both on organizational and actuarial-technical features. "It is certain that insurance bodies in agricultural districts are relieved of many millions at the expense of institutions in industrial and metropolitan districts."¹⁸

Events since 1933 have decidedly increased the organizational coordination of the old age-invalidity system. The heterogeneity of the system has been deplored for many years by German specialists. Even today this heterogeneity still exists, but steps have been taken to simplify it. The basic law of December 7, 1933 for the first time legislated at once for old age-invalidity insurance for wage earners, for salaried employees and for miners. The

¹⁷ The rest is made up by federal government subsidy. Government, in fact, gave a sum equal to 39 per cent of total pension payments in 1935. The difference between this and the deficit indicated by the 14.8 per cent figure is accounted for principally by an increase in surplus of about RM 230,000,000.

¹⁸ Federal Ministry of Labor: Memorandum sent to the author, September 23, 1937.

financial importance of this statute "to maintain the solvency" of the three institutions is indicated by the provision that in the future the scale of contributions will be determined, not by the Federal Ministry of Labor alone but by this Ministry in consultation with the Federal Ministries of Finance and Economics.¹⁹ In miners' insurance the Federal Finance and Labor Ministers are jointly responsible for determining the amount paid by the Federal Institution for Employment Service and Unemployment Insurance, for the protection of unemployed miners' benefit rights.²⁰ For the first time, in the 1934 Law for the Reorganization of Social Insurance, old age-invalidity insurance for wage earners and for salaried employees was joined under a single title, pension insurance (*Rentenversicherung*). This change—a part of the federal government's decision to abolish the "disunity and complexity" of the social insurance structure—has an importance that is yet largely potential and, as with the health insurance reinsurance fund, may take time to eventuate. But the principle is established; coordination comes in just such tentative piecemeal fashion. For the first time, too, the Federal Insurance Office was given *direct* supervision over old age-invalidity insurance for wage earners and salaried employees, over the special funds for marine workers and miners and over the Federal Railway Insurance Institution, newly consolidated out of four predecessor funds.²¹ In 1935 the substitute (special white-collar) old age-invalidity insurance funds for salaried employees were terminated.²²

The significance of these changes is so broad that they pervade all aspects of the system, but essentially they were introduced as a stage in the financial reorganization of the old age-invalidity insurance structure. It is interesting to note that, while the new old

¹⁹ *Gesetz zur Erhaltung der Leistungsfähigkeit der Invaliden-, der Angestellten- und der knappschaftlichen Versicherung* (law to maintain the solvency of invalidity, salaried employees' and miners' insurance), December 7, 1933 (R. G. Bl. I, p. 1039), Part 2, sect. 7 (2).

²⁰ *Reichsknappschaftsgesetz* (Federal Miners' Benefit Society Act), June 23, 1923 (R. G. Bl. I, p. 431), Part 8, sect. 112 (3), as amended by Order of May 17, 1934 (R. G. Bl. I, p. 419).

²¹ *Law for the reorganization of the social insurance system*, July 5, 1934, Part 4, sect. 2 (1).

²² *Neunte Verordnung zum Aufbau der Sozialversicherung: Ersatz- und Zuschusskassen der Rentenversicherung* (ninth order for the reorganization of the social insurance system: substitute funds), August 6, 1935 (R. G. Bl. I, p. 1087), Part 1, sect. 1.

age-invalidity laws call for increased contributions, it was announced these could not be raised until unemployment contributions could be reduced in the same proportion.²³

It would be possible to cite other examples (organizational and actuarial-technical) of coordination arising out of financial necessity: for example, the introduction of the *Gemeinlast*, or reinsurance fund, into industrial accident insurance in the fourth order of the Federal President (December 8, 1931) which empowered²⁴ the Minister of Labor to impose joint assumption of pension costs "up to one-half of the sums necessary to meet the pension expenditures for the years 1931 and 1932." This was distinctly a result of the financial crisis of these years and was announced as introducing only a temporary change in the status of complete financial autonomy of the industrial accident bodies. But the precedent is an important one and one likely to be recalled if another emergency arises.

NON-FINANCIAL FACTORS LEADING TO COORDINATION

Examples of improved coordination in which financial reasons are not controlling or at least important are hard to find. This is partly due to the temptation of reformers to ascribe the need for all changes to financial stress. It is an argument, honest or not, that appeals to everybody. Partly it is because only financial emergency can break down the resistance of entrenched bureaucracy, group prejudice and vested interests in general. But primarily it is because coordination for non-financial reasons must come chiefly through voluntary action, which is not enough. The two major exceptions to this generalization found in Germany (the Federal Social Insurance Code and the new arrangements between the health and industrial accident bodies) are only partial. The latter, for example, are strongly tinged with financial considerations.

There is no intention here to ignore motives and forces other than financial in German social insurance legislation, particularly in the past 5 years. There are elements, we have seen, of coordina-

²³ For later developments in this direction, see Chapter 23.

²⁴ This power was never invoked by the Minister, because "it has not to date proved practicable. . . . Since it develops that, as far as we can see, there will be no need for the *Gemeinlast* in the future, cancellation of this authority is anticipated." (Federal Ministry of Labor: Memorandum to the author. September 23, 1937.) All of which provides an example of the sturdy autonomy of the industrial accident funds.

tion even in the most extreme examples of centralization, and centralization often has nothing to do with financial reasons. The transfer of health insurance reserves to the old age-invalidity bodies, and the Gemeinlast, are predominantly financial measures; on the other hand the gradual integration of the funds with the old age-invalidity insurance system and the gradual suppression of the local Insurance Offices are predominantly not. The rearrangement of the social insurance administrative structure announced in the Reorganization Law, which forecasts a distinct centering of authority at the state level, is a coordinative step of the first importance. This is not primarily a financial change. Both financial and other reasons for the legislation are given in the preamble to the Reorganization Law,²⁵ although it is a fair statement that without the financial argument the others would probably not have been enough to justify it. The relative insignificance of German progress toward coordination when unsupported by centralization is the best proof possible of the validity of this generalization.

For years the supervisory authorities had attempted, for example, to encourage closer cooperation between the national associations representing health, industrial accident and old age-invalidity insurance bodies, and doctors and welfare authorities. A national cooperative association (Reichsarbeitsgemeinschaft) was to carry out a general program of health provision for the nation; it was erected on state and district organizations which sometimes included welfare bodies. The plan never achieved important practical results. It was not compulsory, it attempted to cover scores of highly different institutions, it was necessarily drawn up in the broadest of terms.²⁶ The most effective cooperation on broad public health questions in Germany operated not at the national but at the state level. The first state association to embrace various social insurance institutions dates only to 1920; also the first to include welfare institutions. By 1926, 17 of these state associations were at work. While they

²⁵ "In order to eliminate the disunity and complexity of social insurance and through coordination (einheitliche Zusammenfassung) to strengthen its solvency, reorganization will be undertaken according to the following principles."

²⁶ *Richtlinien über Gesundheitsfürsorge in der Versicherten Bevölkerung* (instructions for health provision for the insured population), February 27, 1929 (R. G. Bl. I, p. 69). These emphasized measures for tubercular and venereal disease.

varied tremendously in scope and representativeness of membership,²⁷ rested on voluntary action and included bodies of quite dissimilar traditions, organization and efficiency, they provided a manageable and fairly effective machinery for joint and uniform action on such matters of common concern as the making of agreements with hospitals, the establishment and operation of joint hospital facilities, negotiations with the medical profession and apothecaries, health education and the like. Within its limits the most effective voluntary cooperation has been between administrative bodies in the same field of insurance, state and national. The successes of German health insurance education are mostly to the credit of a few individual funds and to these health insurance associations. On the whole voluntary efforts at coordination, because of the number and astounding heterogeneity of German social insurance institutions, are not enough. In this fact is the real importance of the transfer of the so-called community health functions from the individual health insurance funds to the state old age-invalidity bodies.²⁸

THE FEDERAL SOCIAL INSURANCE CODE

The Federal Social Insurance Code and the cooperative arrangements between the German health and industrial accident bodies furnish two illustrations of organizational and actuarial-technical coordination by direct attack. This Code, as Germans themselves admit, has many lacks but it is nevertheless a marvel of codification, combination and coordination. Like the social insurances themselves it is the product of evolution; it dates not from the 1880's but from 1911. It is constantly being revised in detail, its last general revision being in 1924. At present it is going through another basic revision, the better to integrate and assimilate the nearly countless amendments of the last 5 years. It is expected that certain recommendations (such as elimination of the local Insurance Offices) of the Academy of German Law, a semi-official committee, will be included in this revision.

It is not necessary or possible here to analyze the Federal Social

²⁷ Until September 1937 membership of a health fund in a state or national association was voluntary. *Zwölfte Verordnung zur Neuordnung der Krankenversicherung* (twelfth order for the reorganization of health insurance), September 6, 1937 (R. G. Bl. I, p. 964).

²⁸ For the significance of the Reorganization Law in this sphere, see Chapter 9.

Insurance Code in detail; what follows is a summary of its scope and basic purposes and of its principal omissions. It is divided into six Books, as follows (the main sub-heads for Book II are added here for illustrative purposes):

- Book I. *General*
- Book II. *Health Insurance*
 - Scope of insurance
 - Benefits
 - Insurance bodies
 - Legal provisions
 - Supervision of insurance bodies
 - Contributions
 - Health insurance associations
 - Special occupational groups
 - Substitute funds
 - Judicial and penalty provisions
- Book III. *Industrial Accident Insurance*
- Book IV. *Old Age-Invalidity Insurance*
- Book V. *Relations among Insurance Bodies, and between Insurance Bodies and other Authorities*
- Book VI. *Procedure*

The Code achieves coordination in the following ways:

It lays down general principles on the scope of federal social insurance (Reichsversicherung), on insurance bodies, on insurance supervisory authorities and on certain other questions of general application, such as penalties and prohibitions (all of Book I), and on general administrative and appeal procedure (Book VI). In considerable part these principles are the same for all branches of insurance, in part the material in these Books represents a convenient and compact device for comparison.²⁹ For example, the section on local Insurance Offices is common to all; but decisions by the insurance bodies are made differently in industrial accident and in old age-invalidity insurance.

It defines in considerable detail the relations among the social insurance bodies, and in certain cases between the social insurance

²⁹ All applicable principles are not included. For example, the important Reorganization Law of July 5, 1934 has not yet been integrated with the Code, although it modifies the provisions of the Code considerably.

bodies and the public welfare authorities (all of Book V). As for the rest of the subjects treated in the Code, this is not the whole law, or even the bulk of the law on the subject, because it is phrased in general terms and must be supplemented by dozens of orders, ministry instructions and agreements between the interested parties. But it provides all-important basic principles for inter-insurance body cooperation.

The nature and scope of Book V deserve brief illustration. Part 1 for example defines the relations of health to industrial accident insurance, health to old age-invalidity insurance and industrial accident to old age-invalidity insurance. Just to make sure that all the ends are tied together, extensive cross-references are made to other sections of the Code that treat each of these insurances in detail. To cite an illustration of the nature of these definitions from the section on the relations between health and old age-invalidity insurance:

Division of liability

(1) If the state [provincial] old age-invalidity institution initiates the process of treatment, it must continue treatment for the duration of the illness according to the regulations of the health insurance fund of the sick person. If the institution places the sick person in a hospital or a convalescent home, it can cancel, for the period of treatment, partially or entirely, the old age-invalidity or widow's pension.

(2) The health insurance fund must reimburse the institution to the extent that the sick person would have a claim on the fund for cash benefit. (sect. 1518)

Part 2 of Book V covers the relations of social insurance bodies to other authorities. Here is a statement of the basic relations between insurance and welfare bodies:

Right of welfare bodies to reimbursement

If the local government or other welfare body supports a needy person according to law during a period in which he had or has a right to benefit under this law, the local government or the welfare body can claim reimbursement up to the amount of this right. (sect. 1531)

Of particular interest for coordination is Part 5 of Book V, on insurance transfers (Wanderversicherung). Depending on how

one looks at the materials in this section, they may be considered as a triumph of coordination or as a demonstration of its utter lack.³⁰ Regulations covering insurance for "wanderers" are necessary because of the amazing heterogeneity, territorial and occupational, of the German old age-invalidity system. The same person may be and often is insured at various times in the system for salaried employees, the system for wage earners, and the system for miners which in turn provides separately for salaried employees and wage earners. Part 5, Book V of the Code does its best to keep these tangled relations straight but no German authority is proud of it except perhaps as proof of the ingenuity and tenacity of the human mind. The following is one of the less complex provisions of this part of the Code:

Waiting period, benefit rights, old age-invalidity insurance for wage earners, old age-invalidity insurance for salaried employees, miners' old age-invalidity insurance for salaried employees

In determining the fulfillment of waiting period requirements, and the maintenance and renewal of benefit rights, all contributions [to the insurances named] are considered as a unit. For miners' old age-invalidity insurance for salaried employees, this applies only for that part of benefits not in excess of benefits provided in the law for old age-invalidity insurance for salaried employees [other than miners']. (sect. 1544, a)

We have said that the Code is not all-encompassing. At the moment, in fact, it does not include the whole social insurance law as the important law of July 5, 1934 is not yet incorporated. The expression, federal social insurance (Reichsversicherung), now includes health, industrial accident, old age-invalidity for wage earners and salaried employees, and miners' insurance (this in turn covers health, old age-invalidity insurance for wage earners and salaried employees engaged in mining, but not industrial accident, which is under the general industrial accident insurance system).³¹ Of these, old age-invalidity insurance for salaried employees and all of miners' insurance still remain technically outside

³⁰ Actually the first rather than the second. Mere complexity does not make coordination impossible. It makes it more difficult. Simplification is usually the handmaid of improved coordination.

³¹ *Law for the reorganization of the social insurance system, July 5, 1934, Part I.*

the Code although their early inclusion is forecast.³² Unemployment insurance, the orphan of the social insurances, is not even a part of federal social insurance, enjoys a completely separate status in a completely separate law.³³ There are numerous cross-references, as there must be, between unemployment insurance and health insurance in the unemployment insurance law, but not in the Insurance Code. To summarize, for example, a section from the unemployment insurance law on required deductions from unemployment insurance benefit:³⁴

1. Pensions from social or private insurance.
2. Pensions from relief authorities and for war, military or police service.

The following income is not deducted:

1. Small sums for so-called nursing benefit in industrial accident insurance.
2. Small sums for so-called nursing supplements, supplements to provide dogs for leading the blind, and supplementary relief pensions, etc., etc.

A great deal of organizational and actuarial-technical coordination, of course, is possible between insurances, as between unemployment and health, without actually combining them in a single basic law. A great deal has indeed been done.³⁵ Ultimately all the social insurances, except possibly unemployment, will rest within the Code. It will then really be, as it now claims to be, a truly national law.

³² Cf. Book I, Part 1, sect. 1 of the Code and Part I of the Reorganization Law.

³³ The word "enjoys" is used advisedly. See Chapter 18, discussion of government-insurance body relations.

³⁴ *Employment service and unemployment insurance law*, October 12, 1929, sect. 112 (a). In Part B, II of *Erlass des Reichs- und Preussischen Arbeitsministers und des Reichs- und Preussischen Ministers des Innern über die Prüfung der Hilfsbedürftigkeit bei der Arbeitslosenunterstützung* (instructions of the Federal and Prussian Ministers of Labor and of the Interior for the application of the means test for unemployment benefit), January 8, 1938 (R. A. Bl. I, p. 14), 18 specific kinds of benefits are authorized to be ignored in calculating unemployment insurance benefits.

³⁵ For further details, see Chapter 20.

CHAPTER 13

A CASE STUDY: GERMAN INDUSTRIAL ACCIDENT AND HEALTH INSURANCE

THE COORDINATION produced by the Federal Social Insurance Code is necessarily on broad lines. Recent important changes in the cooperative arrangements between the industrial accident and the health insurance bodies in Germany furnish a concrete instance of organizational and actuarial-technical coordination, relatively rare, brought about (a) where financial considerations were not the most important, and (b) largely through the activities of highly autonomous insurance bodies and not the federal government. The two characteristics are connected. Relations between the industrial accident and health insurance bodies lie largely in a field in which the federal government can advise but cannot command. The government must be and is willing to work by indirection, through encouragement and advice. These new arrangements are the end-product of years of discussion,¹ and more particularly of a series of conferences beginning in 1934 between the four national associations of health funds and the national association representing the industrial accident insurance bodies. Agreement was finally reached in 1936. This agreement was approved and announced in June 1936 in an order of the Ministry of Labor;² with supplementary regulations it constitutes the new law in an important though not a dramatic area of social insurance organization and administration.

For many years the two groups of bodies have not seen eye to eye on certain of their joint problems and particularly on the difficulties and misunderstandings resulting from their joint activities. Among interested persons discussion has been wide and and free, but these are technicians; politicians and the general public knew nothing of the problems. The federal government had no power to enter directly; the technical difficulties of coordinating the operations of two autonomous groups were and

¹ *Soziale Praxis*, July 24, 1936.

² *Verordnung über die Regelung der Beziehungen zwischen den Trägern der Krankenversicherung und der Unfallversicherung* (order for the regulation of relations between health and industrial accident insurance bodies), June 15, 1936 (R. A. Bl. IV, p. 194).

are considerable; politically, it is difficult to say which would be the harder to tackle directly: the proliferated health funds with strong roots in local politics and patriotism³ or the practically independent, nation-wide industrial accident insurance bodies dominated and financed by the large employers.

SIMPLIFICATION OF FINANCIAL ARRANGEMENTS

The nature and significance of recent organizational changes in industrial accident and health insurance are described in the following summary:

First and most important is a drastic simplification of the definition of the joint financial responsibilities of the insurance bodies. The responsibilities of the two groups of bodies are of two kinds: to their members; to each other. The responsibilities affected by the recent changes are solely of the second kind, although to understand them one must also understand the first. Indeed, a basic reason for the really formidable complexity of inter-insurance body relationships that has existed for decades between the two groups is the fact that the boundaries of the two sets of responsibilities do not coincide. That is, the law provides benefits to be furnished by each class of fund to members insured in both systems on one basis, but it arranges the incidence of these benefits on a quite different basis. This cause of complexity has not been removed by the new arrangements.

In German social insurance, the health and the industrial accident organizations since the 1880's have been separate but they work together closely in providing medical care and cash benefits, not only to the same persons but to the same persons for the same disability. The health insurance funds are responsible of course *to their members* for disability from non-industrial causes. They are responsible also *to those of their members* insured in the industrial accident scheme, the great majority, for the initial period of disability resulting from industrial causes, in particular from occupational disease. After this initial period the industrial accident bodies take over. This arrangement eliminates duplication between the bodies, it relieves the industrial accident bodies of much detail and direct responsibility and permits them a unique

³ For an analysis of the operations of these bodies, see discussion of health fund autonomy in Chapter 9; also Chapter 22.

simplicity of organization. But it has introduced certain problems in the settlement of inter-fund obligations.

These problems would be difficult enough, but the Germans have added to them, as we have suggested, by further distinguishing between what each insurance body owes its members and what it owes other insurance bodies. Treatment and cash payments were and are transferred from the health to the industrial accident body at one stage, financial responsibility at another. It is easy to discover the complexity of the results.⁴ What is not so easy is to discover both a simple and an equitable arrangement, particularly considering the completely differing technical and legal bases and organization of the two insurances.⁵ The Germans admit they have created many of their administrative problems in this field by a too sedulous searching after exact equity.⁶

FINANCIAL ARRANGEMENTS BEFORE 1936

The situation up to June 1936 was as follows: The responsibility of the health insurance funds *to their members* for disability resulting from industrial accident was (and still is) to provide weekly cash benefit for the first 13 to 26 weeks (the various circumstances being defined in detail in the law). Thereafter the industrial accident bodies took (and still take) over cash benefits. Medical care is their responsibility from the beginning.

⁴The possibility of having the two sets of responsibilities coincide is, practically, a remote one. The present arrangement permits flexibility in handling the individual case and a relatively simple method of making settlements irrespective of the administering agency. A residue of administrative difficulties is inherent in any scheme requiring cooperation of two such dissimilar bodies.

⁵Of these differences, one of the most important in this respect is that in industrial accident insurance the employer is solely responsible for contributions and administration; in health the insured workers contribute two-thirds, the employers one-third of contributions and both assist but do not control administration. This difference in financial basis suggests a German assumption that employers alone are responsible for all industrial disabilities, since industrial accident insurance covers only these, and since a considerable though a minor fraction of health insurance benefits are paid also for industrial disabilities. Actually here, as generally in social insurance, the shares have been determined almost entirely by empirical considerations. Besides, the more or less arbitrary system of cross-liability between funds destroys whatever semblance one might suspect of a basic formula.

Another important difference in the definition of compensable disability is discussed later in this Chapter.

⁶*Begründung* (official brief) in support of order cited in footnote 2, this Chapter. "This is how we do it but for Heaven's sake don't copy it," was the advice of two high government officials on this point.

But the financial responsibility of the health insurance funds *to the accident bodies*, and vice versa, was (and is) defined differently. The health funds, for example, were formerly financially liable for weekly cash benefits only for the first 8 weeks of disability, and were entitled to reimbursement from the industrial accident bodies for the remaining time. In case they provided medical care, they were likewise responsible only for the first 8 weeks. Practically, as distinguished from legally and financially, the health funds often provided medical care pending determination of the cause of the disability; in the meantime they took care of their members irrespective of cause.⁷

It is evident that of the two sets of responsibilities the second is by far the more important for the insurance bodies. On the first, the law determines which body is to give medical care and pay benefits; on the second, which body is actually to bear the cost. In an effort to secure an equitable distribution of costs, agreements affecting the second group of responsibilities have been changed time after time in the past decade. Obviously in relations as complex as these, any adjustment, however detailed, is bound to develop inconsistencies and weaknesses, and requires constant reexamination.

FINANCIAL ARRANGEMENTS AFTER 1936

The gist of the new inter-body financial arrangements follows: a single and simple line is drawn between the periods for which each body is responsible to the other; average rates of reimbursement replace the earlier separate calculations for each case. (These changes have to do only with inter-insurance body responsibilities; obligations to members remain unchanged.) The dividing line is set at the 45th day after the industrial accident. For medical care and cash payments given before that, the health insurance fund is solely responsible financially; after that the industrial accident

⁷ Only the main elements of the old agreement are noted here. Actually it was extremely complicated, and contained almost as many exceptions as principles. For example, if the disability lasted 8 weeks or longer, the industrial accident fund had to pay all costs of medical care; if during the first 8 weeks the industrial accident fund gave medical care not provided by the health body, the latter had to reimburse the former. On the other hand, the industrial accident fund had to pay the health fund any excess of health over industrial accident medical benefits provided by the health fund during these first 8 weeks.

insurance fund. For each day of non-institutional treatment provided by either body to the members of the other outside the period for which it is responsible under the 45-day rule, a standard credit of RM 0.70 is allowed. For institutional treatment provided during the first 45 days the health fund allows the industrial accident fund RM 1.50 a day, plus actual expenditures for cash benefits. For the same treatment provided by the health fund after the 45th day, actual expenditures are replaced.⁸

A second reform produced by the new regulations, and closely related to the first, has greatly simplified inter-insurance body relations in another way. Formerly the health fund was required to report to the industrial accident body, without regard to its seriousness or effect on the insured person's employability (*Arbeitsfähigkeit*), every "sickness the result of accident." In addition, the health fund had also to notify the industrial accident fund of the beginning date of medical treatment. The purpose of the provision was to give the industrial accident body the opportunity to watch or take over the case if considered advisable. The provision achieved its purpose but its very simplicity created another difficulty: it left open a large area for dispute between the bodies at the end of the eighth week of disability when the health funds would propose the transfer of costs to the industrial accident funds. The law required the industrial accident funds to take over only for the period of unemployability. Naturally the health funds often considered a beneficiary unemployable whom the industrial accident funds did not. This difference of opinion, given opposing interests and a subject matter involving highly technical questions of fact, is inevitable. Health funds, covering for shorter periods, are more liberal in defining unemployability than industrial accident bodies which assume a long-term expensive liability. Health funds do not require the beneficiary to be completely disabled to be entitled to full benefit, industrial accident bodies do.

⁸ *Bestimmungen über die Unterstützungspflicht der Krankenkassen und Unternehmer gegenüber den Trägern der Unfallversicherung und über Ersatzleistungen zwischen Krankenkassen, Ersatzkassen und Trägern der Unfallversicherung (Paragraph 1504 bis 1510) sowie im Fall des Paragraph 1543 (b) der Reichsversicherungsordnung* (instructions on the obligations of health funds and employers to the accident insurance carriers and on repayments by and to health funds, substitute funds and industrial accident insurance carriers [sections 1504 to 1510] and under section 1543 (b) of the *Federal Insurance Code*), June 19, 1936 (R. A. Bl. IV, p. 195).

The result of this difference of point of view, exaggerated by the complexity of the rules for reimbursement, was that "the regulations . . . were the cause of countless disputes."⁹

Under the revised regulations, the health fund must report to the industrial accident fund only "sickness the result of accident which is connected with unemployability." Further, the industrial accident body assumes complete financial responsibility for medical care in cases not involving unemployability within the first 45 days. On the other hand, it is now definitely protected if it has paid sums improperly to persons later discovered not to be suffering from industrial injuries.¹⁰

POSSIBILITIES OF VOLUNTARY COORDINATION

The full advantages of these drastic simplifications will take time to develop fully, but their general scope is already evident. The 45-day line of demarcation is uniform for practically all cases, medical or other, and permits few exceptions. The old division was multiple and complicated by countless exceptions. For the laborious and detailed individual case calculations, a simple average scale of payments has been substituted. The health funds already announce a marked decline in the number of reports they make to industrial accident funds, because of the mass of irrelevant cases of sickness they now omit; yet the latter bodies receive in good time pertinent information which may later be important. Also, the industrial accident body takes over without raising the troublesome question of employability.

These new arrangements, the latest stage in a 50-year coordinating process, illustrate admirably both the possibilities and the limitations of voluntary coordination. The process is slow, it requires mutual concessions by matured institutions and officials steeped in a point of view. Compulsion from above would perhaps hasten the process, but not necessarily, and the changes resulting from compulsion would possibly be less sound and less permanent. Neither party is entirely satisfied with the new payment scale; each feels it is getting somewhat the worst of it. Inter-insurance body problems are not all solved, indeed some are inherent in the

⁹ *Begründung* (official brief) in support of order cited in footnote 2, this Chapter.

¹⁰ *Federal Insurance Code*, sects. 1503, 1505, 1509 (a), revised by sects. 1 (1), 2 (1), and 4 (1) of the order cited in footnote 2, this Chapter.

basic arrangement which requires cooperation between two dissimilar bodies on the same risk. Complete standardization, if for no other reasons, is impossible as long as each health insurance fund determines its own scale of benefits.

At the same time the arrangements illustrate the possibilities of improving coordination in an unfavorable field. Over 4,700 health funds and 291 industrial accident bodies through their national associations participated in the discussions and decisions and entered into a nation-wide contract. While neither side got all it wanted, each regards the new agreement as an improvement. There are precedents and efficient machinery for further debate, amendment and improvement.

For Americans the most suggestive feature lies in the diplomacy and the careful preparations demonstrated by the federal government authorities in bringing about the new agreement. This, in a country not one-tenth as reluctant to be compelled as Americans, is an object lesson of first importance.

CHAPTER 14

SOCIAL INSURANCE COORDINATION IN GREAT BRITAIN

IN GREAT BRITAIN coordination proceeds even more slowly than in Germany. Greater British centralization is the major reason, particularly since supervisory-administrative authority is split among so many bodies.¹ Another reason why, over the past decade and a half, the evidences of increasing coordination are more difficult to find in Great Britain is that the British, hard pressed as they were financially, were subjected to a fraction of the pressure on the Germans. Finally should be noted the admitted British reluctance to change. Says a British expert, "The British way is to build up piecemeal, try to consolidate later."² When one speaks in Great Britain of the coordination problem in social insurance, a not uncommon answer is that other fields need coordination even more; e.g. that of the Factory Acts.

FINANCE AND COORDINATION

Financial forces in Britain have not been as powerful as in Germany but they have been the most powerful of any in working directly toward better or closer coordination, particularly actuarial-technical. An important instance of actuarial-technical coordination aimed at equating private as against government social insurance spending, is the reduction of unemployment insurance contribution rates in 1925 coincident with the new old age pensions contributions.³ The government also, in making important changes in its contributions to one insurance, must and does consider the possible effects on its obligations to other insurances. Thus in 1925 the government deliberately set the contribution

¹ See discussion of administrative centralization in Chapter 19.

² For the effect of a possible fourth reason—a higher degree of organizational coordination, at least in certain respects, to start with—see the resume in Chapter 20.

³ The figures in this Chapter are to be found in *Report of the Government Actuary on the Widows', Orphans' and Old Age Pensions' Act, 1925-32*, pp. 5, 8, 31, 34; *Report of the Ministry of Health, 1935-36*, pp. 188-91, 203-4. The reader is also referred to Percy Cohen, *The British System of Social Insurance*, especially pp. 5-11, 31, 53 and 124; I. L. O., *Yearbook, 1933*, pp. 183-4, *Yearbook, 1934-35*, p. 229, *Industrial and Labour Information, August 3, 1931*, pp. 164-5.

rates of the new contributory old age scheme at less than an actuarially adequate level. The contribution for an entrant at age 16 should have been 10d. weekly for men and 5d. weekly for women. The statutory rates were made 9d. and 4½d. respectively, "in consideration of the relief to the Exchequer resulting . . . from the termination of unemployment insurance [benefits] at age 65." (This also illustrates a type of interlocking benefits and coverage.) The maximum age for health insurance members was also reduced to 65, another saving in government health insurance subsidy from which the Treasury benefited. In 1931 the Government Actuary pointed out officially the importance of considering unemployment in an analysis of old age pensions financing: "A difference of 2 or 2½ per cent in the rate of unemployment . . . makes a difference in the contribution receipts, and therefore in the Exchequer charge, of about £1,000,000 in that year." Again in 1931 the government, in order "to provide the enormous subsidies required for unemployment insurance," transferred the cost of central health insurance administration, formerly on the government, to the Approved Societies and discontinued its payments into the Central (reinsurance) Fund for health insurance.⁴ At the same time the loss to the Central Fund was partly cancelled by transferring to it annually certain sums from the (Old Age) Pensions Account. This British policy of rough coordination of social insurance costs (which affects employers and workers as well) is based on the fact that the government contributes to every social insurance except industrial accident (hardly ranked as social insurance in Great Britain) and administers entirely contributory old age and unemployment insurance.

MUTUAL PROTECTION OF BENEFIT RIGHTS

The principle of mutual or interlocking protection of benefit rights in the different insurances or between the different social insurance risks is closely related to government financial responsibilities for social insurance. It was first expressed in 1918, with institution of the "free year" in health insurance. Persons ceasing to be employed in insurable employment were continued in health benefit rights for 12 months. In 1921 these rights were liberalized

⁴I. L. O., *Yearbook*, 1931, p. 271.

in an emergency measure, and the cost placed on the Treasury. As a result of the report of the Royal Commission on Health Insurance the "free period" was extended in 1928 to 21 months, with the possibility of another 12-month extension, and older contributors were practically guaranteed health insurance benefits until 65, the age of qualifying for contributory old age pensions. Also, arrears in contributions due to genuine unemployment were cancelled and the government increased its contribution by £2 millions a year. These "temporary provisions" beginning in 1921 were extended again and again (although with reduced benefits) in 1930, in 1931, in 1932. The 1935 Act made the provisions permanent: genuinely unemployed persons who have been insured continuously for the past 10 years are continued in health rights indefinitely. For 180,000 persons not able to qualify under the 10-year rule, even these prerequisites were modified. This Act also provided for cancelling in full contributions arrears of unemployed persons, a return to the provision of 1928 which had had to be modified in 1932 on account of the drain on the Approved Societies. The Treasury assumed one-half the cost of paying up these arrears.

Rights to contributory old age pensions have been maintained in much the same way. Because of the interlocking membership of health and contributory pensions insurance, the "free year" extensions were applied automatically to the latter with the former. The permanent provisions of 1935, in view of the different purpose and higher cost of pensions, are somewhat less liberal in safeguarding pension benefit rights. Persons who have been continuously employed and insured for 10 years up to the time of becoming unemployed have their rights preserved as long as they remain employable. Persons so employed and insured for less than 10 but more than 4 years have their rights continued for an average of 33 months. Persons with a credit of less than 4 years continue for an average of 21 months. Two hundred thousand persons were saved their rights by this legislation. As a result, the Government Actuary said, "practically nobody will have lost his pension rights owing to prolonged unemployment before 31st December 1935." These concessions are costing the Pensions Account £9 millions for the first 10 years, and it is estimated by 1945 the Pensions Account will be practically ex-

hausted as a result and that thereafter the Treasury will have to pay gradually increasing subsidies beginning at £3 millions to continue them.⁶

REDUCTION OF INEQUALITIES IN HEALTH INSURANCE

If the government were more interested financially in health insurance, the British would no doubt concern themselves more with inter-insurance inequities and inequalities. In any event the British do not concern themselves greatly over inequalities in benefit between different insurance schemes. There has been, it is true, a recent general policy aimed at seeing that unemployment insurance benefits do not rise on average above their present margin over health insurance. But on the glaring differences in benefits and security between different Approved Societies there has been much more discussion than action, and in general a policy of reliance on ministry advice and voluntary compliance. The 1932 Act, for example, even excused the Societies from most of the burden of financing the extended insurance rights and placed it on the unemployed themselves; in recognition of resultant hardship the Ministry softened the blow as much as possible by an appeal to the Societies to use their surplus to cancel contributions arrears. It also prolonged by 4 months the period of grace for back payments. Societies numbering 6,000,000 members granted this additional benefit. This was at best a very partial gesture toward reducing inter-Society inequalities, since only the more prosperous had the surpluses to disburse. In 1931 the Ministry discovered that one-third of the doctors on the health insurance panels were guilty of defective certification of disability. It thereupon urged the Societies affected to take measures to improve the situation, among them freer use of the Regional

⁶ In addition to the statutory subsidy of £21 millions a year. The financing of these safeguarding provisions provides as nice a problem in actuarial-technical coordination as one may find. Innumerable questions of equity arise, of which the following are a few: Should a difference be made between health and old age pensions rights? How far into the future should these rights be preserved? Is it fair to have the Approved Society membership bear half the cost and the contributory old age pension membership none? Are there hardships, as the Government Actuary suggests, in uniform rules for all contributory old age pensions members? Should rights be extended in full for a shorter period or in part for a longer? The problem is complicated by the fact that the government pays large sums now to help support the contributory old age pensions scheme, comparatively little to the health scheme.

Medical Officer, who serves as a check (similar to the German advisory physician) on the decisions of the local doctor, who is too close to the patient. This indirectly did something to modify inter-Society differences in treatment.

Finally despite the strong recommendation of the Royal Commission on National Health Insurance that the principle originated in the Central Fund should be extended to include a partial pooling of Approved Society surpluses,⁶ nothing has happened. Indeed since 1921 both the government's and the Societies' contributions to the Central Fund have been suspended because of the size of the balance,⁷ and in 1931 the government's obligation was repealed entirely. The general policy of the Ministry of Health of fewer and stronger funds, discussed in Chapter 10, will bear fruit in the very long run in better coordination and possibly in a mitigation of wide differences in benefits between Societies, but one basic cause of inequality, the commercial companies, seems to be a permanent part of British health insurance.

But these are not the only recent evidences of coordination. Financial emergency has produced in Great Britain two other important and dramatic developments: the Unemployment Insurance Statutory Committee; and Unemployment Assistance and the Unemployment Assistance Board. Both date from the historic law of 1934, significantly titled not an unemployment insurance law but *The Unemployment Act*. The very scope of this Act forecasts a new program of coordination in the twin fields of unemployment insurance and unemployment relief.

THE UNEMPLOYMENT INSURANCE STATUTORY COMMITTEE

The Statutory Committee marks a direct step toward improved coordination. The usual sequence of events is for centralization to go ahead, and after some years, gradually and uncertainly, bring coordination with it. The Royal Commission on Unemployment Insurance urged a direct step toward coordination by

⁶ *Report*, 1926, pp. 119-22.

⁷ Pooling of surplus would work directly toward diminution of differences in benefit and security between Societies. Only Societies with a surplus at a certain level may pay additional benefits; the difference between Societies is the difference between those who pay standard benefits only (poorer Societies) and those who pay standard plus additional benefits (the more prosperous). The moneys in the Central Fund are available only for insolvent Societies, and thus do nothing beyond guaranteeing standard benefits.

creation of a new authority in unemployment insurance and relief, because in this field there was in a sense too much centralization already. Prior to 1934, there was no independent British authority, central or otherwise, to give its impartial opinion, based on a purview of the whole unemployment situation. In the recommendations of the Royal Commission one distinguishes at least three specific reasons for creation of a Statutory Committee. An impartial outside authority was needed, in order:

To maintain Fund solvency: "The most important questions of policy in relation to unemployment insurance are those concerned with the conditions for the receipt of benefit and with the financial basis of the scheme, i.e., with rates of contribution, rates and periods of benefit and the level of unemployment;"

To maintain the principle of insurance (related to first reason);

To keep the scheme "constantly under review," with a sharp eye not only on unemployment insurance finances as such, but on "the interests of industry, both employers and workers" who may be "sacrificed to the interests of political expediency," and on tax burdens on industry which may be more than are "economically reasonable or advisable;" to give attention to "the danger . . . of causing fresh unemployment and placing impediments in the path of economic recovery and increased employment;" to maintain "the sound principles of a social service."⁸

The general significance of the Statutory Committee in the British social insurance organization is discussed later.⁹ It is of immense importance, potentially at least, as a coordinative agency. Itself a new Whitehall office, there was no question here of taking power from local or provincial bodies, but from existing central bodies. Even more to the point is the comprehensive scope of the powers given the Committee. The Committee not only gives its opinion when requested by the Ministry of Labour, it may and does initiate opinions. No new regulations can be promulgated by the Ministry without its concurrence; failing agreement,

⁸ *Final Report*, 1932, pp. 163-4.

⁹ In Chapter 18. The Committee consists of a chairman and not more than six other members appointed by the Minister of Labour. At least one member must be a woman, and one each must represent workers, employers, and Northern Ireland. (*Unemployment Act*, 1934, Third Schedule, Part I, 1-4.)

the statements of both authorities go to Commons for adjudication. In its reports, financial and other, its purview is as wide as unemployment itself. Its discussions of how best to dispose of Fund surplus are compact little studies in sociology, applied and theoretical economics, statistics, insurance and business forecasting. Itself the first to acknowledge the slender basis of some of its "facts," it at least proceeds to its problems with both the long and the wide view. One duty specifically laid on it in the 1934 law was a coordination problem: investigation of the possibility of including farm workers in the unemployment scheme. The Committee in due course recommended that these workers should be covered but in a separate scheme: its advice was followed by Parliament. In only a few years it has studied dozens of proposals to amend the unemployment insurance law, all to a greater or less degree involving problems of actuarial-technical coordination. Its chairman considers that "its functions are as much social as financial." When social *and* financial considerations are weighed in a social insurance problem, the first purpose of coordination is achieved. It is not that in the past the decisions on questions now referred to the Statutory Committee were less important, or were any less permeated with these social-political implications. It is that now a single authority is responsible for considering all of them. One important limit to its coordinative influence is that it cannot, directly at least, concern itself with Unemployment Assistance.

THE UNEMPLOYMENT ASSISTANCE BOARD

The Unemployment Assistance Board, the new national authority in unemployment relief, follows the British trend to centralization. Its significance as the culminating stage in the long history of rising central responsibility for unemployment relief has been discussed.¹⁰ Like many another instance of extreme centralization, it contains enormous possibilities of organizational and actuarial-technical coordination as well.

Indeed it is not correct to credit U A B only with possibilities.

¹⁰ In Chapter 11. In Chapter 2, U A B's personnel and organization are used as an example of the capacity of civil service and sound organization to overcome unfavorable political circumstances. In Chapter 23, British unemployment insurance-relief coordination is compared with the German.

For better or worse, Britain has for the first time adopted a uniform national policy toward those of its able-bodied unemployed who are permanently or temporarily ineligible for unemployment insurance benefits. U A B is by all odds the largest relief service in Great Britain: its immediate objective was application to all its clients either of precisely the same treatment or of standard treatment subject only to highly standardized variations. In paying allowances to its clients it comes into contact on one side with public and private welfare authorities. Here it faces the most difficult coordinative task of all: to know when to preserve national standards made in Whitehall, when to relax them so as to conform more closely to local standards and prejudices; when, that is, to use Unemployment Assistance as a lever to lift, when to lower its standards because of dangerous repercussions on local opinion and local companion services.

On the other side U A B, in the mechanical sense, is working closely and harmoniously with the Ministry of Labour.¹¹ U A B allowances are paid only to the able-bodied; the Ministry determines whether clients are eligible on this point. U A B has as yet no training, transference and allied facilities of its own and may never acquire them. "More than two-thirds of the men at the Government Training Centres [Ministry of Labour] and 80 per cent of the men at Instructional Centres [also Ministry of Labour] are applicants to the Board."¹² Indeed nearly all of the clientele of the training centers come from the depressed areas. The Ministry of Labour takes applications for U A B benefit, pays benefits at its employment exchanges, makes post-payment checks on U A B payments, lends its records facilities at Kew. U A B staff determines eligible clientele, the degree of need and the amount of payment; all other functions are with the Ministry.

¹¹ The degree of actuarial-technical coordination of the whole unemployment insurance-relief program is not so quickly determinable. Despite the fact that both are national services, Ministry of Labour and U A B standards cannot universally be the same. For example, who is able-bodied? The latter is likely, as a welfare body with a broad grant of power, to be more liberal than the former. See discussion of technical factors limiting unemployment insurance-relief coordination in Chapter 23.

¹² U A B, 1935 *Report*, p. 58. Also Chapter V: Government Training Centers provide short courses in the rudiments of trades. Instructional Centers are reconditioning stations, where men below standard physically are put back into shape. There is also a variety of other training and physical training schemes.

The Minister of Labour is responsible for U A B in Commons, submits U A B appropriation requests with his. The two agencies have a joint clientele: in the broad sense, since the able-bodied pass back and forth between the two schemes; in the narrow sense, since U A B is empowered to grant supplementary benefits to workers receiving insurance benefit inadequate for maintenance.

CHAPTER 15

A CASE STUDY: THE BRITISH OLD AGE PROGRAM¹

NON-CONTRIBUTORY OLD AGE PENSIONS

FORMAL AND specialized provision for old age in Great Britain falls in two distinct periods: 1908 to 1925, the period of non-contributory pensions exclusively; from 1925 on, the period of a mixed contributory and non-contributory system.

Agitation in Great Britain for specialized formal old age provision goes back at least to the younger Pitt.² In 1790 he considered a project for contributory old age insurance. Of this nothing came, nor of a number of later proposals to subsidize old age pensions to be paid by Friendly Societies. A hundred years passed before old age pensions edged into the arena of practical politics. In 1879 two proposals were rather widely discussed: one by Canon Blackley for contributory insurance, a second by a Mr. Hookham for non-contributory pensions.³ Despite the preponderance of proposals for member contributions, British thinking about old age provision, then and up to 1926, was essentially in terms of relief rather than of insurance. Blackley's proposal for contributory pensions was generally opposed because it was argued that, unless the pension was to be free of cost to the claimant, the pauper class would not profit by it. The principal result in Great Britain of the German contributory law of 1889 was the proposal of Charles Booth for non-contributory pensions. A

¹ Materials on which this Chapter is based include: John J. Clarke, *Social Administration including the Poor Laws*, pp. 505-7; Percy Cohen, *British System of Social Insurance*, pp. 6, 96, 98-9; A. D. K. Owen, in *The Listener* (London: weekly paper of the British Broadcasting Corporation, March 25, 1936), p. 591; I. L. O., *International Labour Review*, March 1926, p. 365, and April 1926, pp. 507-9, 515; Clarence King, *Administration of Non-Contributory Pensions* (Washington: Committee on Public Administration of the Social Science Research Council, 1937), an unpublished manuscript; Joseph L. Cohen, *Social Insurance Unified*, pp. 19-25. Figures are taken from *Statistical Abstract of the United Kingdom to 1935*, 80th number, pp. 14, 15, 84, 85; and P. E. P., *Planning*, No. 42, January 15, 1935, p. 4, *British Social Services*, p. 149; *Report of the Government Actuary, 1925-32*, pp. 8, 10-12, 18, 23.

² Some authorities name Francis Maseres, 1772, as the pioneer. (*Encyclopaedia Britannica*, v. 20 [13th ed., 1926], pp. 64-5.)

³ The British, for reasons to be explained, do not distinguish sharply between the two schemes. We shall for the sake of definiteness refer to the older scheme as non-contributory old age pensions, the newer as old age insurance.

Select Committee of the House of Commons of 1899 was appointed to consider the "condition of the aged deserving poor." Its plan also provided gratuitous pensions. When the first British old age pensions law was enacted in 1908, it provided, on a very modest scale, a system of pensions free to the beneficiary.

Briefly summarized, the 1908 scheme provided a full pension of 5 shillings weekly to all persons of 70 or over with means not exceeding 8 shillings a week. Then as today, there was also provision for less than full pension, but in fact the great majority of applicants received the full amount. The prerequisites, emphasizing its welfare characteristics, were very strict; e.g., pensioners must be British subjects and have resided 20 years in the United Kingdom; applicants were disqualified for habitual failure to work, detention in a pauper or criminal lunatic asylum, and similar personal and moral reasons. The entire cost was on the central Treasury. Indeed, at the time of its passage, there appears to have been no discussion of an alternate plan of financing. It was administered partly by local, partly by central authority.

To the financial embarrassment of its sponsors the new scheme developed an immediate and extensive popularity. Original estimates of cost were far too low, but there was no question of turning back. The only purpose and effect of successive amendments to the scheme were to liberalize it. In 1919 for example, in recognition of increased living costs the temporary wartime increase in pension from 5 to 10 shillings weekly was made permanent, and an allowance of capital not subject to computation of means was set at £25; in recognition of increased wages the qualifying income for full pension (the means limit) was raised to 10 shillings a week. Despite the recommendations of the majority of the same Committee which recommended these other changes, Parliament did not abolish the means limit. But in answer to criticism that the means limit penalizes thrift, amendments in 1924 further liberalized the capital allowance, further increased the proportion of beneficiaries receiving full pension. In 1926, the last full year of exclusive non-contributory old age pensions, only 3 per cent of pensions were at less than the full rate of 10 shillings. The old age pension system, for this and other reasons, had achieved the status practically of statutory contractual benefit. This practical standardization of benefit justi-

fied, if it did not partly account for, the introduction of the revised old age arrangements beginning 1926.

CONTRIBUTORY OLD AGE INSURANCE

The Widows', Orphans' and Old Age Pensions Act of 1925 was enacted principally for financial reasons. There was remarkably little official reference to this at the time of its passage but the financial implication runs plainly through contemporary discussions. The non-contributory scheme was rapidly rising in cost: between 1914 and 1924 it had nearly doubled, and the real old age financial problem was still to come. In the first third of the present century the British population 65 years and over has more than doubled. During the same time the whole population has increased by only a bit over a fifth. The old, it is estimated, will double again by the end of the century. By 1941 the whole population will apparently begin absolutely to decline. Absolutely and relatively the number of old people is steadily increasing. More persons live to old age and qualify for support; old persons live longer average lives and require greater financial expenditure.* Table 2 gives an estimate of the proportion of old to total population for the next 37 years on the best British evidence.

TABLE 2. ESTIMATED ELDERLY POPULATION OF GREAT BRITAIN, 1936-1975

Year	Estimated population, all ages	Estimated population, aged 65 and over	Percentage of population aged 65 and over
	<i>In millions</i>		
1931 (census) . . .	44.8	3.3	7.2
1936	45.1	3.6	8.1
1941	44.8	4.1	9.2
1946	43.9	4.5	10.3
1951	42.6	4.7	11.2
1956	41.2	4.9	11.9
1966	37.5	5.2	14.0
1975	32.7	5.7	17.5

Source: PEP, *The Exit from Industry*, 1935, p. 40. Based on Dr. Grace Leyburne's calculations.

*There are other factors that increase the old age load, for example, the probably increased hazards in voluntary and private old age provision.

Among the remaining reasons for introduction of the contributory principle into old age provision were the belief that administration might be cheaper, the wish to avoid the social and political undesirability of having to carry a large and increasing proportion of the population on relief, and to some extent, the wish to eliminate criticism of the means test. There are at least two opinions on the validity of the first argument. The last never seems to have been a very important move: the individual basis for testing means, to which even today British are not particularly averse, and liberal rules for measuring means combined, and today continue to combine, to make non-contributory pensions at least palatable. Compared with the financial factor, these other reasons for contributory pensions were minor indeed.

The old age insurance scheme differs sharply from the non-contributory scheme which preceded and which coexists with it. It is first not, like the other, universal in scope. Parliament found in the health insurance scheme an existing mechanism and a membership nearly ideal for its purpose. It proceeded to interlock the membership of the health and the new old age schemes more nearly perfectly than any others in the whole British system.⁵ It included in the new administrative mechanism the Approved Societies of the health insurance scheme. It entrusted (another departure from non-contributory pensions) administration to the department already enjoying supervisory authority over the Approved Societies. The British believe that the amazing ease with which the new and complex scheme was set into operation and interlocked with the health insurance scheme was due principally to the personnel and organizational efficiency of the Ministry of Health. Finally the new benefits were paid, not on proof of need but contractually, in return for which insured persons were required to help bear the cost. Following British tradition, benefits were made flat sums, unvaried for any factor, including in this case even sex. Beginning January 2, 1928 old age pensions of 10 shillings weekly were paid to insured men and women and to the wives of insured men, running in effect to the end of life.⁶

⁵ See figures in footnote 2, Chapter 20.

⁶ Contributions began January 4, 1926. The pensions scheme includes also, and its financing is considerably affected by, provision of widows' and orphans' pensions (life insurance) to the relicts of insured men. The effect of these on old age finance is discussed later in this Chapter.

THE COMBINED PLAN

The description of the British schemes of old age protection has to this point been general. As a matter of fact, they present at once a surface appearance considerably technical and highly complex, and at the same time an inner organizational and actuarial-technical coordination that begins to approach actual unification. For a number of reasons, some of the most important of which are political and social, the British for the time being are quite content to go on with the surface complexities. Their long-time program, however, is plainly aimed toward simplification of both the actuarial-technical and financial features. When the program is realized, British old age provision will have the same broad simplicity that now characterizes unemployment insurance and assistance. Today a distinction must still be made between surface indications and inner unities.

The technical differences follow. Non-contributory old age pensions continue to be paid beginning at age 70 and only on proof of need. They coexist with the contributory scheme. Although in practice they pay to persons not covered by contributory insurance, they almost always pay precisely the same benefit. They are administered principally by a central department, the Customs and Excise Department in the Treasury, although there are local appeal tribunals of first instance locally appointed.

The picture for contributory insurance is not quite so simple. The Pensions Act of 1925 is in three sections, two of them providing old age pensions and one widows' and orphans' pensions. One contributory old age scheme, benefits effective January 1928, provides 10-shilling weekly pensions to insured men and women and to the wives of insured men, beginning at age 65. There is of course no means test. Local administration is divided among the Approved Societies (which collect stamp contributions from persons jointly insured in the health and contributory old age schemes), the Post Office (which sells contribution stamps to employers, hands out applications and pays benefits by postal order), and the Outdoor Staff, the local "eyes and ears" of the Ministry of Health.⁷

But these pensions run only to age 70. Thereafter the financial responsibility (the beneficiary doesn't know this) for surviving

⁷ See Diagram III in the Appendix.

persons insured for old age is transferred to the non-contributory old age pensions scheme, but with this important difference: the means test is not applied. In every respect, except the entrance age, these pensions for persons over 70 are precisely the same as those for persons from 65 to 70: benefits, contractual status, administration.

A third section of the Act provides contributory widows' and orphans' pensions. Survivorship pensions are paid under this section, to age 70, to the widows of insured men on the same flat benefit contractual basis. At 70 these pensioners also are transferred to the non-contributory scheme and also without the means test; the pensions are likewise administered by the Ministry of Health and cooperating agencies.

The financing of these schemes is as complicated as their technical-administrative features. As would be expected, all costs of non-contributory pensions are on the Treasury. It is no surprise to learn also that the government, in the British tradition, supplements member and employer contributions to the Pensions Fund which handles the resources of the widows' and orphans' and the 65-70 schemes. What is surprising is that the financing of the pensions to *insured persons* over 70 is handled entirely outside the Pensions Fund; that a separate appropriation is made by Parliament to the Customs and Excise Department jointly for these and the pensions to non-insured persons over 70; and that because member and employer contributions are sufficient only to purchase contributory pensions to age 70, the whole cost of the contributory pensions to persons over 70 comes out of the Treasury, that is, out of general taxation.⁸

The British have interlocked not only the technical and administrative features of their two old age schemes but the financial as well. Contractual beneficiaries draw from general tax sources and almost entirely irrespective of the number and amount of

⁸ Three decennial increases in contributions, required by the Act, will "gradually . . . transfer from the Exchequer to the contributor a part of the cost of pensions over age 70. . . . Perhaps in 50 years time a majority of the individual contributors will be paying for an appreciable part of the old age pensions at 70, as well as for the other benefits, provided . . . that the three decennial increases of contributions become effective." (*Report of the Government Actuary, 1925-32*, p. 21.)

contributions; benefits dependent on need are paid practically on a contractual basis; the same flat benefits are paid to all. This interlocking, confusing as it first appears, suggests some underlying principle which holds all the elements together.

THE BRITISH COORDINATED PLAN FOR OLD AGE

The principal evidences of the emergence of a British coordinated old age insurance-pensions system are: (1) the similarities of the two benefit structures; (2) the centralization of the two administrative systems; (3) the policy of interlocking insurance and pension financing.

The benefits of the contributory scheme are purposely flat and at the same level as those of the non-contributory scheme. Men and women under both receive a 10-shilling weekly benefit. Neither benefit is related to the number or value of contributions. Non-contributory pensions may in theory be reduced below the full 10-shilling sum but the percentage of reductions for years has been at only 3 to 4 per cent. The result is that Britishers generally, and the beneficiaries particularly, regard non-contributory pensions as at least a quasi-contractual payment. "One purpose of the pensions was to remove old people from the 'taint of local poor relief.'"⁹ And non-contributory, very much like contributory beneficiaries, are in approximately one case of every ten forced on to local relief to supplement their inadequate benefits.¹⁰ They can hardly be blamed for finding it difficult to distinguish between two such highly similar payments.

Non-contributory pensioners are encouraged in this attitude by a number of other features also. Administration is nearly as highly centralized as for contributory insurance. The most important administrative agency in non-contributory pensions is the local Pensions Officer of the Treasury, who determines the fact and the amount of need according to central rules. The reason for exempting local governments from financial contribution was the

⁹ King, *op. cit.*, pp. 7-8. Cf. a similar distinction by British workers between two kinds of unemployment relief: transitional payments (through Public Assistance authorities of the local governments) and Unemployment Assistance (through a centralized body, "the Government"). The first bears the taint of the old Poor Law, the second does not.

¹⁰ The proportion of contributory pensioners on relief is somewhat less.

wish to keep administration out of local hands. "England regards the responsibility as a national one" and with national responsibility go national standards.¹¹ On paper, it is true, the administrative organization of the Ministry of Health for contributory pensions is the more highly centralized. Actually, concentration of control of non-contributory pensions in the Treasury is nearly as extreme. The sole concession to local sentiment is the Pensions Committee, the court of appeal of first instance. But the most important function of the Pensions Committee is its "indirect influence in securing community understanding and good will and in tempering executive action to local needs and convictions."¹² The highest court of appeal for both contributory and non-contributory pensions is in the Ministry of Health.

It would be comparatively easy to combine into a single organization the central authorities responsible for the two systems. The reason for the present administrative system in non-contributory pensions is purely historical. Since the major objective of the 1908 law was to eliminate the taint of the Poor Law, it was not possible to use the local investigating officers. The new pensions tasks were assigned to the Customs and Excise Department in 1908 because it was then the only national authority with suitable local representation.

But the strongest evidence of a coordinated British old age program lies in the financial arrangements and the social-political ideas that support and justify them. There are no legal relations between the contributory and non-contributory schemes; their relations are "actual, practical and social."¹² The common factor that explains all of the government's financial relations to the old age program is the absolute necessity of government subsidy. From the very beginning the contributory scheme has needed large Treasury contributions, in order to be able to meet accrued liabilities not covered by employer and worker contributions. First, contribution rates, flat for all ages, were set somewhat below the

¹¹ King, *op. cit.*, pp. 7-8; 21 respectively.

¹² Except that extension of pension rights to insured persons 70 and over under the *Old Age Pensions (Non-Contributory) Act*, July 14, 1936 (26 Geo. 5 and 1 Edw. 8, Ch. 31), is provided in the *Widows', Orphans' and Old Age Contributory Pensions Act*, July 14, 1936 (26 Geo. 5 and 1 Edw. 8, Ch. 33), sect. 11.

amounts required to provide a pension up to the age of 70 even for persons entering insurance at 16. Second, the scheme could not be limited to persons entering at 16, and "a very large capital deficiency" was created by admitting millions of persons ranging from 16 upward. A third and another considerable deficiency was created by the provision of the so-called non-contributory benefits¹³ to widows. These last are payments to widows "who would have been entitled to a contributory pension *if the scheme had been in force before 1926*, the year in which it actually began."¹⁴ That is, these pensions are completely "unearned," not a single contribution has been received on their account into the Pensions Fund. An even more severe drain on the Fund resulted from the Act of 1929 which made more liberal provision for "non-contributory" pensions to widows. The Government Actuary estimates that this radical alteration of the contributory scheme will benefit at least 500,000 widows who would otherwise not have received a penny. The 1929 changes alone increased Pensions Fund liabilities by £93 millions. Between 1926 and 1934 these unearned widows' pensions accounted for one-quarter of total pensions payments excluding all pensions to persons 70 and over. The additional liability created in 1929 amounts to 6 per cent of total Fund liabilities, current and due in the future.

It is social (and perhaps political) considerations such as those which advised the addition of so-called widows' non-contributory pensions that explain the British old age pension program. These are the factors that the Government Actuary has in mind when he warns that his estimates of cost and income are good only on certain assumptions. One assumption is that no new liabilities will be added, another that the decennial contribution increases will actually be made. Even if the increases take effect (the first one was introduced in 1936), there is still no guarantee that new liabilities will not more than balance them.¹⁵ The result is an ever-

¹³ Not to be confused with the non-contributory old age pensions under the Act of 1908.

¹⁴ *Report of the Government Actuary, 1925-32*, p. 3. Italics not in original.

¹⁵ Extension of voluntary insurance to white-collar workers in 1937 will increase Treasury liability a further £23 millions. The Minister of Health described this to Commons as "a wonderful bargain" for the new insured group. (*London Times*, April 9, 1937.)

increasing accrued liability on the Treasury. In addition to the statutory subsidy (annual lump sum payment toward the 65-70 pensions), the government stands responsible for over half of the Pensions Fund's current and future liabilities.¹⁶ Its share is more likely to increase than to decrease in the future.

And this is not the whole of the government's responsibility for old age. It is also still exclusively responsible for financing the annual appropriations for pensions to persons of 70 and over of both classes. In time these pensions to insured persons may at least be partially covered by the decennial contribution increases; the current trend is for expenditures on account of these to increase as non-contributory pension payments decline. Table 3 summarizes the relations of government subsidy to pension expenditures of all kinds since 1930. The British non-contributory pensions acts incidentally include also blind pensions, another token of the unity of British social insurance thinking. War pension payments have

TABLE 3. GOVERNMENT FINANCING OF BRITISH OLD AGE AND RELATED PENSIONS

	1930	1931	1932	1933	1934	1935	1936
	<i>In million pounds sterling</i>						
War Pension Payments.....	54.1	51.7	49.4	46.8	45.0	43.3	42.4
PENSION PAYMENTS.....	62.6	72.6	80.0	82.0	84.0	86.6	89.4
Total contributory, including ad- ministration.....	26.4	34.6	40.8	41.1	42.4	43.5	44.9
Non-contributory pensions, both classes, 70-and-over.....	36.2	38.0	39.2	40.9	41.6	43.1	44.5
GOVERNMENT SUBSIDY.....	40.2	47.0	49.2	51.9	53.6	56.1	58.6
Non-contributory pensions, 70- and-over.....	25.4	24.7	23.2	22.0	20.5	19.5	18.5
Contributory, 70-and-over.....	10.8	13.3	16.0	18.9	21.1	23.6	26.0
Contributory, other (statutory).	4.0	9.0	10.0	11.0	12.0	13.0	14.0
	<i>In per cent</i>						
Government subsidy, to total pension payments (except War)	64	64	61	63	62	65	65

Source: *Statistical Abstract of the United Kingdom*, to 1935, 80th number, pp. 85, 88-9, 90. Years are fiscal years ending March 31st.

¹⁶ The Treasury share of the total contributory pensions liability (excluding all 70-and-over pensions to insured members) as of March 31, 1934 was £835 millions out of £1,426 millions. In addition there are heavy Treasury liabilities on both varieties of 70-and-over pensions.

been included in Table 3 because of the general policy of regulating the rate of increase of government expenditure on other pensions by the rate of decrease on these.

Two facts emerge clearly from the figures of this table. The government is responsible for roughly two-thirds of all British old age payments. While its financial liability for non-contributory pensions, 70-and-over, is steadily declining, the savings are more than made up by a rapidly increasing liability in the annual appropriations for contributory pensions 70-and-over, and in the statutory Treasury subsidy. The opposed trends of expenditure for the two 70-and-over schemes are related; the number of non-insured aged persons is decreasing with the passing of every year since 1926. Ultimately, practically the only persons eligible for old-style pensions will be persons not eligible for insurance throughout their entire lives. It is the plan of the government that eventually there shall be a single financial plan for all insured persons. A senior Ministry of Health official says, "It is practically one now." In the meantime the division of government financing between statutory subsidy and annual appropriation has a number of social and political advantages.

The division permits the Treasury to assume simply and unostentatiously a substantial part of the cost of contributory pensions. Had this Treasury responsibility been included in the statutory grant to the Pensions Fund, it could probably have been only at the cost of higher contributions from members and employers. This latter the Ministry did not consider feasible. It was strengthened in this position by the belief that, were it not for government aid, "the bulk of the contributory members would be on non-contributory benefit anyway"—the words of the same Ministry official. That is, the government in one way or another must support most old people and it makes, for the time being, little difference through which financial channel. Contributory pensions are not self-supporting even to age 70. The government must supplement these, and for the present carry entirely the 70-and-over. Having one 70-and-over system on hand, the government used it as "the simple way" to finance the new program.

The division is in fact one method by which the British apply

to old age financing their principle of "current cost."¹⁷ It emphasizes, particularly in view of the expectation that ultimately 70-and-over contributory pensions will be financed out of contributions, the internal unity of the British old age financial policy. For, either payments to the contributory system will be used in effect to pay for old age pensions legally outside the contributory system, or the two schemes will actually be amalgamated. Perhaps even the relatively small number of non-insured pensioners over 70 will be absorbed in toto into the contributory scheme. Considering the size of the government's share in the financial obligations of the future, and particularly its probably increasing share in relation to the whole cost, and the way the British tend to regard their old age problem as a unit, both of these last possibilities are logical. Even should neither eventuate on paper, each year steadily adds to the actual coordination of the British system of old age protection.

¹⁷ The Government Actuary estimates that the balance in the Pensions Fund will expire in 1945-46. Thereafter the Fund will depend entirely on member-employer contributions and Treasury subsidies. "The scheme was started with a liability (accrued) of about £650,000,000 . . . for the amortization of which no specific provision was made. . . . The Exchequer contribution is not a fixed annual charge designed to redeem the initial liability, the yearly payment being taken only as the amount required to balance the costs of the year. . . . This Exchequer payment will go on in perpetuity." (*Report, 1925-32, p. 21.*)

CHAPTER 16

COORDINATION THE PRODUCT OF CENTRALIZATION

COORDINATION AND centralization are a kind of Siamese twins. They cannot always live amicably together, the first in particular finds it difficult to live apart. The trends toward coordination and centralization are closely related.

Of these trends, the first operates directly but more slowly and uncertainly toward more equitable or efficient relations between the insurances and between insurances and related agencies. It is slow and uncertain for many reasons, but essentially because it must usually work on existing organizations and officials reluctant to give up power, and an improvement of coordination between organizations almost always means that one or both must give up something to the other. Frequently, too, the influences behind it are weak because they are negative; when the arguments for coordination are only rational, no one in particular is *for* coordination and thousands of entrenched bureaucrats and other special interests are against it. In some cases better coordination comes as a result of financial emergency. Then it comes suddenly but often harshly, almost accidentally and even mistakenly. The soundest basis of a coordination proposal is that resulting from the slow, steady pressure of rising financial costs.

The second trend, the trend toward supervisory and administrative centralization, operates less directly toward coordination. Centralization and coordination, though they are often found together, are not the same thing, and centralization usually has other objectives than producing smoother and juster relations between organizations and insurances.

To appreciate the relation between coordination and centralization it is useful to review briefly the three ways in which centralization in social insurance may come about. It may operate exclusively within the social insurance institution itself, that is, result in increasing control of higher over lower ranks of administrative authority. It may reflect itself in an increase in the powers of the supervisory authority over the insurance administrators. Or, finally, it may come through a shift of supervisory

control from lower to higher authority. In Germany, where insurance body and government supervisory agency are always separate, centralization has occurred by all three methods, but the last two are the most important. In Great Britain, except in health insurance, the government is both insurance body and supervisory agency, and it is not possible or necessary to distinguish the different methods in the same way. Where the two functions are thus combined, both in effect are administrative; so that the British trend toward centralization, except in health insurance, may be said to develop by the first method. In British health insurance it comes principally through the second.

The most usual reason for centralization is the wish of higher authority, supervisory or administrative, to improve the standard of administration, particularly personnel.¹ When the higher authority in addition bears all or an important part of the financial burden, its hand is all the stronger: financial interest and responsibility provide not only a reason but a weapon for control. The desire to coordinate more effectively one institution or department or insurance with another is only occasionally the first purpose of the centralization policy of higher administrative officials. Here centralization is essentially selfish and individualist; it works within an institution; if it is not actively hostile to coordination with other institutions it is at least lukewarm. Increased centralization in this situation, or in the similar case in which supervision and administration are one, is often a real obstacle to coordination, particularly when responsibility for different insurances centers in different ministries.

Where supervision and administration are separate, the wish for better coordination is sometimes a reason for centralization policy among higher supervisory officials. Much more important, however, is the desire for improved administration within the insurance institution. The fact is that administrative officials seem to get used to lack of coordination, particularly with other institutions, but continually they strive to improve the quality of their own administration. Besides, when coordination involves cooperation with other supervisory authorities, this general at-

¹ For a detailed analysis of the forces favoring and retarding centralization, see Chapters 11 and 9 respectively.

titude and lack of aggressiveness are in large degree born of the lessons of experience.

All other factors equal, centralization is most likely to lead to improved coordination when the duties of supervision are separate from those of insurance administration and when supervisory authority over all social insurance is joined in a single ministry.

Even under the most favorable conditions, improved coordination is an indirect and sometimes even an unexpected result of centralization. It influences coordination at second hand. Progress toward coordination this way is slow because it must come indirectly, whereas progress toward coordination by direct methods is slow because it affronts special interests and it is not natural for men and institutions to yield power. But centralization is by far the stronger of the two trends because it is natural for power to flow to the top and because, particularly since the War, underlying conditions have been extremely favorable to building up central strength and authority. Though it works less directly and intelligently, centralization is the more reliable trend because it is impelled by self-interest. If we are to have improved coordination in the social insurances, centralization will be the principal means to it. A frontal campaign, for instance, for improved coordination between existing health and old age-invalidity insurance institutions is very difficult. Authorities in Germany have for years discussed the pros and cons, but it required a considerable increase in their powers before the supervisory officials were able to bring it about even partially. Indeed it is not too much to say that the great strides toward better coordination of the German social insurances, despite the most discouraging handicaps, are due principally to the centering of all supervisory power in one ministry—Labor. This despite the fact that in some directions the supervisory powers of the German Ministry of Labor have been and are still relatively weak. In fact, German experience goes far to prove that a single authority of lesser power is more effective than many ministries intent on their own concerns.

PART IV

THE FORMS OF SOCIAL INSURANCE ORGANIZATION

Introduction

IN PARTS I, II AND III we have at various points noted the reasons for particular decisions and indicated in passing the influences bearing on the German and British political and social insurance structures. Parts IV and particularly V contain a detailed and analytical examination of these factors or influences in terms of particular social insurance organizations and issues (and in turn their bearing on organizational and actuarial-technical coordination). Essentially, Parts II and III show the direction of events and their causes; Parts IV and V the important aspects of the current scene. As an introduction to this more detailed analysis, it will be useful to summarize these influences and indicate their nature and relative importance.

The most important influences may be distinguished as:

Social-economic. These include such factors as national wealth and income and their distribution by social classes; the size of the country and the distribution of population; the relative financial capacities of central and local governments; the degree of social stratification; the relations between capital and labor; the number, character and strength of pre-existing non-political institutions; the general set of national habit and tradition.

Political. These include the political forms and traditions of a country; the number, character and strength of pre-existing political institutions; the nature and size of pre-existing political divisions; the political temper of the people and the degree of their political unity.

Technical. These include the nature of the risk covered by the social insurance institutions; the groups covered; the general relations between the government and the social insurance bodies; the quality of the civil service.

Legal.

Temporary, accidental and other factors.

CHAPTER 17

WHAT FACTORS DETERMINE THE ORGANIZATIONAL PATTERN?¹

SOCIAL-ECONOMIC FACTORS

OF ALL THE influences bearing on social insurance organization, the social-economic and political are the most important, although it is startling to discover the many apparently permanent effects of decisions reached years ago out of temporary or accidental considerations.

Social and economic factors are fundamental but they are essentially imponderable. National wealth and income can be shown statistically, but they influence social institutions only at second hand, diffused through screens of popular tradition and national habit. Most social and related factors are by their nature incapable of statistical treatment or evaluation; they take their shape in the minds and emotions of the people. They are not the less vital and powerful for that. The Germans, for example, invariably preface their discussions of unemployment insurance and relief policy by assuming they are a poor people, and can't afford the luxury of unemployment insurance, a position and a contention shot through with assumptions, national bias and subjective values. The position may or may not be correct; in the last analysis there is no way of knowing. The important fact for German social insurance and relief is that the Germans act as if it were. They make a similar statement on the reasons for centralized social insurance administration and super-

¹The materials used in this Chapter, unless otherwise indicated, are found in: P E P, *British Social Services*, especially pp. 30, 170; *Report of the Royal Commission on National Health Insurance*, 1926, pp. 95-101; I. L. O., *Administration Pratique des Organismes d'Assurances Sociales en Grande Bretagne*, Chapter 2 (unpublished manuscript); *Industrial and Labour Information*, December 3, 1934, pp. 299-301; Clarence King, *Administration of Non-Contributory Pensions*, pp. 7-8; Owen, in *The Listener* (weekly paper of the British Broadcasting Corporation), March 25, 1936, p. 592; Bernhard Lehfeldt, in *Jahrbücher für Nationalökonomie und Statistik*, Vol. 127, Part II, p. 937; Peter Esser, in *Proceedings of the First International Congress of Social Insurance Specialists* (Budapest: 1935), pp. 161-9; Percy Cohen, *British System of Social Insurance*, pp. 200-207; and Joseph L. Cohen, *Social Insurance Unified*, p. 85.

vision: "A nation can perhaps afford decentralization when times are good and when it is rich. In times of financial strain local administration costs too much."

The influence of financial factors on social insurance organization is axiomatic. The German principle, for example, of supporting "normal" unemployment insurance costs exclusively out of the contributions of employers and workers broke down under the strain of financial crisis. Both British and German subsidies to their old age insurance schemes are increasing because of the accepted inability of insured persons and employers to bear the increasing burden arising, in part, from a rapid increase in the proportion of old people to the whole population. Increasing governmental financial participation always carries with it the possibility, whether realized or not, of increasing central control. In British Unemployment Assistance central financial responsibility resulted in completely centralized administration.

German experts go so far as to say that all social insurance and relief decisions are ultimately financial. Many Britons believe that the problems of non-coordination must await a searching survey and reform of their entire complex of national and local taxes and finance.

The density of their industrial populations and the compactness of their areas have encouraged the growth of centralization both in Germany and Great Britain.² An even more important influence in both countries, as we have seen in Chapter 6, has been the increasing reliance local governments have had to put on central financial aid.

An outstanding instance of the force of social stratification in social insurance organization is the persistence of separate old age-invalidity insurance schemes in Germany for salaried employees and wage earners. In a regime whose major premise is the outlawing of class distinction, this persistence is extraordinary.³ The multi-insurance bodies which characterize the Ger-

² None of these factors, of course, is absolute. Any of them may be partly or entirely balanced by other factors. In Germany, for example, strong traditions of states' and local rights slow down considerably the rate of centralization, persist to this day (see Chapter 9).

³ The arguments for retaining the present division are really evidences of class distinction. The salaried employees' scheme is much younger, covers a lesser risk, now enjoys a considerable surplus, whereas the wage earners' scheme requires heavy governmental subsidies.

man health and old age-invalidity insurance systems are largely the result of this same factor.⁴

Capital-labor relations, particularly in Germany, are closely related to social stratification as an influence on social insurance organization. The institutions of self-government in German social insurance are direct evidence of the ability of employers and workers to cooperate successfully. In health insurance the self-governing principle was carried so far as to result in nearly complete autonomy. As late as 1927 this principle was applied to German unemployment insurance as an offset to creation of a single national insurance institution, opposed by the local governments, and of a new bureaucracy, opposed by the workers. The strength of German trade unions made administration or representation by the workers necessary; employers did not oppose it.⁵

In the making of basic decisions at the time a social insurance organization is in formation, there is no influence greater than the pressures brought to bear by existing institutions. Many of the most important are non-political. These institutions, with vested interests to protect or to extend, are various: medical, commercial insurance, mutual aid. They are more important than political institutions (and doctrines) because these latter are more results than causes, take their color and shape more directly from the pressures of contending social and economic groups and interests. "Social insurance systems in each country are therefore the resultant of a complex of forces and the expression of the varying doctrine and fluctuating strength of workers' and employers' organizations and of political parties."⁶ We have seen that while Bismarck encouraged and expanded the occupational mutual aid societies, he was building firmly on an ancient and respected German tradition.

⁴ See next Chapter, and Diagram IIA in the Appendix.

⁵ Social insurance self-government in Great Britain (with the exception of unemployment insurance Courts of Referees and advisory committees) does not include the idea of employer-worker cooperation. This is partly the result of the smaller influence of British trade unions at the time the social insurance mechanism was formed, but more of a common acceptance and trust in centralized governmental administration or regulation. German unions worked unceasingly for more representation in social insurance administration; British for more protection by the government and more government support. The difference is significant. (The two are compared in Chapter 22.)

⁶ I. L. O., *General Problems of Social Insurance*, p. 121. One would add medical and insurance organizations. "To start with entirely new organizations would be dangerous . . . and so it is usual to arrange a compromise." (I. L. O., *Compulsory Sickness Insurance*, p. 23.)

In general the influence of the vested interest has been less in Germany than in Great Britain, although it is commonly accepted that the autonomous German health insurance bodies are the chief reason coordination goes slowly. The British were forced to leave death benefits out of health insurance in 1911 because of insurance company opposition; they are still missing.⁷ The British medical profession opposed any but the most primitive medical (as distinguished from cash) benefits in the same scheme, and prevailed. British medical benefits are still the lowest in the world. British industrial (commercial insurance) societies held out for low health insurance cash benefit rates. They are still low. It is generally agreed that the strongest obstacle to coordination between health insurance funds and between health and other social insurances is the British Approved Society, incorporated in 1911 into the health insurance scheme as a self-governing insurance body.

Less definite but in the long run as vital, and permeating all these other influences on organization, are the common assumptions, the national ways of thinking, the social habits and traditions, that distinguish one people from another. The British, for example, would not agree that low benefit rates are a sign of backwardness; the Royal Commission on National Health Insurance regarded them rather as a sign that it is "socially desirable to leave part of the field open to be covered by voluntary insurance."⁸ Flat rates have a similar support in British public opinion. The German tradition of self-government is as much social as political; indeed it may be regarded as the operation of industrial democracy in social insurance. In principle it precludes current governmental financial contribution to social insurance; a fact of importance both in its application and in the exceptions that are taken to it in emergencies. It is the basic reason for the discreet path German central authorities must tread in their program of increased control of health insurance. It is a factor in the relative independence of the Federal Institution for Employment Service and Unemployment Insurance.⁹

⁷Widows' and orphans' pensions in the old age insurance scheme came in in 1926.

⁸*Report*, 1926, p. 14.

⁹See the discussion in the next Chapter on government-insurance body relations in Germany; see Chapter 23 for a discussion of the future of German unemployment insurance and relief.

POLITICAL FACTORS

The general pattern of a country's governmental system, we have seen in Part II, intimately affects social insurance organization. "Centralization of the State," says G. D. H. Cole, "breeds centralization elsewhere."¹⁰ This is almost literally true; e.g., the complete administrative centralization of British social insurance resulting from the centralization of government and the concentration of power in Whitehall, as pointed out in Chapter 10. The number, kind and strength of political institutions, and particularly the relations between central and local governments, have played and are still playing an important role in German social insurance organization and organizational reform problems. When the social insurance organizations were created in the 1880's, it was not possible or desirable to ignore political divisions and political sensibilities. For no other reason the wage earners' old age-invalidity institutions were organized on the political lines of the German states and provinces, and were staffed with state or provincial officials. The multi-insurance bodies in health and industrial accident insurance are a reflection of the German habit of forming many groups and proliferating parties. The centralization trend in Germany has had a long and uphill struggle. In the nineteenth century it would have been politically unthinkable to create a brand new, independent, federal supervisory organization for social insurance. The result was the delegation to state (provincial) and local bodies of the tasks of supervision and regulation of even purely national (old age-invalidity for salaried employees, railroad workers) systems of insurance. These bodies were and are state and local in every sense: they were and are integral parts of state and local government, they were and are selected at state and local levels, their expenses were and are paid by the state. Even a totalitarian government must go slowly in an announced program to abolish the local Insurance Offices.¹¹ Local intransigence is a real obstacle in the plans for merging old age-invalidity with health insurance and making other health

¹⁰ Cole, *op. cit.*, p. 33.

¹¹ The anachronistic State Insurance Offices (Landesversicherungsämter) which were intermediate authorities between the Federal Insurance Office and the Superior Insurance Offices, were not abolished until 1934. (*Law for the reorganization of the social insurance system*, Part 3, sect. 2.) Until then they had persisted only in Bavaria and Prussia, purely deferential gestures to strong states' rights traditions.

insurance reforms.¹² An important reason for local animus against the Federal Institution for Employment Service and Unemployment Insurance is its strong central administrative control, and its attempts to minimize local political influence, particularly in the selection of personnel. The independent status of the Institution was granted in 1927, not so much to follow German precedent as to avoid federal and state rivalry in social insurance supervision and because "there is less danger of political interference in an independent institution than in a government department."¹³ Self-government in unemployment insurance and placement, unlike that of health insurance, is on a national basis for much the same reason.

Many German observers rank the political temper of the people and the national discipline (closely related with social habits and national traditions) as of at least equal importance with financial factors in the solution of such problems as that of coordinating unemployment insurance and relief. These will determine the resistive capacity of the German civil service and of other trained personnel of the social insurance institutions against partisan political encroachment. It is significant that social insurance institutions, supervisory and administrative, have suffered less from the shocks of the revolution than any other in Germany.

TECHNICAL FACTORS

Technical influences on social insurance organization are principally three: those arising from the actuarial-technical nature of the risk and the groups covered; the general relations between government and insurance bodies; the quality and status of the civil service. The last two have been touched on. Government-insurance body relationships, for example, may be broadly or narrowly political in origin; they have on the other hand important technical results. When, as in Germany, government and

¹² It is true that the local Insurance Office is most important in health insurance, essentially a local institution. It is less important in old age-invalidity, industrial accident and unemployment insurance. But health insurance is the keystone of the German social insurance structure, and this intimacy between health insurance and local government is probably the principal obstacle to abolition of the local Insurance Office. (See Chapters 9 and 22.)

¹³ For a comment on the accuracy of this assumption, see the discussion in the next Chapter on government-insurance body relations, and in Chapter 23 on the current German situation.

insurance body are separated, the difficulties of imposing central control or of increasing central supervision are magnified.¹⁴ The problems caused by self-governing health insurance bodies both in Great Britain and Germany are also instances of the importance of government-insurance body relationships.

Chief among the actuarial-technical factors influencing the form and shaping the characteristics of the social insurance organization are the nature of the risk and the groups covered.¹⁵ The differences, physical and moral, between the old age and health risks, for example, have important organizational results. Old age is a fact that can be verified with relative objectivity and need not be verified often; as a result most old age insurance administrative operations are routine and clerical, can be carried on away from the location of the insured members. Old age insurance requires long-term records;¹⁶ these can be administered by a highly centralized organization with little or no local machinery. It may involve maintenance of reserves, a task for a large as well as a central body. The average benefit is a relatively large sum.

But the health risk (particularly in Germany, where it excludes long-term disability) is largely a subjective concept (a state of health is essentially a personal matter), produces frequent small losses, requires close relations between insurance body and member. It demands local administration. Since no great amounts of money are carried over from year to year, there is no financial reason for a centralized administrative organization. Self-government here means much more than in old age insurance because it works naturally through *local* institutions and through comparatively great reliance on lay as distinguished from civil service personnel.¹⁷ One argument against a rapid consummation of the proposed old age-invalidity insurance merger in Germany is

¹⁴ See the case of the German Federal Institution for Employment Service and Unemployment Insurance, Chapter 23.

¹⁵ The effect of these factors specifically on coordination and unification is discussed in Chapter 21.

¹⁶ That is, on the usual present assumption and tradition that there should be a relation between pension benefits and (a) average wages and (b) the lifetime record of thrift. These are not universal (cf. Great Britain), are largely subjective and traditional and may change. In the meantime they influence the social insurance organization just as surely as such "inherent" factors as the physical nature of the risk.

¹⁷ See Chapter 9; and Chapter 22 on the future of self-government.

that health fund personnel is not qualified to answer the technical questions, and make the important preliminary decisions on applications for old age pensions.¹⁸

These risk differences are additionally complicated in practice by more or less related differences resulting from lack of uniformity in the membership of the insured groups, in the kind and level of benefit and contribution base, and by other outside factors such as the number and importance of mutual aid and other institutions. Some of these differences are artificial or at least largely subordinate to those immediately touching on the nature of the physical and moral risk; e.g., the definition of the insured membership. Various considerations suggest differences in membership scope; the result on organization is sometimes important. For example, the British unemployment insurance scheme was not joined more closely to health insurance because in 1911 it was regarded merely as an arrangement limited to a few irregular trades not already covered by voluntary schemes. Undoubtedly if it had been started with its present scope the relations between the two insurances would be much closer.¹⁹

LEGAL FACTORS

With the exception of the theory of occupational risk which underlies both the British and German industrial accident systems, legal influences are of slight importance.²⁰ Under this theory, the employer alone is responsible for injuries sustained in the course of employment and must alone bear their indemnity.

This has had particularly unfortunate consequences in Great Britain whose method of administration is outlawed by practically the entire world. Employer responsibility means in fact administration by the employers and the county courts, with very

¹⁸ The problem is accentuated in Germany because of the inclusion of the complexities of invalidity pensions in the old age insurance system.

¹⁹ A related example is furnished by British old age insurance. One obstacle to inclusion of self-employed persons is that there is no employer to make up part of the contributions, and the flat rate benefit would penalize tremendously the middle and higher wage groups if they had to bear both employer and member shares.

²⁰ Germans, for example, do not understand American misgivings over joining executive and judicial powers in one body, as in the Federal Insurance Office and subordinate offices. In 1934 a committee of experts examined this question, concluded that the experience of 50 years is definitely in favor of status quo. One advantage, it is said, of the combination is that judges are forced to keep closer to practical administration.

minor intervention or regulation of any kind by the government; and except for mines, extension of the privilege of self-insurance (no insurance) to all employers.²¹ One of the few complaints heard in Germany of industrial accident insurance is that employers' associations, which administer and pay for it exclusively, have allowed too little participation by workers.

TEMPORARY, ACCIDENTAL AND OTHER FACTORS

The persistent force of purely historical, temporary factors, and of the immediately expedient decision has run like a thread through these pages. Workmen's compensation (industrial accident insurance) in Great Britain is privately administered and insured today because in 1897 no government machinery existed for the purpose. British non-contributory old age pensions are administered by the Customs and Excise Department of the Treasury because in 1908 Poor Law administration of the new pensions was ruled out and this seemed to be the only government body with the required local organization. Indeed, non-contributory as against contributory pensions were urged precisely on account of this lack. We have noted the effect of an assumption (i.e., of a small scale, selected membership) made in 1911 on the British unemployment insurance system of 1938. German unemployment insurance is relatively centralized (administratively) because organized labor in 1927 exchanged this concession for representation on the self-governing boards and the pledge of a minimum of civil service. Today Germany has no organized labor in the orthodox sense, but it has centralized unemployment insurance administration. The British Temporary Provision Act of November 1921 introduced, for the first time and for 6 months only, dependents' benefits in unemployment insurance. This fundamental departure from the British tradition of flat benefits survives today and will continue. The "temporary" reductions in 1932 of German unemployment insurance benefits were in force until June 1937: for practical reasons it

²¹ For the last reported year the proportion of total compensation paid by uninsured employers for the following industries was: railways, 99%; docks, 34%; construction, 24%; mines, 23%; engine and shipbuilding, 19%; quarries and metal mines, 15%; shipping, 12%. (*Workmen's Compensation: Statistics of Compensation and Proceedings under the Workmen's Compensation Acts and the Employers' Liability Act of 1880 in Great Britain, 1934, p. 5.*)

was considered impossible to amend them. More than a few Britons believe that one factor in the retreat of the government and the House of Commons on the original U A B scales in 1935 was the unpreparedness of the Minister of Labour. The decision by the Cabinet to have the Standstill is said to have been taken by the margin of a single vote.

These temporary and accidental factors often merge indistinguishably with the political, particularly those more narrow and partisan. Bismarck set the shape not only for German but for social insurance organization the world over, out of motives immediately as well as broadly political and to gain immediate political objectives. The Social Democratic party in Germany was always in favor of improved coordination in policy, but in practice found it impossible to make changes that would deprive its members of jobs. German farm workers and domestics are exempted from unemployment insurance at least partly for political reasons.

The plea that the small and local Friendly Society would be smothered by a national health insurance fund led to the multi-insurance bodies of British health insurance, and to the licensing of large commercial companies to write compulsory insurance in special non-profit departments. These large companies now dominate the British health insurance scene, create problems of coordination undreamed of in 1911.²² One reason for continuing the complex financial relations between British contributory and non-contributory old age pensions is the wish of the government not to attract attention to the size of its participation. British unemployment insurance benefits cannot be raised because of the opposition of the Approved Societies, which it is said object to a further increase in the spread between health and unemployment insurance benefits. Labor in Great Britain seems oddly insensible to the need for reform in the archaic industrial accident system until one learns that it prefers not to open up the issue of worker contributions which would surely be raised in any thorough-going analysis of the system. Neither union leaders nor the rank and file in Great Britain are particularly interested in social insurance coordination. This is probably because the leaders justify their jobs and their salaries largely in terms of

²² See discussion of these companies in Chapters 10 and 22.

the assistance they give government agencies in social insurance administration.

It is hardly to be wondered, in view of the variety and complexity of the influences bearing on social insurance organization, that the problem of coordination is a difficult one. Even an outline of these factors suggests the difficulties of developing a social insurance system coordinated organizationally as well as technically. The difficulties are the greater because so many of the factors are non-technical and indeed subjective and non-rational and because some of the technical factors clash with each other (they are derived largely from the non-technical). Finally, these difficulties suggest that any coordination program is bound to be a compromise program, which inevitably looks worse on paper than it works in fact.

CHAPTER 18

THE GERMAN AND BRITISH ORGANIZATIONAL PATTERNS

ONE MAY OBSERVE the basic organizational pattern from three directions: (1) the relations between the government and the insurance bodies; (2) the basis of insurance body or fund organization; (3) the contribution and benefit bases. The first two of these factors affect social insurance organization directly, the third indirectly.

GOVERNMENT-INSURANCE BODY RELATIONS: GERMANY

Without exception the Germans separate government and insurance body. The reasons, we have seen, are historical and political; the German insurance institution represented self-government, the right of the layman to participate or at least to be consulted in social insurance administration. The organizational results are principally two. Joined with the German bias toward occupational and territorial groups and parties, it has produced a truly astounding multiplicity of insurance bodies, as we shall see presently. German social insurance self-government meant in fact local government or trade association government in most instances. Second, in the German social insurance organization the government stands sharply aside; it has no administrative part, indeed it acts as the impartial supervisory, regulatory and appeal authority guaranteeing justice to the insurance bodies and their members. At the three levels of government, federal, state (provincial) and local, the appropriate government organization for this purpose is provided: the Federal Insurance Office, the Superior Insurance Offices, the local Insurance Offices, respectively. Each of these includes, for example, bodies on which employers and workers are represented for adjudication of appeals on benefit and other decisions made by the insurance bodies. Generally speaking, appeals are taken first to the body of first instance, the local Insurance Office, then to the next higher authority, the Superior

Insurance Office, then to the Federal Insurance Office.¹ There is no appeal in any circumstance from the decisions of the last authority. This same triple government mechanism serves as the medium through which the government supervises and regulates all other phases of social insurance administration.²

It is easy to conclude, particularly in a totalitarian state, that this separation between government and insurance body may well be a distinction without a difference. The conclusion would be wrong. Certainly, as we have seen in Chapter 2, recent political changes in Germany must and will leave their mark on so prominent an institution as social insurance. Introduction of the leader principle has made the separation between government and social insurance body somewhat less sharp. The real as distinct from the paper significance of the separation rests, however, on many factors other than the immediately partisan and political. *All* the factors that determine the set and shape of the social insurance organization combine to decide this as well as other organizational questions. Among these are the long German tradition of impartial and independent supervision; the local, territorial and occupational bases of insurance organizations; the resistance of a vested bureaucracy; the close identity of interest between the insurance bodies and political governments below the federal level. There is a vast difference in interest and point of view between the federal and these other governments, and the supervisory bodies below the federal level are parts of the state and local governments.

It is easier to describe the effect of this separation than to prove it; it is easier to sense it in the attitudes of the officials themselves than to describe its effects. The key fact in the German situation is the relatively slight change in social insurance organization in the new regime.³ The greatest changes, we have

¹There are important exceptions. For example, the local office in fact handles mostly health insurance appeals; appeals in other insurances (except unemployment, which provides its own courts of first instance) go directly to the Superior Insurance Office.

²The functions of the government mechanism are threefold: appeal adjudication, supervision and (since German, like British, legislation is largely administrative) regulation. In the second and third functions the Ministry of Labor stands between the government and the Federal Insurance Office. Unless specifically stated to the contrary, the term "supervisory" shall be taken to include also regulatory and appellate functions.

³See Chapter 2 for a consensus of German opinion on the effects of the new regime on social insurance administration. What the ultimate as against the immediate result will be remains for time to develop.

seen, have taken place in health insurance where the separation between funds and federal government has been the greatest and where the fund bureaucrat has not existed at all; that is, where there has never been any question of mixing government and insurance body identities. It is true in Germany as in any other country that social insurance reserves are invested in government, quasi-government, or at least domestic securities; it is true that the latitude of choice among government securities has been decreased. But except in unemployment insurance, whose current surplus is turned over to the federal Treasury, the investing or use of German social insurance funds is not currently a matter of great importance. Indeed, it is in unemployment insurance that one would expect to find the least independence. Actually the situation is not quite so simple. The Federal Institution stands off from the Ministry of Labor, which nominally supervises it, and is regulated less than any other social insurance save industrial accident. The Institution does not even find a place in the Federal Social Insurance Code. The so-called Syrup Plan⁴ for reforming unemployment insurance-relief relations does not have the approval of the Ministry of Labor and (it is said) the Ministry was not consulted before its publication. If Syrup, President of the Federal Institution, has his way with his plan, he will have to win over both the local governments and the Labor Ministry. But he is the first to agree that "the future degree of independence of the Federal Institution will depend on the personal integrity and influence of its President."

GOVERNMENT-INSURANCE BODY RELATIONS: GREAT BRITAIN

When government and insurance body are separate, the government as far as organization goes is automatically an independent and impartial authority. It stands aside from and above the parties: insurance body and member, insurance body versus insurance body, and assures, or at least is in a position to assure, equity to all. As supervisory, regulatory and appellate authority, it has no selfish interest. It has no direct financial interest. This is not to suggest that, because of non-organizational reasons, the government may not in fact lean to one side or the other, or as in German unemployment insurance, exercise strong financial control over the insurance body.⁴ Political and other improper in-

⁴For further details, see Chapter 23.

fluences may affect the insurance institution but the influence will not be due to the inability of the right hand to distinguish itself from the left.

There are three principal ways in which the government may let its contractual or business function interfere with its supervisory or social function, or vice versa. It may, for example, as appellate authority rule favorably to itself as insurance body. In countless ways it may, by pursuing a narrow policy in the interpretation of benefit provisions, defeat the purpose of social insurance legislation. It can hardly act fairly as its own auditor and examiner. On the other hand, it may be so alive to the political or social repercussions, worthy and unworthy, of its social insurance policies that it fails to preserve its financial integrity.

In Great Britain contributory old age insurance and unemployment insurance administration are exclusively the function of government departments: only health insurance follows the German plan of separating government and insurance body.⁵ But having combined the supervisory and insurance functions the British have not overlooked the possibilities of a conflict of interest, the dangers of what may be regarded as an excess of centralization. In both insurances they have developed, in two directions at least, semi-independent authorities to provide something of the viewpoint that results automatically from the separation of the two functions. These authorities provide impartial agencies for (a) adjudicating disputes and (b) assuring legal expenditure of insurance funds and independent advice on the financial-actuarial problems of social insurance administration.

BRITISH SEMI-INDEPENDENT APPELLATE AUTHORITIES

The important function of assuring claimants an impartial hearing on appeals is performed in British contributory old age insurance by an individual referee. This referee, always a barrister or solicitor, has no contacts or relations with the Ministry of Health, the administrative and insurance agency. Appeals

⁵ Industrial accident insurance is omitted here because it is almost entirely beyond even government regulation. That is, the government neither acts as risk-bearer nor supervises in any important way the risk-bearing bodies which are entirely private. The principal connection between government and industrial accident insurance is through the registration of awards and agreements on benefit in the county courts. (Percy Cohen, *British System of Social Insurance*, pp. 234-9.)

reach him through another semi-independent authority, the Registrar of Appeals, who serves as clerk to the panel of referees. All hearings are oral and private and no Ministry of Health officials attend. The panel of referees is chosen by the Minister of Health under regulations of the National Health Insurance Joint Committee, a coordinating authority of four officials representing the four geographical divisions of Great Britain, on which the Minister of Health represents England.⁶

To call these referees semi-independent authorities, as a matter of fact, is an understatement. It is true that they are chosen by essentially the same official who administers the old age scheme. But actually, as with so many organizational arrangements, the degree of independence depends on the spirit with which they are used and not on paper indications. The referee, although he is appointed by the administrator of the old age insurance fund, is independent because the Minister of Health in fact appoints able and independent lawyers and not hacks, and because he expects his appointees to be independent. The importance of this organization imponderable is the greater because, while in general the referee's decision is final in cases referred to him, the Minister retains certain discretionary appellate powers.⁶ The spirit of the whole arrangement, the force of tradition in the maintaining of rigidly impartial standards, the unquestioned confidence of claimants, are a tribute to the British genius for informal as distinguished from mechanical coordination. Significantly, British civil servants assume that a division of function between two agencies of the same department is a division in fact.

In unemployment insurance the separation on paper between appellate and administrative authorities is hardly more definite. The manager of the local employment exchange is usually both the chief administrative and judicial official. But even where the local insurance officer and manager are two persons, it is the esprit of the service and not paper allocation of function that preserves a just balance between the two functions. It is true that the former is responsible not to the manager but to the divisional insurance officer, at the next higher level of administrative

⁶ *National Health Insurance Act, 1936*, sect. 160; *Widows', Orphans' and Old Age Contributory Pensions Act, 1936*, sects. 30, 31.

authority. Actually there has been little effort in recent years to coordinate local insurance officers' decisions, and the local insurance officer in fact may and sometimes does feel a closer identity with his exchange than with division headquarters.

The first court of appeal, the Court of Referees attached to each exchange, is appointed by the same authority that administers the unemployment insurance scheme, the Minister of Labour. The chairman, usually a lawyer, is directly appointed; the representatives of employers and insured members are selected from a list of nominations by the local employment committee, also appointed by the Minister, attached to each exchange. Like the insurance officer, the Court of Referees is responsible to the divisional insurance officer, not to the divisional comptroller, the supervisory and administrative chief at that level. The decision of the Court of Referees can be reversed only by the Umpire.

The highest court of appeal is the Umpire, appointed by the Crown for life. There is no appeal from his decisions. He cannot be removed except by petition to the Crown from both the House of Lords and the Commons. Here the separation between the administrative and the appellate functions is more complete than anywhere in British social insurance organization. This independence moreover is actual as well as formal: the Umpire, for example, does not even deign, despite requests, to codify his own decisions and the Ministry of Labour's codification is plainly marked non-official.⁷

BRITISH SEMI-INDEPENDENT FINANCIAL-ACTUARIAL AUTHORITIES

The outside view is desirable also to assure that the funds collected by the government as insurer are legally invested and properly expended. In contributory old age insurance all accounts are maintained and all excess moneys invested according to the instructions of the Treasury: the Comptroller and Auditor General examine the accounts and report on them to Parliament.⁸ The Government Actuary, beginning in 1935, is required to make a decennial financial-actuarial report to the Treasury "on the

⁷ Ministry of Labour, *Analytical Guide to Decisions of the Umpire Respecting Claims for Benefit*, U.I. Code 7, 1936, p. 9.

⁸ *Widows', Orphans' and Old Age Contributory Pensions Act*, 1936, sect. 14.

financial operation of the scheme."⁹ In his first report he forecast the finances of the scheme until 1946.¹⁰ Expert examination and information are particularly important in a scheme involving a large and a mounting liability for years to come.

If the Unemployment Insurance Statutory Committee cannot be said to reverse the trend to centralization, at the very least its creation considerably reduced the concentration of central authority. It was created by the Unemployment Act of 1934 as an independent authority primarily to provide the British scheme with the financial balance wheel it has always lacked. The implications of certain of the powers and duties conferred on the Committee are important also for other reasons,¹¹ but its immediate task was financial. The Royal Commission on Unemployment Insurance in 1932, after referring very bluntly to the need for "advice by an authority which is independent of politics and party changes," first recommended such a body. Despite the provision in the basic Act of 1920 for the application of ministerial discretion in modifying benefits and contributions for the maintenance of Fund solvency, "we know of no occasion on which this procedure was acted upon. . . . The Government of the day and Parliament tend to adopt the course which is politically easiest. . . . On this ground alone we have reached the conclusion that there is need for an impartial body outside the immediate political arena."¹² Parliament for once followed the advice of a Royal Commission, and since July 1934 an important new authority has been an integral part of British unemployment insurance organization.

The functions of the Committee are essentially three: to examine and report to the Minister of Labour on the financial condition of the Unemployment Fund; to prepare and submit to the Minister such amendments to the law as are necessary "to make the Fund, as the case may be, sufficient or no more than reasonably sufficient to discharge its liabilities;" to study and report to the Minister on all draft regulations proposed by him.¹³ That is, one function is advisory; in this it follows a common precedent

⁹ *Report of the Ministry of Health, 1935-36*, p. 202.

¹⁰ *Report of the Government Actuary on the Widows', Orphans' and Old Age Pensions' Act, 1925-32*.

¹¹ For its significance in British social insurance coordination, see the critique of the Committee in Chapter 14.

¹² *Final Report*, pp. 163-4.

¹³ *Unemployment Act, 1934*, sect. 17, 2; sect. 17, 3, a; sect. 19, 1; sect. 17, 5.

in British organization. But it is much more than merely advisory, and from here on it departs sharply from British practice. For it is not a case of the Ministry's taking the Committee's advice or leaving it, the usual fate of the pious counsel of an advisory committee. The Committee *must* prepare recommendations for amending the law.

The Minister *must* within two months present these recommendations to Parliament, avoiding another common pitfall of unwelcome reports; he *must*, after consulting with the Treasury, draft the amendments necessary to carry the Committee's advice into effect. The Minister *must*, if he differs from the Committee's opinion, present his and the Committee's reasons to Parliament and let Parliament decide between the two.¹³ The Committee's function here is thus semi-legislative; it serves as the agent of Parliament to protect the insured members of the Fund against unwise use of the powers delegated the Minister of Labour by that body. It specifically is not limited to an annual financial examination of the Fund, but may report on the state of the Fund whenever it considers expedient.

RECORD OF THE BRITISH STATUTORY COMMITTEE

In four short years the Committee has been strikingly successful. Its reports on the financial condition of the Fund are exemplars of the statesman's point of view applied to a really difficult task. Taking advice from many representative organizations, calling on experts for information beyond its technical facilities, it tries to survey and evaluate all the factors that enter into the position of the Fund, the alternative methods for disposing of surplus (there have been no deficits since 1934), and the estimated effect of these alternate methods on Fund finances. Thus in its second examination the Committee reported the Fund solvent and likely to continue so for some time, and recommended increased benefits to dependent children.¹⁴ This recommendation was accepted by the Minister and approved by Parliament. The Report for 1936 concluded that the Fund would have an annual disposable surplus of £6,500,000 that could best be spent in reducing weekly contribution rates. This was also approved by the

¹³ *Report of the Unemployment Insurance Statutory Committee in Accordance with Section 59 of the Unemployment Insurance Act, 1935, on the Financial Condition of the Unemployment Fund on 31st December 1935*, p. 4.

Minister and Parliament. The Fund has been set to balance at an unemployment rate of 16.75 per cent for an 8-year cycle, "on the basis of using up in that period the bulk of the accumulated reserve."¹⁵

In 1936 no fewer than 23 draft regulations were referred by the Ministry to the Committee. Generally speaking they were accepted without change by the Committee. In addition the Committee reported on several broader questions: a proposal by the Ministry to raise the wage eligibility limit for non-manual workers, a proposal for the inclusion of share fishermen in insurance. On the first the Committee agreed with the Ministry, on the second it did not.¹⁶

There is no question of the Statutory Committee's success. It is so marked and recognized so nearly universally that already the idea of the Statutory Committee has been suggested as a precedent in other fields, particularly as a device for coordinating all the social services. One reason for this high regard is that its complete independence is beyond question. It "has introduced a welcome element of objective study" into an area riddled with politics ever since the War.¹⁷ The Minister of Labour appoints, it is true, the members of the Statutory Committee; this would immediately be the occasion for eyebrow-lifting in any country but Great Britain. But it is a fact that the Committee is truly independent.¹⁸ Also, the Committee has no administrative duties to distract it or draw on it the ire of individual clients. It administers no benefits, so it does not have to go to Commons once a year for funds. Creation of the Unemployment Assistance Board has considerably simplified its task. Finally, it is a continuing body, and the country appreciates the advantages of the long and the outside view.

It is agreed that the Statutory Committee has many advantages over a royal commission. The case against the royal commission is that it is not permanent; it usually is made to repre-

¹⁵ *Report of the Ministry of Labour, 1935*, p. 68; *Report, 1936*, pp. 63, 64.

¹⁶ In addition the Committee in January 1935 presented an exhaustive report recommending inclusion of agricultural workers in insurance, but under their own scheme.

¹⁷ P. E. P., *British Social Services*, pp. 178, 179.

¹⁸ This despite the Minister's nominal power to remove a member "unfit to continue in office or incapable of performing his duties." (*Unemployment Act, 1934*, Third Schedule.)

sent all, including widely conflicting interests; it takes too long to do too little. The Statutory Committee is also preferable to creation of a new ministry: the Committee is taking an 8-year look ahead; an individual minister hardly dares look five minutes ahead. A new minister also "would add to rather than relieve the congestion at the center, which is largely responsible for the long-term aspects of the problem being neglected at present."¹⁷

It is too soon, of course, to estimate the ultimate status of the Statutory Committee. Astute observers ascribe much of its success to the prestige of its first and only chairman, Sir William Beveridge. The British relate it to no precedent¹⁸ and consider it none. It is a purely "tentative" answer to a special pressing problem. The Committee is both in and out of the Ministry, can be developed in either direction.

The real test will come with the next depression and the onset of increased demands on the Unemployment Fund. However the arrangements to meet it are organized, unemployment is a political question. Indeed the Royal Commission at no time contemplated cancellation of ministerial, that is, of political responsibility for unemployment insurance and relief:

"The question is by what means an insurance scheme, which has once been established on sound lines, can be adapted to changes or new developments in the industrial situation while preserving unchanged its fundamental principles. Parliament must accept final responsibility for the policy embodied in the scheme, and the Minister of Labour must be held responsible in Parliament for the work of his Department."²⁰ The most the Royal Commission hoped for was independent and expert financial-actuarial advice and supervision. It is this precisely that is sought in the separation of insurance body from the government.²¹

¹⁸ The Royal Commission on Unemployment Insurance, in referring to a purely advisory committee established in 1931 to aid in administering transitional payments, emphasized its narrow limits, urged something "more than an advisory committee." (*Final Report*, 1932, p. 168.) ¹⁹ *Ibid.*, p. 163.

²¹ It is a separate question and a nice one to determine how far the insertion of a new body like the Statutory Committee will go to provide the advantages of separation. Social insurance regulation is wider than financial and actuarial; on a score of matters not directly financial-actuarial, the German Ministry of Labor can initiate regulations. The Statutory Committee cannot. It will be interesting to see how liberally "financial" will be interpreted in carrying out the functions of the Committee. The Committee is self-starting on financial matters only.

FUND ORGANIZATION IN GERMANY AND GREAT BRITAIN

German social insurance bodies are not only separate from the government. They are also, despite the recent trend toward simplification and centralization, remarkably multiplex. In health insurance, as we have seen in Chapter 7, this multiplicity is partly natural, partly inspired. On a smaller scale it is characteristic also of the other German social insurances. There are still 291 industrial accident bodies: 63 industrial, 37 agricultural and 191 public.²² Occupational association as the basis of fund organization was reenforced here by the legal doctrine of industrial responsibility, but the encouragement to territorial (as against national) organization of strong states' rights traditions was at least as important. Today there are still 31 old age-invalidity bodies for wage earners alone. Of these 28 are general funds, organized territorially, and there are special nation-wide funds for miners, for federal railroad workers and for marine workers. Indeed there are separate miners' old age-invalidity funds for wage earners and for salaried employees. Finally there is a national unemployment insurance body. The grand total of insurance bodies, including the 4,725 health insurance funds, is 5,051.²³ Compared with the proliferation of even 10 years ago this is a considerable simplification, but the complex of insurance bodies (with the consequent differences in coverage and organization) presents a really formidable task for the coordinator.²⁴

By comparison the British insurance structure is simple and even crude. Except for health insurance, the social insurance fund is single and nation-wide and is administered by a government department or ministry.²⁵ The British have even introduced

²² As late as 1929 there were 633, of which 527 were public.

²³ *German Social Insurance*, 1935, pp. 373, 369, 648. This total includes 47 substitute (white-collar) funds.

²⁴ This is a simplified picture at that. The special old age-invalidity fund for marine workers, for example, has a division which serves as a special marine health insurance fund. (*Federal Insurance Code*, sect. 476.) Miners may receive benefits from three funds: the special miners' (wage earners' and salaried employees'), the national salaried employees', and the general territorial funds for wage earners (sects. 1544 to 1544n). The miners' salaried employees' and national salaried employees' funds now collect a single contribution, pay a single benefit. Germans point out that these are not as grave departures from coordination as one might suppose, since in fact the different funds for marine workers are really departments of the same industry-wide insurance body.

²⁵ The new Agricultural Unemployment Insurance Fund is a minor exception.

a large element of simplification into their inherently complex old age insurance-pensions system.²⁶ Unemployment Assistance is the work of two cooperating national bodies. The result is that the administrative and other relations between the British social insurances are far simpler than between the German. Something may be sacrificed by this extreme simplicity of insurance fund organization; there is no question of the soundness of the broadest possible approach.

CONTRIBUTION AND BENEFIT BASES IN GERMANY AND GREAT BRITAIN

German and British social insurance organization is affected perhaps even more by differences in contribution and benefit bases in the different insurances than by the organization of their insurance funds. The picture of multiplicity and heterogeneity is repeated for Germany, the picture of essential simplicity for Great Britain. The Germans, in theory at least,²⁷ have tried to relate social insurance benefits and contributions to wages and living standards.²⁸ The result is a system of benefit and contribution scales graded by wage classes. This general objective, combined with marked differences in costs between states (provinces), strong occupational and local interests and traditions and the traditions of self-government, made natural and even desirable differences between insurances and territories in contributions and benefits.

No two German insurances use the same wage groups in determining contributions except unemployment and health, and these only in so far as the two memberships coincide. Indeed within the same insurance, as old age-invalidity, there are differences in contribution base between the territorial wage earners' funds (which are uniform) and all of the others. Every health insurance fund determines its own wage classes for contributions and benefits. Benefits are different for every social insurance, unemployment included: unemployment benefits are further graded in three

* Described in Chapter 15.

²⁶ Financial crisis, forcing sharp cuts in old age-invalidity and unemployment insurance benefits, has temporarily defeated this objective.

²⁸ To relate them to, not replace, wages and living standards. Germany goes further than Great Britain in attempting to make benefits replace lost income but neither country created its social insurance benefit structures on an *a priori* standard of benefit "adequacy." The best German illustration is the short-time unemployment benefit (*Kurzarbeiterunterstützung*).

classes for living costs; different insurance bodies in health and old age-invalidity insurance pay different benefits.²⁹ In general the Germans make greater and more precise use of dependents' benefits than the British. These further complicate the differences between insurance organization structures and particularly the possibilities of coordination.

British contributory old age and health insurances have different rates of contribution, but since both are flat sums, absolutely invariable except for sex, it is feasible to collect them through the same agency (the Approved Society), at the same time, on the same card, by a joint stamp. Unemployment contributions, of course, while they are differentiated by age as well as sex, are still flat sums and thus permit a comparatively simple organization. Differences in benefit base are for most purposes far less important for coordination than differences in contribution base. When and if there is a serious attempt to unify the social insurances, the element of flat benefits presents a favorable factor.³⁰

²⁹ This is not, of course, a complete catalogue of actuarial-technical differences. Usually, for example, the division in contribution share between employer and worker is 50-50, but in miners' old age-invalidity insurance for wage earners the insured members still pay 60 per cent. The federal subsidy is much greater proportionately, too, for this insurance than for the other wage earners' funds. The scope of membership of the different insurances also interlocks to a much lesser extent in Germany than Great Britain. This has great importance for coordination possibilities.

³⁰ The most objective measure of the effect of these German and British organizational differences on administrative efficiency is administrative cost. Because of differences in salary scales and living costs in the two countries, the much higher proportion of civil servants in Great Britain, and the impossibility of measuring efficiency in money in any event, even this is seriously defective. In general German administrative expense, on the basis either of contributions or total expenditure, is little if any higher than the British. The following are percentages of administrative expense to total contributions (including governmental subsidy) in German and British contributory old age insurance:

Year	Great Britain ¹	Germany		
		Wage earners	Miners ²	Salaried employees
1931	5.9	7.9	5.6	—
1932	5.5	8.9	6.0	2.7
1933	5.0	7.9	5.2	2.7
1934	5.3	6.9	4.3	2.8
1935	4.9	6.5	4.2	2.5

¹ Excluding Approved Societies' share.

² Wage earners and salaried employees.

Sources: *Report of Ministry of Health, 1935-36*, p. 275; *German Social Insurance: 1934*, p. 668; 1935, pp. 557, 606, 623. *Statistisches Handbuch des Reichs- und Preussischen Arbeitsministeriums* (statistical manual for the senior staff officers of the Federal and Prussian Ministries of Labor). (Berlin, no date. Looseleaf monthly; not published for general use.)

OTHER DIFFERENCES BETWEEN GERMANY AND GREAT BRITAIN

One other feature closely related to the basic social insurance organizational pattern in which the British and Germans differ greatly, is in the weight they give to civil service personnel. In Great Britain the general rule (always except for health insurance) is civil service; in Germany it is the exception. This difference goes straight to the historical origins of each. British social insurance was taken into established central ministries operating under civil service rules and traditions. German social insurance organization (except unemployment insurance) is a development of state and occupational interests and traditions; essentially it has been an institution at local and state levels, not federal. Some institutions, for example, the Brandenburg and Berlin old age-invalidity institutions for wage earners, and the Leipzig and Munich General Community Health Insurance Funds, have civil service standards comparable to those of the federal government. But in general the German local and state tradition is against civil service. Exact figures are not available for comparison, but it is significant that civil servants make up the entire personnel of British social insurance administration above the lowest levels; they occupy only the top positions of German. In British unemployment insurance, for example, all employees except the Minister of Labour, the Parliamentary Secretary and the "temporary staff" are permanent.⁸¹ The proportion of permanent servants (Beamte) in the equivalent German Federal Institution for Employment Service and Unemployment Insurance is under 5 per cent.⁸²

One final general difference between the two systems is the German preference for formal and detailed organization, the

⁸¹ Seventy-seven per cent of the total in 1936. (*Report of the Ministry of Labour, 1936*, p. 98.)

⁸² Robert Frase, *The Administration of Unemployment Insurance and the Public Employment Service in Germany*, p. 60. Multilithed. This is not to suggest that the relative importance of the two groups of civil servants is to be measured in figures. German civil servants in general hold top administrative and federal supervisory positions, exert influence all out of proportion to their numbers. Also there is no inference that civil servants automatically make better social insurance personnel than others. A basic reason for self-government was labor's distrust of the bureaucrat. The proportion of Beamte in unemployment insurance was purposely made very low in 1927 to allow introduction of non-professional trade union representatives. On the other hand, not all of the Beamte, taken over from the local and state employment offices in 1927, were first class. (The quality of German civil service has been discussed in Chapter 2.)

British for organization informal, general, approximate, tentative. It is a difference that a foreigner is likely to underestimate. The Germans seem to have thought of everything, the British to have left so much to chance, or improvisation. Actually, the longer one studies the two systems the more one wonders which is the better coordinated. One system aims at rather exact equities, modified in fact by the remnants of many historical accidents, the pinch of financial stress and a score of other non-rational factors. The other is admittedly careless of exact justice and of tying up neatly the relations between insurances, benefits and contributions. One aims higher and often fails, the other is satisfied with less. One thing is certain: it is impossible even to begin on the question of the coordination of the social insurances without careful consideration of those imponderables that are so large and vital a part of British organization and British character.

CHAPTER 19

CENTRALIZATION IN THE ORGANIZATIONAL PATTERN

IT IS EVIDENT from the preceding pages that British social insurance organization is in general far more centralized than the German.¹ The social insurances, except health, are organized as single national funds; these funds are government funds, in which the government acts not only as the bearer of the risk but also as the supreme supervisory, regulatory and appellate authority. Centralization can hardly go farther, unless it unifies the insurances into one omnibus fund. Even Unemployment Assistance has been fully centralized.

ADMINISTRATIVE CENTRALIZATION

British centralization is true centralization: both of power and administrative function.² In unemployment insurance the divisional comptrollers (second level of authority) have a measure of autonomy, but they influence policy most by passing their *suggestions* to Ministry of Labour headquarters, whence sooner or later may issue new regulations governing the entire system. Ideas may come up from below: orders are given from above and are of national scope.³ In contributory old age insurance the second level of authority, the divisional inspector, is not an important man, the local (district) inspector of the Ministry of Health even less so. Local organization here is furnished chiefly by other departments, a sign of the unimportance of local autonomy. A measure of discretion is intended in the administration of Unemployment Assistance at the divisional level, but it is limited by a nation-wide needs scale.

¹ Only in its disunity of supervision is it less centralized. For a discussion of the relation of German supervisory unity to centralization and coordination, see Chapter 20.

² With the government fund there is no question of distinction between supervisory and administrative centralization. But even a government fund can delegate important policy making powers to local or district offices. No British fund does.

³ Walter Matscheck, *Administration of Unemployment Insurance and the Public Employment Service in Great Britain* (Washington: Committee on Public Administration of the Social Science Research Council, 1938), p. 24. Multilithed.

As far as actual results (as distinguished from a program) are concerned, the British Ministry of Health exercises at least as much influence over the decentralized Approved Societies in health insurance as does the German Ministry of Labor over the German health insurance funds.

Diagram I illustrates, in the important field of contributory old age insurance, certain significant differences in *administrative* centralization between the British and German systems.⁴ The first is a single compact organization; the second is made up of divisions running vertically (occupational groups) and horizontally (territorial groups). In one very limited sense, perhaps, the German administrative scheme may be said to be as highly centralized as the British: each of the territorial or occupational insurance bodies has comparatively little need for subdividing its organization and when it does subdivide, organizational subdivisions have little autonomy. The German scheme in this way is centralized as highly as the British, *but within much smaller limits*. The difference is significant. If the centralized insurance bodies differ in coverage, contribution and benefit bases and other features, as the German do, little has been gained for coordination between the bodies. Rather, in their common dislike for compromise, a strong barrier to coordination has been erected.⁵

SUPERVISORY CENTRALIZATION

Germany and Great Britain offer interesting comparisons also in *supervisory* centralization, i.e., by government over social insurance bodies. The only area in which a direct comparison is possible is in health insurance: the insurance bodies in both countries are non-governmental and multiplex. The ways in which the rising influences of centralization have worked historically on these self-governing institutions have been discussed in Chapters 9 and 10. It will be useful to summarize here the scope and degree of that control today under sharply different conditions, as a comparative exhibit on German and British supervisory centralization.⁶

⁴Comparison of *supervisory* centralization in old age insurance between the two countries is not possible because of the British combination of supervision and administration. See Diagram I in the Appendix.

⁵The effect of the so-called Schlüssel on the coordination of the wage earners' territorial schemes has been discussed in Chapter 12.

⁶This analysis is necessarily from the point of view of the central authorities, and is limited to a treatment of supervisory mechanisms.

Both the scope and the degree of the control exercised by the British Ministry of Health are considerably greater than that exercised by the German Ministry of Labor. On paper the differences, particularly since the new German laws, are not so great. In 1933, for example, the President of the Reich extended the central powers of regulation and supervision to "questions of expediency and economy;" actually their use is still largely potential.⁷ The British have exercised these same powers, quietly and unostentatiously since 1928. Their mandate is not as clear as the German. It is none the less effective. It is broad enough, for example, to include a fixed policy of gradual reduction in the number of funds, a policy, incidentally, followed by the German authorities for a considerable time *before* the 1933 laws and orders.

BRITISH CONTROLS OVER DECENTRALIZED ADMINISTRATION

The principal methods of central control of health insurance in Great Britain may be summarized under these heads. Except the third, they are applied exclusively by the Ministry of Health:

- Procedural and other routine regulations
- Inspection and investigation
- Fiscal-actuarial
- Reorganization or merger
- Direct emergency central administration
- Transfer of function from local to regional levels
- Provision of appellate facilities
- Advice and moral suasion

There is hardly one of these controls that is not used more extensively in Great Britain than in Germany. Some do not even exist in Germany. By all odds the most important in Great Britain is the group of powers that may be characterized as fiscal-actuarial. A senior civil servant says, "Control by the Ministry is almost entirely fiscal." These fiscal powers range from the right of the Ministry of Health to impose fines on and surcharge a Society for improper expenditures to the mightiest weapon of all: the power to reduce, without restriction, the so-called administrative allowance

⁷ *Order of the Federal President on health insurance*, March 1, 1933 (R. G. Bl. I, p. 97), Arts. 1, 2. It is not necessary to repeat here the obstacles to and the limitations on the growth of supervisory centralization. These and other details of German health insurance developments are described in Chapters 9 and 22.

per member which each Society must have for operation.⁸ It is a control, moreover, reenforced by the powerful argument of government subsidy.⁹ There is no such direct authority in the German Ministry of Labor. There are no German government subsidies. Since the government gives no financial aid, it does not examine the insurance funds' financial affairs. Audit or fiscal examination is not by the government, but by other self-governing bodies: the health fund association (principally) or the state (provincial) old age-invalidity insurance body for the area.¹⁰

The British Ministry follows day-by-day health fund operations more closely than the German. In the inspectors of the Outdoor Staff, the "eyes and ears of the Ministry," it has a continuous check on operations at the local level, an outlet for complaints by members and Societies, a liaison with the Ministry of Labour which passes along suspicions or knowledge of employer non-compliance. The Outdoor Staff "visits" employers eligible for investigation, it "surveys" employers' records to check on compliance. If it turns up suspicious information it reports to a companion branch of the Ministry in charge of Approved Societies which also gets information from the auditors.

Inspection extends to the detailed operations of the Societies. With the usual disclaimer of the impossibility and undesirability of a stereotyped system, the Ministry officially admits that "it is the practice of the Department to watch closely the administration of each Society." The Ministry insists on "competent officers and a Committee of Management who take an active interest," on "an effective scrutiny and supervision of benefit claims." In 1935, 201 Societies were examined. In addition detailed inquiries are made, following a valuation report, when there is "evidence of financial

⁸ Other fiscal-actuarial controls are those provided by: the periodic valuations by the Government Actuary (to determine the amount of surplus that may be spent for additional benefits); the periodic audits of the National Health Insurance Audit Department; the power of the Ministry to divert Society income into the Central Fund, or national reinsurance pool; the control of investments by the Ministry of Health; the requirement of statutory reserves.

⁹ The Treasury contributes approximately one-seventh of the cost of benefits and of local administration for men, one-fifth of benefits and local administration for women, and the entire cost of central administration.

¹⁰ Examination by the local Insurance Office, which has to do mostly with personnel, is to be abolished. Examination by the state (provincial) employment office is confined to a check on unemployment insurance contribution collections. (*German Social Insurance*, 1935, p. 635.)

retrogression." During the past 5 years such detailed inquiries were made into the affairs of 470 Societies.

The Approved Society Branch of the Ministry has for its main function the careful watching of Society expenditures. When a case calls for treatment the Ministry has a whole list of remedies from which to choose. The Ministry may recommend liquidation or merger. If the cause of the trouble seems to be too liberal benefit payments, "sick visitors" are appointed or "a judicious use of the Regional Medical Service" recommended. In extreme cases the Ministry may appoint a manager to administer the affairs of the Society pending reorganization. The most drastic power of all has never been used: the power to rescind the "approved" rating of the Society. The judicious use of advice, plus the leverage of the administration allowance without which no Society can exist, is usually sufficient for any emergency.¹¹

GERMAN CONTROLS OVER DECENTRALIZED ADMINISTRATION

German central control has been comparatively long-range and mild. The immediate supervisory authority, the local Insurance Office, is identified so closely with the local government of which it is a part, that it cannot be expected to perform the functions of a central and disinterested agency. The state (provincial) old age-invalidity insurance Institutions are empowered to take over the duties of audit and inspection of health funds,¹² but so far they have chosen to leave the task almost exclusively with the former authorities, the health insurance associations.¹³ Even when and as the Institutions take over, central control will still be diffused through a territorial body, more under state (provincial) than federal influence.

The principal routine German control is exercised through advice. This type of control had gradually been gaining in influence

¹¹ Quotations are from *Report of the Ministry of Health, 1935-36*, pp. 187-8. In 1935, 15 Societies were merged, one as a result of maladministration. One other was reorganized for the same reason. One manager, appointed the year previously, was replaced by the Society's own Committee of Management.

A rare occurrence is a recent case in which two factions were unable to agree on a Secretary. The Manager appointed by the Ministry sacked all personnel, rehired the best, selected a new Board of Trustees and a new Committee of Management.

¹² *Third order for the reorganization of the social insurance system: community duties*, December 18, 1934.

¹³ *German Social Insurance, 1935*, p. 635.

before 1933; since then it has been backed by the power of the Ministry of Labor, freely used in 1934, to appoint commissioners to take over fund administration.¹⁴ Despite this interlude of direct intervention, now past, and of the introduction of the leader principle, it remains true that German central control of health fund administration is less continuous, less penetrating and less effective than the British. More functions remain in the sphere of fund autonomy in Germany: benefits, contributions, investment other than reserve, are individual fund matters and each fund is still a financial-insurance unit. At the very most, the loss of self-government in Germany has meant diversion of fund administration from leaders selected locally and democratically to leaders selected locally and authoritatively. Only in personnel supervision does the German Ministry go further than the British. Since 1934 all applicants for fund places must take examinations approved by the Superior Insurance Office, which also passes on all service and salary regulations.¹⁵

One feature of central control which the American misses both in Germany and Great Britain is the use of statistical and related devices. This omission is generally characteristic of both countries and of all social insurances.¹⁶ But statistical controls, principally because of the heterogeneity and autonomy of the funds, are least important in health insurance. The British Ministry of Health attempts no statistical controls of the details of personnel, procedure, benefit decisions or other current operating results.¹⁷ The Germans, when pressed, admit a few rules of thumb: roughly no more than one staff member for every 500 to 700 fund members;¹⁸ not more than one doctor for every 600 fund members. But there

¹⁴ See Chapter 9, discussion of growing centralization in German health insurance.

¹⁵ *Fourth order for the reorganization of health insurance*, February 3, 1934, sect. 1; *Federal Insurance Code*, sects. 355, 356.

¹⁶ There are exceptions. In British unemployment insurance the so-called staffing-basis scheme for determining the number of staff, and the quasi-statistical control by the London Divisional Insurance Officer of the work of his local insurance officers, are examples. So is the so-called placing index for measuring the placing efficiency of an employment exchange or district. The Germans, who originated the staffing-basis scheme, have discontinued it as too complicated. (Fraser, *op. cit.*, p. 63.)

¹⁷ A partial exception is the statistical record of the Regional Medical Officer, of the proportion of claimants found capable of work by the panel doctors.

¹⁸ This is a local insurance officer's figure. The Federal Insurance Office puts the figure at 800 for smaller, 600 for larger funds.

are no standards for measuring and controlling the relative liberality of funds on appeals "because of the wide swings in health insurance experience," no standards on costs. There is as yet no standard procedure for examining health funds, although there is one in preparation. It surprises Americans to learn that, in fact, Germans generally are disposed to suspect statistics as a control measure, in general display a "reluctance toward efficiency ratings."¹⁹

¹⁹ Marx, *Civil Service in Germany*, p. 227.

CHAPTER 20

COORDINATION IN THE ORGANIZATIONAL PATTERN

IT IS NOT difficult to discover that the British system of social insurances is more highly centralized than the German system. This is principally a matter of objective fact. But to presume to say which organizational and actuarial-technical features are the better coordinated is to presume not only the ability to analyze a nearly endless array of highly complex facts but agreement on a set of values. These values (particularly when actuarial-technical features are involved) are subjective rather than objective and in any scientific sense they are incapable of measurement or even of exact statement.

What follows then is necessarily an approximation, based largely on values more or less subjective and necessarily more or less incomplete.

The principal points at which, for practical purposes, one may judge the degree of organizational and actuarial-technical coordination of a social insurance system are listed below. The list is not complete; it leans principally on an evaluation of characteristics capable of statistical demonstration, e.g., it contains no measure of the equity of the incidence of contributions and benefits. The measures on the list are approximations; one may criticize any of them for incompleteness or inadequacy, e.g., the proportion of insurance beneficiaries requiring supplementary relief. Data on this point are not complete. At best this is a second-hand measure of benefit adequacy. A smaller proportion may mean not more adequate benefits but greater recourse to private relief or private means, differences in living costs or a reduction in living standards. Besides not everyone would agree that relief supplements to insurance benefits are evidences of non-coordination.

The points of comparison are:¹

¹There is no attempt to separate sharply organizational and actuarial-technical characteristics. They are inextricably intermingled. For example, the first of the list. In Great Britain medical care is practically omitted from the circle of social insurances, which fact has an important effect on organization and coordination. (See Chapter 17, discussion of social-economic factors.)

- The extent to which risks generally accepted as social are included.
- The proportion of gainfully occupied persons covered by insurance.
- The extent to which membership in the different insurances interlocks.
- The extent to which benefits and benefit rights between the insurances interlock.
- The extent to which "unjustifiable" differences in benefits persist between insured persons of substantially the same status, particularly within the same insurance scheme. (The extent to which there are similar differences in treatment between insurance and relief clients is not capable of comparison.)
- The proportion of social insurance beneficiaries receiving supplementary relief.
- The extent to which there is a general social insurance (and relief) policy.
- The degree of simplicity of the supervisory organization.
- The degree of simplicity or uniformity of the insurance or administrative organization.
- The extent to which the insurance bodies make effective use of joint or loaned facilities.

COORDINATION IN THE BRITISH SOCIAL INSURANCES

Rating the two systems on these points, the British is superior:

(1) In the number of insured persons and the proportion of gainfully occupied persons covered by social insurance,² and in the extent to which membership in the different insurances inter-

² Comparable data for wage and salary earners are not available. Besides, certain insurances, health for example, cover more than the group of wage and salary earners. The data are taken from latest official sources, although in some cases the periods covered do not coincide. (See Chapter 21, discussion of actuarial-technical limits to unification.)

Insurances	Great Britain		Germany	
	Number of insured persons, in millions	Per cent insured among gainfully occupied persons	Number of insured persons, in millions	Per cent insured among gainfully occupied persons
Industrial accident	—	—	24.5	74
Health	18.8	88	20.9	65
Old age	19.2	90	22.7	69
Unemployment	14.2	66	14.0	42

² Not published, but this has the widest coverage of all British social insurance.

Sources: *Statistical Abstract of the United Kingdom to 1935*, 80th number, pp. 81, 115, 86, 5, 111; *German Social Insurance, 1935*, pp. 360, 636; *Konjunkturstatistisches Handbuch, 1936*, p. 10; *Statistisches Handbuch des Reichs- und Preussischen Arbeitsministeriums*.

locks. British contributory old age and health insurance membership is practically identical.

(2) In the smaller proportion of insurance membership required to supplement benefits from relief sources. Complete data are nowhere available on this point but scattered evidences indicate that the British scheme, despite the self-imposed handicap of low and flat benefits, appears today by this test to be more nearly adequate than the German.³

(3) The British are definitely ahead also in the simplicity of their *administrative* organization. A high degree of administrative centralization permits, if it does not always produce, arrangement of administrative areas of the different insurance organizations on a common basis. Unfortunately this administrative simplicity is not matched by a corresponding supervisory simplicity. Four highly centralized departments are engaged in social insurance functions, five counting the Unemployment Assistance Board. Diagrams IIA and B in the Appendix compare the relations between British and German supervisory bodies and the administration of the social insurances and unemployment and other relief.

(4) The British in general make more use of joint or loaned facilities in social insurance and related administration. One organization, for example, applies the means test in non-contributory old age pensions (Inland Revenue, Customs and Excise Department); while a second (Ministry of Health) acts as the court of appeals. The Unemployment Assistance Board performs the former function in its field; the Ministry of Labour registers applicants and pays the allowances. The Approved Societies collect contributions not only for health but also for contributory old age insurance. This is made possible by the high percentage of common membership of the two schemes, highest of any British or German insurance.⁴ Employers' records for all social insurances including

³ See Chapter 4, discussion of inequalities in treatment of beneficiaries. This was not true of old age benefits before the financial crises in Germany but it appears to be true today. Unemployment benefits in Germany seem always to have been lower than British. Even in 1927 "the German [unemployment] benefit was about three-quarters of that of Britain." (Arnold Tolles, in *Journal of the American Statistical Association*, June 1934, p. 163.) Today it has become practically unemployment relief. The level and scope of German health benefits, both in cash and care, are far superior to British.

⁴ Percy Cohen, *British System of Social Insurance*, p. 91; Charity Organization Society, *The Prevention and Relief of Distress* (London: P. S. King and Son, Ltd., 1936), p. 147.

unemployment are examined by the Ministry of Health.⁵ Ministry of Health medical certificates are accepted, although not always trustfully, in unemployment insurance, which otherwise would have to maintain a separate panel of doctors. The Post Office serves as general aide to the social insurances: selling contribution stamps for insurance cards (all three); handing out application forms (contributory and non-contributory old age pensions, health); paying benefits through postal order (contributory and non-contributory pensions, occasionally unemployment insurance).

The most conspicuous use of joint facilities in Germany is in the use by all social insurance schemes⁶ of the appellate facilities of the Federal Insurance Office, and the state (provincial) and local Insurance Offices; in the cooperation of local governments and the Federal Institution for Employment Service and Unemployment Insurance in applying the means test; in the collection of unemployment insurance contributions and the examination of employers' records for both unemployment and health by the health insurance funds.⁷ But the degree of interlocking membership, as we have seen, is far smaller here than between British old age and health insurance. The German Post Office sells stamps and pays benefits for wage earners' and salaried employees' old age-invalidity insurance. The police, the Labor Front, the local Insurance Offices and other local government bodies, the health insurance funds, all cooperate in various ways in old age-invalidity insurance administration, although differently in different insurances and in different sections of the country.⁸ On Diagram III a specific comparison is made of the use of joint facilities in German old age-invalidity and British contributory old age insurance; the British have the more complicated arrangements at the national level, the German at the local. These differences suggest a nearly perfect microcosm of the two social insurance organizations: the British complex at the top and simple at the bottom; the German exactly the reverse.

⁵ Matscheck, *op. cit.*, p. 8.

⁶ Except in unemployment insurance, which provides its own appeal facilities at the local level.

⁷ *Employment service and unemployment insurance law, 1929*, sects. 145, 147.

⁸ I. L. Ö., unpublished manuscripts; B. Kappenberg, *Grundriss des Verwaltungsdienstes der Träger der Invalidenversicherung; Administration Pratique d'Assurance Vieillesse-Invalidité des Ouvriers en Allemagne* (1935); *Praktische Verwaltung der Angestelltenversicherung in Deutschland* (1930).

The most glaring British actuarial-technical gaps are: the omission of industrial accident insurance from the list of social insurances; the persistence of the commercial insurance company in health insurance; the low standards of medical care in the same scheme. The greatest British organizational defect is the diffusion of supervisory powers among many departments. In the German sense, Britain has no central social insurance policy.

COORDINATION IN THE GERMAN SOCIAL INSURANCES

German social insurance shows superior coordination in these respects:

(1) In the greater completeness of its circle of insured risks. Germany is particularly strong where Britain is notably weak: in providing medical care. German social insurance also includes industrial accident insurance as an integral part of the system. It is weakest in its failure to work out a coordinated unemployment insurance and relief program.⁹

(2) In the generally closer relations between the social insurances, e.g., industrial accident and health. Here as elsewhere the Germans have made a virtue of a defect: they use the stronger insurance bodies (industrial accident) to carry the more serious and expensive long-term industrial disability risk, leave the short-term risk to the health insurance bodies.¹⁰ Similarly the non-industrial long-term disability risk is the responsibility of the territorial old age-invalidity institutions, not, as in Great Britain, of the health funds.

(3) Germany has always pursued a policy of close labor market control: it has tightened visibly with National Socialism and the increasing emphasis on a self-contained national economy. This control embraces broad and intensive programs of vocational guidance, apprentice training and vocational training for the unemployed. The Germans have a system of coordinated work relief; the British gave this up.

(4) Where Germany has a special advantage is in the concentration of all supervisory authority in the Ministry of Labor, and in turn, the Federal Insurance Office. Germany needs this advantage badly; what the German social insurances would be like with multi-insurance bodies *and* non-standard benefits and contributions *and*

⁹ For recent changes, see Chapter 23.

¹⁰ See Chapter 13.

divided supervisory authority, is hard to imagine. German developments show a stronger trend to centralization than British. This does not mean that the German system is more centralized. We have seen that it is not. Nor is her system on the whole better coordinated. The German diffusion of supervisory authority *vertically* (delegation of power by the Federal Insurance Office to state [provincial] and local government authorities) raises a bar to coordination, much as British diffusion *horizontally* opposes coordination. German coordinative efforts started later, have had many more obstacles to overcome. German social insurance supervision has made coordinative progress (largely through increased centralization), despite its obstacles. German coordinative progress has been considerable but it has still a long way to go. It is remarkable, not so much for what it has achieved as for the enormous obstacles it has had to overcome.

But the greatest German advantage is that the Germans have a plan. They are gradually, sometimes painfully, working toward its objectives. The program can be criticized at many points. It includes, for example, the drastic proposal to eliminate a large part of remaining health fund autonomy, the complete suppression of the local Insurance Office, reduction of the influence of local government, and reorganization of health and old age-invalidity insurance at the state (provincial) or regional level. In some directions the ideals of the program are not reached: for example, the wrecking of the graded contribution and benefit structure, particularly in old age-invalidity insurance. But the Germans think more consistently than the British in terms of the whole social insurance situation: see the many instances of financial decisions for one insurance considered in terms of the entire social insurance burden. Their greatest unsolved problem is that of the relations between unemployment insurance, if any, and unemployment relief.

All in all, one concludes, on the basis of *absolute* results, and without regard to the inherent difficulties of the task, that British social insurance shows more evidences of organizational and actuarial-technical coordination than the German.¹¹ The British

¹¹ In certain respects it is quite impossible to measure differences between the two countries. It may be considered, for example, that Great Britain has gone a bit further in eliminating gross differences in benefit between members

try less for perfection, are satisfied with less. There is practically no serious discussion in Britain, for example, of the possibility and the desirability of substituting graded for flat contribution and benefit rates.¹² Which is better: to try, as the Germans do, for precise equities in a fearfully complicated area of social, financial and technical relations, with the sure knowledge that the system is always bound to be out of whack for one reason or a dozen? Or like the British, assume that the only achievable equities are rough and that a too sedulous search for justice defeats itself?

The differences between the two systems are too narrow, the conditions in which they operate too different, the standards of measurements too nebulous to permit a dogmatic answer to the question: which system is the better coordinated? To answer, as we have, in favor of the British, is not to say that the British way is best, and particularly for another people or other conditions. Some failures in coordination are inherent in the people and the country, just as some are inherent in the juxtaposition of two mutually exclusive theories or principles (i.e., unemployment insurance and relief), and are therefore really not failures at all.¹³ It is these "failures" that the foreign observer needs most to guard against. Otherwise he will find himself warning his compatriots of imaginary evils and recommending for adoption impossible precedents.

of different health insurance funds. There is a reinsurance fund, where the Germans have none (except on paper). On the other hand, the differences are more "unjustifiable" in Great Britain because all members pay exactly the same contributions. Germans do not.

In the important matter of interlocking insurance benefit rights (assuring that as a result of one insured risk, as unemployment, members do not lose their rights to other insurance, as old age or health), there is no commensurable difference between Germany and Great Britain. In both, the rights of (insured) unemployed persons are safeguarded for limited periods in both health and old age insurance. The costs in Germany are assumed entirely by employers and workers in the unemployment insurance scheme; in Great Britain principally by the government. German provision is more liberal: safeguarding in old age-invalidity insurance is extended indefinitely even to unemployed uninsured persons on relief. (*Law to maintain the solvency of invalidity, salaried employees' and miners' insurance*, December 7, 1933, Part III, sect. 14; see also *Employment service and unemployment insurance law*, October 12, 1929, sects. 117-129.) The British extension of free health insurance rights is generally limited to 33 months, for older members it continues indefinitely. But the cost is borne by the Approved Societies and not the government. (*National Health Insurance Act, 1936*, sect. 6; *I. L. O., Yearbook, 1932*, pp. 197-8; *Report of Ministry of Health, 1935-36*, pp. 189, 203.)

Both systems provide in detail for prevention of double payments.

¹² For an exception, see P E P, *British Social Services*, p. 25.

¹³ British Unemployment Assistance is an excellent instance.

PART V

MAJOR COORDINATION PROBLEMS AND ISSUES

Introduction

THE PURPOSE OF Part V is to provide through three case studies specific analyses of leading current problems in social insurance organization and coordination. These select from, draw together and treat in specific terms the complicated forces and influences outlined in Part IV that determine the basic pattern of the social insurance structure. The case studies in Parts II and III are of trends, historical developments. In Part V they are of current issues. The same institution may thus be discussed in two places, from different points of view. For example, German health insurance offers an opportunity to observe the trend to centralization; it provides a case also for the analysis of a going self-governing institution. Similarly the story of the British trend to centralized unemployment relief is in Part II; Unemployment Assistance, the apex of the trend, is analyzed in Part V.

The three case studies that follow have been selected for analysis for a variety of reasons. The pros and cons of unification are discussed in Chapter 21 because unification abroad has a long history and literature, but particularly because unification is in practice an extreme case of coordination. Whether true self-government is possible in a coordinated social insurance system is a permanent, and as yet unsolved, problem in social insurance organization. The record of German and British self-government in health insurance is analyzed in Chapter 22: this is particularly timely in view of the recent important political and social changes in Germany which are bound to affect social insurance with other institutions. Chapter 23 analyzes in terms of German and British experience the outstanding social insurance issue of the day: can unemployment insurance be coordinated with unemployment relief? Both countries have decided, although in different ways, that the employable unemployed are to receive special treatment. This decision, whether unemployment insurance is retained as in Great Britain or not as in Germany, raises important questions on the proper

relations between special unemployment relief schemes and unemployment insurance on the one hand, and residual relief on the other. The experience and current status of the British and German unemployment insurance-relief programs illustrate every conceivable variety of coordination problem in this field.

CHAPTER 21

WHAT IS THE CASE FOR UNIFICATION?¹

AT VARIOUS TIMES there has been considerable discussion abroad of the pros and cons of complete unification of the social insurances, including membership, benefits, contributions and all other actuarial-technical features. For reasons later discussed, all of them more or less closely related to the influences or factors which also limit programs for better coordination, this discussion in Germany and Great Britain has been sporadic and largely academic. Social insurance unification has been approached in nearest degree in a few Continental countries: Austria, Italy, Yugoslavia, Czechoslovakia and Russia. Germany and Great Britain approach improved coordination slowly and tentatively; they shy from unification.

Proposals for unification are of interest in an analysis of social insurance coordination for a number of reasons. Chief is the very close relationship between the two. In one extreme sense, unification is organizational and actuarial-technical coordination carried to its logical conclusion. Practically, as distinguished from theoretically, the closer two insurance bodies are coordinated, the less reason there appears for two bodies and the closer they draw toward actual amalgamation. While it is true theoretically that a relation of coordination between two insurances or insurance bodies implies differences to be respected and preserved, whereas unification implies similarities, in fact the influences that favor and limit the two are much the same.

ARGUMENT FOR SOCIAL INSURANCE UNIFICATION

There are essentially four grounds on which unification (the term from here on means unification in the complete sense) has

¹Based on the following sources unless otherwise indicated: I. L. O., *General Problems of Social Insurance*, pp. 121, 124, 128, 131, 133, 136; *International Labour Review*, March 1925, article by Karl Pribram, p. 303; April 1925, article by J. L. Cohen, pp. 477-8; Ludwig Brucker, *Die Deutsche Sozialversicherung am Scheidewege* (Stuttgart: 1933), p. 48; *Report of the Royal Commission on National Health Insurance*, 1926, p. 257; Knoll, *Die Reichsversicherung*, Vol. I, 1933; Görling, in *Proceedings of the First International Congress of Social Insurance Specialists* (Budapest: 1935), pp. 187-99, also Esser, pp. 161-9; *Soziale Praxis*, July 31, 1936, article by Hans Engel.

been justified. One is increased simplicity and economy: elimination of the administrative complexities, the clumsinesses and the high administrative costs resulting from the more or less independent administration of different insurance funds. One is semi-political: unification offers a chance to improve personnel, the weakest feature of autonomous local administration. This objective can be and is being achieved in Germany by other methods (by increased central governmental control) but it has also been a reason for unification. A third argument is financial: only a multi-risk insurance body, for example, can command the resources required for the best medical care. A unified fund would also furnish an opportunity for reallocating the incidence of social insurance costs. Some see unification as a way of eliminating the theory of occupational risk, which places the entire cost of industrial accident insurance on the employer. Others would use unification to eliminate differences in cost between different groups of members insured for the same risk, as between the German occupational industrial accident funds.² But the fourth objective and the one most stressed by protagonists of unification is the elimination of gaps and overlappings in coverage, the resolution of "contradictions of principle . . . resulting from the fact that the several branches of social insurance are governed by separate laws passed at different times."³ The pro-unificationists are campaigning essentially for a rational social insurance structure. That is their greatest strategic weakness.

EXTENT OF SOCIAL INSURANCE UNIFICATION

Complete unification of all social insurances exists only in Russia; one fund covers all insured risks, pays all benefits, cash and other, without reference to degree or cause of disability. Much more usual is partial unification, in fact a variety of coordination. One may, it is true, make a paper distinction between partial unification and coordination but it is a tenuous one and hardly useful. Unification of organization, for example, occurs when one body performs services for two or more insurances, or for an insurance and related institution. Coordination of organization occurs when two insurance bodies or agencies cooperate or collaborate effec-

² The *Gemeinlast* or reinsurance fund is a halfway stage to unification.

³ I. L. O., *General Problems of Social Insurance*, p. 123.

tively in a common task. But if, as usually happens, the facilities of one body are loaned to another, and both continue to function although in different areas, there is both partial unification and organizational coordination. For example: the collection of contributions for health and unemployment insurance by the German health insurance bodies, and the collection of contributions for old age and health insurance by the British health insurance bodies.

German social insurance comes closest to unification in the combination of the old age and invalidity risks in the same territorial insurance bodies. Even here the financial bases are different. On the other hand, the Germans fail conspicuously to unify the old age-invalidity insurances now functioning separately for wage earners, miners, salaried employees and other special groups. British combination of the invalidity risk with the health risk is a conspicuous example of artificial unification. The Approved Society is completely unfitted financially and otherwise to handle the expensive long-term invalidity risk. There should be close coordination between the health insurance and invalidity insurance bodies, but never unification.⁴ Both countries use the same personnel to a considerable extent to administer unemployment insurance and placement.

Partial unification or coordination may be organizational or actuarial-technical. In the British old age insurance arrangements, in the British health insurance Central Fund, and in the various *Gemeinlasten* in German social insurance, both organizational and actuarial-technical features are coordinated if not completely unified. This is a variety of organizational and actuarial-technical coordination. Otherwise these social insurance schemes operate independently. Every instance we have cited of loaned or joint use of facilities (contribution collection, medical services, inspection, means test administration and administration of local or regional insurance functions) is an instance of *partial* organizational unification. Likewise every instance of interlocking membership, interlocking insurance benefit rights, every attempt to reduce inequalities between benefits, is an instance of *partial* actuarial-technical unification.

Unification has made so little headway in Great Britain and Germany that there must be strong reasons. There are. We can

⁴Unless one reserves the possibility of including these with all other social insurance risks in one body.

distinguish three groups of reasons: organizational, actuarial-technical and traditional-political.

Broadly speaking the forces and factors opposing unification are the same as those opposing or limiting improved coordination.⁵ The elements in the situation, however, show themselves much more clearly when unification is proposed; many of the arguments against unification also do not apply to coordination. It is as difficult and as useless here as anywhere in the whole realm of social insurance organization to attempt to separate completely one type of limit from the others. Most of the organizational and actuarial-technical limits, for example, prove on examination to be essentially traditional. It is remarkable to discover how few of these limits are technically "inherent," that is, imposed by the nature of the risk and membership. On paper all or nearly all could be removed if men were completely rational or if national and sectional habits and traditions could be cancelled. This is the key reason why unifiers have so few and such partial successes. Even if they could agree among themselves—they cannot—they would still face the apparently insurmountable task of changing the folkways of half a century or longer.

ORGANIZATIONAL LIMITS TO UNIFICATION

Our threefold classification of limits, then, depends not on their origin but on the point at which, and the degree to which, they affect the social insurance structure. Some affect primarily the structure and inter-relations of the social insurance organization. The organizational factors that impose distinct limits on unification proposals may be subdivided as follows:

*The organization of administrative or risk-bearing responsibility in the various insurances on a non-uniform basis.*⁶ E.g., British contributory old age insurance organization is national in scope; British health insurance bodies local or less than national. Complete unification means the remodeling of one or the other to a common pattern. This means not only destruction of one or the other's traditions (in this case, those of health insurance), but violation of certain well established actuarial-technical principles. For example, health insurance administration, because of the

⁵ Forces limiting coordination have been summarized in Chapter 16.

⁶ Source references are given only to materials introduced for the first time.

risk,⁷ should be on a small scale and should be kept close to the insured member, impossible in a truly national scheme. On the other hand, if the old age body is modified sufficiently to give it an adequate local organization, it will lose its advantages as a large scale unit, and there will probably be no great advantage over two closely coordinated institutions.

This difference in organization is the more important because it is usually associated with other parallel differences: between insurance bodies highly centralized and bodies decentralized and autonomous; between (as in Germany) discretionary contribution and benefit scales locally determined, and statutory scales alike for the entire country. In Great Britain the difficulties are further complicated by the existence of large and politically powerful commercial insurance companies selling compulsory health insurance, and naturally not only opposed to unification but even to closer coordination.

The division of supervisory responsibility horizontally between equal powers or vertically between various levels of authority. The first of these, except as it reflects "inherent" differences in function or in the social insurance risk in different insurances, may be paraphrased as bureaucratic resistance to change. The second, as we have seen, is of great importance in Germany: it rests on social and political forces of great weight. Germans are aiming, it is significant to note, not at complete unification of the social insurances, but at coordination on a state (provincial) basis, and of only the old age-invalidity and health bodies. The local Insurance Office (and its ally, the local health fund) are the obstacles to even this comparatively modest objective.

The relations, particularly financial, between the supervisory and insurance bodies. The British government has more to say about the administration of social insurance than the German, partly because it makes more substantial contributions to social insurance costs, even health, which is relatively autonomous. Except in health, it is the actual insurance administrator. It *could*, from this standpoint, better justify a program of unification than the German Ministry of Labor. This financial factor sometimes takes unexpected and rather narrowly technical forms; e.g., it is

⁷ Additional details concerning the special nature of the health insurance risk are given in Chapter 22.

seriously claimed that unification of British contributory old age and unemployment insurance is impracticable because of the different basis of the government's contributions. This has been argued even against joint collection of contributions.

More narrow perhaps but immediately of great weight is the argument of the more centralized insurance bodies that the *personnel of the autonomous local bodies, accustomed to certain routine and familiar with specific problems, is unqualified* for the more difficult and more varied technical tasks imposed by a unified insurance structure.

ACTUARIAL-TECHNICAL LIMITS TO UNIFICATION

Opponents of unification confine themselves generally to the actuarial-technical objections. As a class these perhaps are more nearly "inherent," less the product of national habit or tradition, than any other. But it is remarkable how many of them originate from the same social-political causes that shape the insurance and supervisory organizations themselves, so that actuarial-technical and organizational factors are often really two aspects of the same influence.

Nearly all of the actuarial-technical limits to unification are based on the different nature, inherent or traditional, presumed or practical, of the various social insurance risks. The most important of these risk differences, and their results are:

Differences in risk which produce differences in the groups covered. These are, without doubt, the most stubborn actuarial-technical limits to unification. If there is any part of a social insurance scheme that is more the product of chance and expediency than any other, it is the scope of the membership. Yet there is a basic distinction, recognized even by the unifiers, between social insurances intended to protect wage earners, and those intended to protect all gainfully occupied persons. On the one side there are risks that arise definitely and exclusively from the conditions of employment: industrial accident,⁸ occupational disease, unemployment. The last of these is the clearest example: one cannot in-

⁸ The theory of occupational risk, on which rest our current systems of indemnity for industrial injury, is purely legal. It could of course be abandoned for an "all-in" health-accident scheme covering all gainfully occupied persons. The Russian scheme at one stage covered even unemployment, recognizing only loss of income as the risk to be covered.

dennify for unemployment losses a man who has never been an employee, for example, a former independent business man. On the other side are risks faced by all the gainfully occupied: health, old age, death.⁹

The fact is that most differences in membership are based on reasons other than purely actuarial-technical.

It does not follow of course that differences in membership, whatever their causes, are an absolute bar to partial unification. But every added difference makes unification that much less desirable and less necessary.

Differences in risk produce also important differences in the theory and practice of the benefit structure. Health benefits, for example, are theoretically related to the current level of wages, because "health insurance benefit is a bridge between two periods of approximately equal wages."¹⁰ In old age-invalidity insurance current wages cannot be the benefit basis for several reasons. The insured person is no longer productive. The purpose is not to restore as quickly as possible a productive worker to his usual earning power, as in health insurance, but to assure a retirement benefit. The first benefit should in theory approach lost wages, the second not. Practically, on account of cost, old age benefits must be kept well below the level of health benefits.¹¹ A second purpose of old age-invalidity insurance may enter to complicate the benefit structure: the desire to use it as a reward for thrift by relating benefits to the length of the contributing period as well as to the amount of contributions.¹² There are still other differences in the

⁹ Theoretically these last should have the broadest scope of membership of any social insurance. Actually in Germany (and probably in Great Britain) the industrial accident scheme stands a good first in coverage, contributory old age second. (See figures in footnote 2, Chapter 20.) The extent of coverage has no relation, of course, to benefit liberality or other important features of the scheme. In Great Britain workmen's compensation for industrial accidents, for example, is not compulsory.

¹⁰ Knoll, *op. cit.* This is German doctrine. But the British Royal Commission on National Health Insurance, on this point, was "impressed by the fact that the inequality of experience [due to inequality in additional benefits] between different Societies is accompanied by a considerable inequality in wages." (*Report*, 1926, p. 118.)

¹¹ When there is a government subsidy for old age benefits and not for health, this margin may decrease or even disappear. E.g., British old age pensions (contributory) which are paid both to insured men and their wives; health insurance cash benefits are not.

¹² Not in Great Britain, with flat benefits.

benefit philosophies of the two insurances, all of them with repercussions on organization and thus on the possibilities of unification. Health benefits are relatively wide in scope but are paid for a short period; old age-invalidity benefits are narrow but extend for a long time, usually for the remainder of life. Health benefits, to be really useful and serve their purpose, must be paid quickly and with a minimum of technical prerequisites. In Germany, for example, they are paid generally without reference to technical questions of incapacity; i.e., health funds pay when a member is incapacitated for his own, as against any, job. German old age-invalidity prerequisites are quite different. "Health benefits must be paid as soon as the worker cannot do *his* job, without question of whether there is other work which he could do. Because of a passing illness he cannot be asked to give up his occupation and transfer to another. The conditions for old age-invalidity pension must be quite different. The question of whether a man has definitely lost his job, and for the rest of his life or for a long time must live off the rest of the insured persons, cannot depend on whether he is able to get his old work."¹³

These differences can be extended almost indefinitely: for example, health insurance, with no great financial risk, can and should dispense with long qualifying periods (between the day of entering insurance and the date of eligibility for benefits). In old age-invalidity, for reasons of expense, a considerable time must elapse after a member enters the scheme before he can begin to draw pension. The purpose of medical care also is different in the two insurances. Health insurance medical care is—theoretically at least—the essence of the contract; in any event it is contractual, obligatory. Old age-invalidity bodies, with their immensely greater financial obligation, practically can give medical care, if at all, only when it will prevent or reduce disability and thus benefit payments.¹⁴

¹³ Knoll, *op. cit.*

¹⁴ Other insurances present variations of the differences encountered between health and old age-invalidity. The "normal" unemployment risk, for example, is similar to the health risk in this way: it requires benefits as a bridge between jobs, theoretically at a level not too far below lost wages. But no going scheme can or does ignore abnormal unemployment; this raises the problem of the differences between unemployment insurance and unemployment relief. The industrial accident risk differs, depending upon whether it is temporary or permanent. The first theoretically demands a bridge similar to that of health and unemployment insurance, the second an invalidity pension. Industrial accident laws complicate this even further by providing benefits related to the degree of incapacity.

Despite their basis in technical differences, it is evident that this group of differences is more or less customary and traditional, that these rest as often on expediency as on technical grounds.

Risk differences may also have their effect on the contribution collection technique and (with benefit differences) on the kind and number of records to be maintained. The Germans, for example, use stamp collection in some insurances, cash in others. They have experimented in old age-invalidity insurance for salaried employees with both cash and stamp collection, in 1923 turned from cash to stamps. The change was made because cash payments were "too cumbersome and costly. . . . In particular, there were too many changes of address and incorrect contribution calculations."¹⁵ Where a long record of earnings is demanded by the benefit structure, the record must be simple and stamp collection naturally follows. Where records are required for a shorter period (even though they are more complex), cash collection is feasible. But it is impossible to make a consistent rationale to distinguish between the bases of the two methods. The contributions for German old age-invalidity insurance for wage earners and salaried employees are collected by stamps; all other German contributions, including those for miners' old age-invalidity, are collected in cash.¹⁶ But all in all, it is fair to say that contribution and collection differences are at least as much the product of expediency as of actuarial-technical factors.¹⁷

Differences in risk produce also differences in the size and number of insurance bodies. Health insurance is ideally suited to small and financially relatively weak bodies. Close relations between members and administrative officers are desirable. No large reserves are required. The number of beneficiaries per mile of area is usually high; the fund's facilities, particularly medical, dare not be too far removed from its clientele.

¹⁵ I. L. O., *Praktische Verwaltung der Angestelltenversicherung in Deutschland* (Geneva: 1930). Unpublished manuscript.

¹⁶ Here the disadvantage of cash collection is neutralized by the fact that the miners' occupational associations also simultaneously collect for health and industrial accident insurance.

¹⁷ The British tradition of flat contributions would appear to encourage unification. All British social insurances use the flat rate. Unification of unemployment with old age-health contributions and collections has been rejected because the membership of the health scheme differs so widely from unemployment. "Ten years ago there was an attempt at unifying contributions which broke up on the problem of where to lodge the stamp books," says a British senior civil servant.

Old age-invalidity insurance for salaried employees in Germany has been centralized almost completely, and successfully, in Berlin: its membership and beneficiary list is small, medical facilities are comparatively unimportant, financial resources are profitably concentrated in a single fund. Old age-invalidity insurance for German wage earners could, as far as actuarial-technical factors go, be consolidated into a single fund, and financially it practically has been.

Differences in risk produce still other limitations to unification: e.g., in the difference in organizational proximity of the various social insurances to other social services. The close relations between unemployment insurance and the labor market, for example, require at least close coordination between, if not unification of, placement and insurance facilities. But having turned local administration of unemployment insurance over to the employment offices, an obstacle is raised to unification of unemployment insurance with the other social insurances. As a matter of fact, it is generally agreed that complete unification of unemployment with the other social insurances is undesirable, for financial reasons if for no other. The unemployment risk is incalculable. It is bound to the national and the world economy. If mixed with the other social insurance risks it will contaminate them. It is even argued that it is too near the line of relief to be considered insurance.

A related limitation to unification, particularly of benefits, arises from the desire (or the political necessity) of the framers of social insurance laws to protect beneficiaries as far as possible from the need of relief to supplement their insurance benefits. Because it introduces the criterion of need, the most natural and the least logical amendment to a system of contractual social insurance benefits is the addition of dependents' allowances. These allowances make true unification of benefit structure difficult if not impossible. Invalidity benefits, for example, are paid for long periods to older people with few or no dependents; unemployment and health benefits to family heads for short periods. Practically dependents' benefits are most obstructive to unification because they are paid in some insurances and not in others, they are on different bases in different insurances, they not only mix relief with insurance but mix it on an arbitrary non-rational basis.

TRADITIONAL, POLITICAL AND OTHER LIMITS

Vested interests, governmental and other, oppose unification for the same general reasons they oppose improved coordination. German supervisory officials say: "Unified contribution collections are easier for the employer, harder for the administrator." Merger of the health funds with the old age-invalidity bodies would increase bookkeeping for the former. The British Royal Commission on National Health Insurance rejected a proposed merger of health and industrial accident insurance because the Approved Societies are unsuited to the second task. There has never been a serious attempt to unify the British health insurance funds, because the two most important groups of Approved Societies, the trade unions and the commercial companies, are quite satisfied with their present position.

But the real force of the traditional, political and social limits is not specific. These are implicit in, underlie and explain practically all of the limiting factors discussed under the other two heads. Tradition is the principal reason for the British flat rate contribution and benefit: one proof is that, for expediency's sake, the British have modified it both in health (additional benefits) and unemployment insurance (dependents' benefits). Tradition explains the British health funds and German social insurance self-government, both simply incapable of being accommodated in a truly unified system.¹⁸

So proposals for unification both in Germany and Great Britain have the air rather of an academic debate. In the face of the obstacles, real and imaginary, this is not surprising. Unification pro-

¹⁸ An instance of the way a legal-traditional concept affects the prospects for unification is the doctrine of occupational risk in industrial accident law. This concept, worked out logically, not only places responsibility for most industrial injuries on the employer; it includes the assumption that he and only he can measurably modify the risk by preventive methods, and that he should be given the greatest possible financial incentive to that end. The practical result in Great Britain and Germany is that employers alone pay industrial accident contributions, and each industry is segregated into a risk group of its own. In Great Britain employer independence and responsibility are so definite that there is, except for coal mines, not even a requirement of insurance. There is under circumstances such as these no real possibility of unifying industrial accident with other insurances.

posals have never been taken very seriously. There are still other reasons than those just discussed. One is the fear of a super-fund, and particularly of the danger of one insurance, unemployment for example, sapping the resources of the others. One is the knowledge that unification in one direction, in the scope of membership for example, will inevitably—in order to minimize the number of excepted groups or benefits—de-liberalize the scope of the wider insurances rather than increase that of the narrower. A third is the fear that unification will actually increase administrative costs because of added personnel and the new expenses created by the millions of exceptions resulting from incompletely unified membership. But none of these is the real objection. Pasadowsky's epigrammatic dictum that "only a dictator" could accomplish so drastic a reform is applicable, but a German dictator has come and has decided not to attempt it. *His* reasons are various. One of them certainly is the advice of German experts that unification would be undesirable if not unfeasible. In Germany as in Great Britain, unification, except partially and through the slow indirection of coordination, is a development for the far future.

CHAPTER 22

SELF-GOVERNMENT IN HEALTH INSURANCE¹

SELF-GOVERNMENT, as we have seen, is a flexible concept and one being continually recast. It means different things in different countries; it means, as in Germany, different things in different institutions in the same country; its meaning changes with time.

Self-government came into social insurance from political government. Both in Germany and Great Britain political self-government means essentially freedom from central control. But the British do not distinguish sharply between decentralization of function and of control, which explains their common failure to make a distinction between local government and self-government. They have been content to accept as self-government a measure of legislative freedom, permitting Whitehall to regulate closely officials locally appointed or elected. A second and related attribute of self-government, lay participation ("government by amateurs under the criticism of their fellows"²), has also been modified in Great Britain under the encroachment of supervisory centralization. The Germans in this respect never claimed for self-government more than "a considerable element of unpaid lay or unofficial persons" for the purpose of tempering the austerities of an expert bureaucracy.³ In general German local governments are subject to closer legislative control than the British, but a definite line is drawn between the functions of central and local government, and "the power of the state is commonly exercised

¹ Based on the following sources unless otherwise indicated: Cole, *The Future of Local Government*, p. 6; Ogg, *Governments of Europe*, p. 228; Munro, *Government of European Cities*, pp. 50, 74; R. L. Buell, E. P. Chase and R. Valeur, *Democratic Governments in Europe* (New York: Nelson, 1935), p. 86; Bernhard Lehfeldt, in *Jahrbücher für Nationalökonomie und Statistik*, p. 937; Sonderheft der Ortskrankenkasse, January 1, 1936, articles by Grünwald and Martin; *German Social Insurance, 1935*, pp. 636-40; Ray, *Major European Governments*, pp. 338-41; I. L. O., *General Problems of Social Insurance*, pp. 84, 89-100; *Industrial and Labour Information*, July 17, 1933, p. 130; *Report of Royal Commission on National Health Insurance, 1926*, pp. 106-8, 110, 95; P. E. P., *British Social Services*, pp. 112, 176; Percy Cohen, *British System of Social Insurance*, p. 50; *National Health Insurance Fund Accounts for the Year ended 31st December 1934*, p. 4; *Statistical Abstract of the United Kingdom*, for earlier years and 80th number, p. 82.

² Muir, *How Britain Is Governed*, p. 44.

³ Ogg, *op. cit.*, p. 668.

in such a way as to leave the local units a good deal of freedom."⁴ This line is the harder to override because in Germany local feelings and local loyalties are still strong.

One of the interesting contrasts between Germany and Great Britain is that in politics the concepts of self-government are fairly alike, in social insurance they usually are not. But in health insurance they are alike in one way: originally both included lay responsibility for the making of policy as well as the details of administration. This characteristic is often intertwined with another, inherited from local political institutions: emphasis on local autonomy. The cases are often mixed. In Germany, for example, the Bismarckian ideal of the occupational corporation gave way at once to the territorial organization; in Britain, where the large industrial insurance companies operating on a national scale share the new administrative task with thousands of small local mutual aid bodies, the reverse shift occurred.

The German concept is essentially one of lay responsibility for results, applied even to social insurance bodies on a national scale with comparatively little *local* autonomy. In German health insurance lay responsibility was joined in most cases with local responsibility. But most important, lay government in German health insurance was the joint responsibility of workers and employers; it was an integral aspect of the trade union movement and the counterpart of self-governing devices of various sorts in other social insurances. For years it was supported and nourished by strong local political self-government. Employers and workers, then and now, not only were responsible for administrative routine; they served also on appeal and other judicial committees of the governmental supervisory machine.

The extent to which employers and workers entered into administration in Germany varied considerably with the kind of insurance: it was widest in health, narrowest in old age-invalidity insurance. (Industrial accident insurance was and is today entirely administered by the employers.) All enjoyed self-government on a greater or lesser scale. There is a body of opinion, non-official, in Germany which believes that even the drastic changes of 1933 have left a modicum of self-government, because employers and workers are equally represented on health insur-

⁴ Blachly and Oatman, *Government and Administration of Germany*, p. 303.

ance and other advisory committees. But self-government in the traditional sense no longer exists.*

British health insurance self-government, in one sense, is just as strong an institution, although it rests on a much narrower basis. It has never included the idea of industrial self-government, has clung much more closely to the traditional shape of the mutual aid societies from which it developed and to which to this day it is in fact often joined. In Germany employers and workers together are responsible for administration; in Great Britain, only the insured workers. Health insurance self-government stands alone in British social insurance, an exception both to political and to social insurance developments. It is as much a business as a social insurance device. But it is strong enough to be able to put up stout resistance to attempts at its modification. It is an integral part of an ancient system of mutual aid which existed before health insurance itself and which coexists with health insurance in the same bodies. A blow at the Societies which provide health insurance is a direct blow at all Friendly Societies, of which there are over 23,000. Allied with these are the large industrial insurance companies which wish to preserve their State insurance departments, organized to meet the mutual and self-government requirements of the law. British self-government in health insurance is fully as resistant to reform as its German parallel.

SELF-GOVERNMENT IN GERMAN HEALTH INSURANCE

The history and the general principles of self-government in German health insurance have been described in the discussions of centralization. In a sense the rise of supervisory centralization may be read in reverse as the decline of self-government. In fact the relations between the two philosophies or principles or points of view are not quite so simple. In an institution as heterogeneous as German health insurance, there are numerous possibilities for extension of central authority, in certain directions or functions, without much or any effect on the practical operations of self-government. For example, it is quite possible for the central supervisory authorities to impose more or stricter

* Further details on self-government in German health insurance are given in Chapter 9.

standards for determining insurance benefit, while at the same time the participation of insured workers and employers in administration remains practically unimpaired. Something like this had indeed been going on, prior to 1933, in German health insurance. Berlin authorities had gradually been strengthening their controls over health insurance, beginning directly in 1930, indirectly much earlier. But self-government continued until 1933.⁶

Earlier sections (in Part II) have described in general terms the operation of the forces pressing for and against greater centralization. Here we may analyze and evaluate in detail those of particular importance for health insurance self-government. Essentially there are five criticisms of self-government,⁷ although at least four are closely related to each other because of their common origin in politics, and all are mixed with numerous minor complicating factors and influences:⁸

Politics

Inefficient and redundant personnel

Occasional extravagances

Delays

Lack of employer interest and the resulting "professionalization" or "bureaucratization" of administration

All are relative; the validity of most, as we shall see, depends on the point of view of the observer; some of them indeed are only

⁶One could even make a perfect theoretical case for the coexistence of increasing *supervisory* centralization and at the same time of healthy and growing self-government. For example, the developments in German social insurance have been generally in the direction of shifting supervisory powers from the local to the Superior Insurance Offices and the Federal Insurance Office. Such a transfer means stronger control from the top as distinct from the lower levels of supervisory authority, but with no essential effect on the rights of the autonomous bodies. Indeed, even today continuation of this double development is practically possible. The local Insurance Offices are to be suppressed, a *prima facie* case of centralization. On the other hand, self-government in one form or another, may return.

⁷The basic heterogeneity of the health insurance scheme, producing collateral characteristics of duplicate organization, jurisdictional complexity and non-uniform contributions and benefits, should be added, although Germans make much less of these than we should expect. They seem rather to regard them as a fair price to pay for the privilege of continuing traditional institutions.

⁸These criticisms are aimed principally but not exclusively at the territorial funds.

unpleasant ways of describing conditions or characteristics that appear admirable to another party or philosophy.

CRITICISMS OF SELF-GOVERNMENT

There is nearly unanimous agreement that administration of the German health insurance funds had a considerable, sometimes a strong political flavor. The relations between the local Insurance Offices, local government and health insurance funds, hallowed by a half-century of tradition, were intimate, frequently with unfavorable effects on health fund administration.⁹ The health funds were an important part of the local political machine. Doctors complained in some cities that they were unable to secure hospital appointments without influence.

Trade union politics was particularly a problem in health insurance administration because the workers enjoyed a two-third's representation on all committees. (In other social insurances their share was one-half, a mechanical difference of great importance having effects quite apart from those of self-government itself.) It seems quite clear that the parties, particularly the Social Democrats, made political use of their control of health insurance to win votes from their opponents, particularly the Communists, and even friendly critics admit that sometimes health fund moneys were devoted to party purposes.

Political power was most misused in selecting personnel.¹⁰ In some cities "the local administrative boards," says a former labor union official, "were drunk with power." Labor representatives, who were often self-made men and intent on improving the fortunes of their party, were particularly susceptible. Competent authorities say that the different unions sometimes demanded places for their members in direct proportion to their numerical strength. There were unnecessary jobs. Too often the staff was untrained or unqualified.

⁹ Health fund personnel, with few exceptions, was not under civil service, even where this existed for other local government personnel. While it does not follow that political administration was always or necessarily poor administration, practically all parties agree that this was a weakness. They differ principally on the extent to which they see extenuating or neutralizing influences.

¹⁰ Even in the much more highly centralized Federal Institution for Employment Service and Unemployment Insurance, the top authorities had difficulties in securing non-partisan personnel.

The stories of extravagant management in health insurance administration, particularly in building administrative offices and healing institutions, have been greatly exaggerated. As a former employer member of a large general community health insurance fund says, these things are relative: "What was extravagance then would be called public works now." It is significant that charges of extravagance against German health insurance funds have been very vague, including those from official sources. It is equally significant that these allegations were loudest during the rise to power of the National Socialist Party. The health insurance funds, unprotected by civil service and offering jobs for the faithful, were a natural target for Party attacks.¹¹

There is evidence for believing that one result of political influence in self-government was the delay engendered by party manœuvring and excessive political caution. Where every shade of political and social opinion has its own party and the party label means something very definite and party responsibility is very strict, these delays and inconveniences are likely to be considerable. Although in the long run the able administrator got the same results, self-governing processes took more time. It is no coincidence that the harshest critics of self-government and the strongest defenders of the leader principle are not the groups which operate health insurance, but civil servants, federal, state and local. That is, persons whose first objectives are speed and efficiency, as well as honesty of administration, and the execution of whose duties is impeded or obstructed by partisan delays. As a group these are critical or contemptuous of self-government. The German bureaucrat applies to the self-governing process his most crushing comment: "It is just like a parliament." This point of view incidentally illustrates clearly the close relation of health insurance self-government to self-government in general, and the influence of general political habits and standards on these special questions.

One hears finally in Germany that, in certain cities at least, employers took so little interest in the privilege of self-government that in practice they delegated it to salaried representatives.

¹¹ It is often difficult, if not impossible, to present documentary evidence for all statements on questions so charged with political controversy. It is nevertheless a fact that the charges of wholesale corruption and speculation against health insurance officials in 1933 were officially proven false.

One result was the creation of a caste of syndici, or attorney middlemen, who specialized in labor law, pursued always the legal viewpoint, lost sight of the purposes of social insurance and self-government, bureaucratized and muffled the democratic process. "An artificial barrier was thrust between employers and workers." The appearance on the other side of a similar although less highly trained group, the so-called party secretaries of the unions, made things no better. But it would be incorrect to believe that the syndici and secretaries as a class were always obstructionist and legalistic, or that they existed throughout the entire system. Particularly in the smaller cities and rural areas workers and employers took direct part in the administration. This must be rated as a minor criticism of self-government. The efficiency of the Munich General Community Fund, indeed, has been ascribed to the appointment of a chairman by the city, the procedure provided when employers and workers could not agree on a choice. This is hardly a sign of lack of interest.

REPLY OF THE DEFENSE

Fifty years of self-government, even in the absence of other evidence, prove that it had its strengths as well as its weaknesses. The complexity of the controversy over self-government is indicated by the fact that its friends point with pride to many characteristics which its enemies view with alarm. Former labor union officials, for instance, admit freely that politics was mixed up with health insurance fund administration and add that this is "natural" and moreover continues today.¹² They say, too, that unions, competing for support of the voters, were forced to be careful of their nominations, an influence for good administration. Conflict between employers and workers moreover is not only inevitable; it is a sign, not of weakness, but of health. Its extent in any case has been greatly exaggerated. One hears, for example, that often worker representatives got along better with their employer colleagues than with their unions because sometimes they saw fit to vote against union policy.

It is also true that, while the administrative processes have been sped up somewhat since 1933 (there are no statistical measures

¹² One prominent official is inclined to consider the personnel problem primarily a matter of geography. He ascribes the generally poorer personnel of the rural funds to the fact that they have fewer qualified persons to draw on.

to test this), some administrators including men still in office would prefer a system less direct and more responsive to public opinion, even at the expense of some delay. "It is fine," says a former federal official, "to have no critics." It would be difficult to prove that all of the reduction in administrative expense of the last few years (from 10.9 per cent of contributions in 1932 to 9.6 per cent in 1934 and 1935) was due to the suspension of self-government. Indeed, administrative cost per member had already dropped in 1932, a full year before appointment of the special commissioners, and both total expenditures and expenditures per member have been dropping since 1929. Total administrative personnel actually rose in 1934 over 1933, and again in 1935 over 1934. In short, even the radical step of appointing health insurance commissioners was an incident as much as a cause of the trend toward lower costs. Germany was simply having to take in her sails here as well as everywhere else.

There are no syndici or party secretaries today, but many Germans believe the new bureaucracy to be the greater evil. "Even a politician after a time becomes a bureaucrat in Germany."

STRENGTHS OF GERMAN HEALTH INSURANCE SELF-GOVERNMENT

Three strong points of self-government stand out: (1) the close relations between insured persons and administration; (2) the fostering and developing of popular interest in good government and public health; (3) the counter-influence to ossification in administration.

For a risk like that insured by the health fund, the first advantage is of great practical importance. The health risk is the risk least suited to large scale organization, mass treatment, high administrative centralization, bureaucracy. Whatever its advantages, no bureaucratic system can provide a substitute for the interest of insured persons in a scheme they consider their own.¹⁸ The extent of German popular interest in self-governing institutions has perhaps been exaggerated outside of Germany, but

¹⁸ It is not correct, of course, to assume that health insurance self-government always means organization in small insured groups. In so far as health insurance organization departs from its traditional basis of a group small enough to permit preservation of close contact between members and administration, it loses its greatest advantage. The administrator of the Berlin General Community Fund, for example, believes that his Fund is too large. It is the product of a merger of 16 funds completed in 1934.

impartial students consider that the chief loss of the changes of 1934 has been the loss of this interest. The principle of growth has been rooted out. Mechanically the machine goes on much as before, but morally and psychologically "there has been a loss of 50 years in German social policy."

Second, one of the most vital services of the German funds has been their ability to interest the average man and woman in health matters. This interest will die.¹⁴

Finally, all agree that health insurance suffered less from ossification, from the deadening hand of routine and red tape, than any other social insurance, because it was in the hands of its members.¹⁵ Impartial observers noted, between 1920 and 1930, a definitely increasing sense of responsibility among trade union representatives in health fund administration.

DID GERMAN HEALTH INSURANCE SELF-GOVERNMENT FAIL?

This survey of the strengths and weaknesses of health insurance self-government suggests that if self-government failed here it failed principally because of reasons outside insurance. Or rather, that it did not fail in this sphere except in a relative sense, and that it was superseded for general and not special reasons. This is the fact. Of two things we may be sure: most of the attacks on health insurance self-government were politically inspired; it was the alleged evils of self-government as a principle and not self-government as practiced in health insurance that caused its abandonment. Men of every interest and occupation agree that most criticisms of health insurance self-government had their origin in political strategy. Until 1933 the Social Democrats were the principal health fund administrators; to prove the Social Democrats a menace their critics damned health insurance administration. Even within Party ranks it is admitted that criticism of health insurance self-government was predominantly political.

¹⁴ German officials of today would not entirely agree, of course. "Without social insurance, and in particular health insurance, a health policy in the National Socialist sense is impossible." (See Martin, *op. cit.*, pp. 1-4.)

¹⁵ The Leipzig General Community Fund, for example, is said to have been the first to introduce merit examinations for personnel, long before they became compulsory, and the first to own its own convalescent home. The Munich General Community Fund introduced merit examinations in 1923. One of the corollaries of autonomy, however, is the difficulty of coordinating health funds with each other or with other social insurance institutions.

It would be a mistake to assume, however, that political attacks are completely groundless attacks. One may agree that self-government was dropped in health insurance principally as a matter of Party principle, and yet ponder whether the weaknesses of the democratic principle as demonstrated in German political government are inherent and must considerably condition, if they do not prevent, application of the principle in health insurance. Making all allowances for the abnormality and the brevity of the period of trial, it is a fact that the processes of democratic government in Germany worked more and more cumbrously and ineffectively with every year after the War. The multiple party system, encouraged under the monarchy because many parties cancel each other and permit strong executive rule, proliferated to a degree probably never equalled in any country of the world. "Under a parliamentary system it is not a matter of divide and rule, but of consolidate and rule,"¹⁶ and the German traditions of centuries were not to be remade overnight. In the elections of 1930, 28 parties ran candidates; between 1928 and 1930 no fewer than 13 parties were represented in the Reichstag, although only 9 had enough members to influence legislation. Party control (particularly Socialist) of members was always very strict; the member who violated party instructions ran the risk of expulsion. The logical result of these related trends and events was government by bloc: whatever its advantages, its defects, particularly as one descends the scale of government, grow increasingly more serious and, for the democratic processes, dangerous. Local government legislative and executive meetings became mere sounding boards for electioneering, party vied with party to promise the electorate more favors. A fundamental difference in point of view between local authorities, predominantly Social Democratic, and the federal authorities, predominantly conservative, produced conflict, further impeded effective administration. The drastic changes resulting from the revolution of 1933 naturally had their repercussions in industrial as in political self-government. But the key fact is that no impartial student in Germany doubts that, had there been no revolution in 1933, health insurance self-government would continue today.

¹⁶ Munro, *Governments of Europe*, p. 652.

EFFECT OF 1933 CHANGES

A convincing exhibit of the vitality of a social insurance institution, soundly organized and rooted in popular need and acceptance, is furnished by the comparative unimportance of the changes introduced into the mechanics of health fund operation by the leader principle. Mechanics are not everything; in the long run they are not the important thing, and in any event experienced administrators say that the effect of the changes will not be plainly distinguishable for five or even ten years. In the meantime, however, this minimum of change is important because it makes easier the potential return, partial or entire, to former principles.

Despite the fact that most authority now resides in the leader, an official politically appointed, instead of in democratically selected committees, operational changes have been relatively unimportant.¹⁷ Local opinion is still of tremendous practical force and politicians, even in a one-party government, never fail to consider it.¹⁸ In some cases officials ousted in 1933 have been reinstated, in many others qualified although political choices took over their places.¹⁹ Elections to health insurance offices were always political, the principal difference today being that the stimulus of political competition between parties has been replaced by intra-party competition and by the eternal necessity of a minority group to consider and woo and conserve public opinion. Politics in health insurance administration today are at least as important as they ever were. Some critics are disturbed by the growth of lay influence at the top of a technical job (because the leaders are not always experienced), others that the regime shuts out former union leaders who know and could interpret the needs and wishes of the insured group. In Germany the most persistent question on the effect of 1933 changes is concerned not with the machinery of organization or administration, but with what Germans call spiritual or psychological values. Impartial observers

¹⁷ Official but unpublished Ministry of Labor opinion is that the appointment of health insurance fund commissioners was chiefly for the purpose of minimizing the effect of political change; that is, to preserve the funds for their members.

¹⁸ National Socialist politicians resent and oppose centralization just as much as their predecessors, and for the same reasons.

¹⁹ A high official, not a Party member, considers that "the practical effects of National Socialist politics [on social insurance administration] had disappeared" by 1936.

fear the effect in the long run of loss or atrophy of the principle of growth, of member interest, of incentive to local health fund officials. A companion fear is that the present management is not only not responsible to the whims of the voters and fund members, it is not responsible to any final authority. It is bureaucracy enthroned.

On the other hand, it is a fair judgment that improvements since 1933 have been the result not so much of the leader principle as of the greatly increased influence of the Ministry of Labor. Before and after comparisons of German experience within the last 5 years are futile, generally because of the complexity of the influences operating on all German institutions, specifically in health insurance because of the introduction of this important new factor. It is generally agreed also that the transfer of hospitals and sanatoria to the old age-invalidity bodies has introduced economies, but this, too, has nothing to do with the leader principle. It is interesting to note that it is principally the administrator who sees advantages in the leader principle: he gets results quicker, he does not have to concern himself so directly with the processes and pressures of public opinion (party officials do), he naturally believes the present direction is more intelligent than the old.

The reintroduction of employer-worker representation in 1936 through the advisory committee is still largely of potential rather than of actual importance; the importance of the change is that it marks a recognition of defects in the leader principle and modifies considerably the power of the leader. The advisory committee must be consulted by the leader before he may issue rules or changes of rules and before he makes up his budget for the year. More important, the advisory committee has full responsibility for making the annual audit and it must approve the results. If there is difference of opinion on any of the points, they are decided by the local Insurance Office.²⁰ It would not be wise to place too much faith in the immediate import of this change. While the local Insurance Offices today are more completely controlled by higher authority than earlier, and indeed are destined to be abolished, the changes cannot be made rapidly. The local

²⁰ *Vierzehnte Verordnung zum Aufbau der Sozialversicherung: Leiter, Beirat* (fourteenth order for the reorganization of the social insurance system: leader, advisory committee), April 25, 1936 (R. G. Bl. I, p. 400), Part II; Part III, sect. 9.

Insurance Office today appoints an equal number of employer and worker representatives to the advisory committee, a majority of its membership, and has the power of veto over outside nominations for the medical and local government representatives.²¹ Appeals developing from conflict between leader and advisory committee, moreover, are made to this same local Insurance Office,²⁰ and we have seen that this Office is still very close to local government. In practice the advisory committees are functioning quite differently depending on local conditions. Some advisory committees up to the fall of 1936 had not met at all; others were meeting twice or three times a year. In Munich no committee had been appointed. There is no question that the change is an influence for moderation and a tentative step back toward self-government.²² Officially the advisory committee is being explained as simply "a sound limitation of the well-understood leader principle."²³ This itself is an indication that the change is not an empty one.

IS GERMAN HEALTH INSURANCE SELF-GOVERNMENT DEAD?

"Self-government is not dead." It is remarkable how often one hears this belief repeated in almost every German quarter save the official, where the dogma of the leader principle still dominates. Three sets of factors, from time to time referred to in the following discussion, will determine to what extent it will return and what forms it will take if it does: political-traditional, financial and technical. We have seen how deep are the roots of self-government in health insurance and local government; against this today stands a regime whose first contention is the ineffectiveness and viciousness of democracy. But self-government grew and flourished under the monarchy, it may again grow and flourish in the totalitarian state.²⁴ From the financial side German health insurance, like industrial accident, is

²¹ *Law for the reorganization of the social insurance system*, July 5, 1934, Part II, Art. 7, sects. 3, 4.

²² A good illustration of the fact that trends are never without exception. Cf. the delegation in 1932 of important duties in unemployment insurance to the local welfare authorities. See footnote 10, Chapter 7.

²³ *Soziale Praxis*, July 31, 1936, article by Hans Engel.

²⁴ One interesting commentary on the possible permanence of the leader principle in an organization demanding technical administration is that "some leaders already are growing tired of leading," feel themselves unable to make competent decisions in many complex departments of modern municipal government.

naturally a candidate for self-government, because its traditions of a century are the traditions of self-help. Government in Germany gives not a pfennig to health insurance.²⁵ The forthcoming merger of health and old age-invalidity insurance may make an epochal change in this situation: health will be wedded to an insurance already centralized, particularly on the administrative side, and already receiving large government subsidies. It is a truism that *if* the government contributes financially and *if* the government wishes, it may have considerable to say about organization and administration. (On the other hand, there are no insurances in which insured persons and their employers pay all costs where government control is important.) Actually the degree of self-government will depend in a given case on political-traditional and technical factors as well as financial.²⁶

Technically no risk is better suited for self-government than health insurance, particularly when organized in small units. The health risk (excluding long-term invalidity, as in Germany) is one in which the actuarial and financial factors in organization are less important than for others covered by social insurance.²⁷ The risk requires no elaborate calculations. The event insured occurs with relative frequency and produces a relatively small and uniform average loss, two characteristics that make for uniform and predictable results. It is "possible to determine fairly accurately the average cost of sickness insurance per head per annum," which makes the risk "preeminently a case for distribution" (annual or frequent reallocation of contributions through current or practically current spending of income).²⁸ Putting this in another way, the setting aside of capitalization reserves is not necessary in health insurance because there are no important reasons for providing from current income capital funds for incurred

²⁵ Until 1933 the federal government gave varying sums as supplementary maternity benefits to wives of insured workers. In 1932 this amounted to only .07 per cent of total health fund payments.

²⁶ This has been discussed in detail in Chapter 17. The International Labour Office goes so far as to say that if subsidies are regular and limited, the insurance body can still be independent. (*General Problems of Social Insurance*, p. 84.)

²⁷ There is an element of life insurance in German health fund death benefits, but this risk is precisely calculable. Death benefits amounted in 1935 to less than 1 per cent of total health insurance payments.

²⁸ I. L. O., *General Problems of Social Insurance*, p. 90.

but as yet undischarged liabilities. The health risk, particularly in view of restrictions in practice on benefits to 26 weeks for a single illness, is a short-term risk. Nearly all moneys collected in health insurance are expended currently. There are no long qualifying periods between the date of entry into the scheme and the date when the insured person is eligible for benefit. There are no complicated formulæ for relating benefits to the number of contributions or to age. In these respects it is set off sharply from old age insurance, where a combination of practical and technical reasons usually requires capitalization as a method of maintaining equities between classes of insured persons, particularly over a period of time.²⁹ The consequences of poor or inexpert management are minimized.

This does not mean, of course, that health insurance funds, to minimize frequent and considerable changes in contributions or benefits, may not maintain contingency reserves or emergency funds. In fact the German funds have always been required to maintain such funds: in 1935 they had over RM 300,000,000, an amount equal to more than a third of their assets. This equals over RM 16 a member, more than a fourth of the average annual contribution per member, an amount considered by the Labor Ministry much more than adequate and to be reduced. Nor does it mean that the probability of compensable illness is the same for the same person *from year to year*. It is not. But this factor is not important because funds are currently distributed and, roughly speaking, each year the insured members pay as they go; each year the insured group, unlike the case in old age-invalidity insurance, is paying its own way; moreover, being compulsorily insured, rough justice is done because a member may not leave the fund at will and push onto the remaining loyal members the burden of bearing his share of unpaid obligations.³⁰ An insured

²⁹ Not that the capitalization or capital fund method is theoretically essential or everywhere in use. There seems recently to be a trend away from it. In any event the capitalization method would add greatly to the difficulties of self-government. When the assessment or distribution method, or some variation of it, is adopted, this means in practice a government subsidy, introducing a financial reason against self-government.

³⁰ The British health insurance scheme is the only one on the full reserve or capitalization basis, partly to secure a level premium throughout the insurance life. That is, more than enough is charged younger members in order to produce a surplus for supplementing inadequate premiums at older ages. The

member, has, for the best of reasons, a personal interest in the insurance fund. The health risk is suitable, for still other technical reasons, for insurance by relatively small self-governing bodies. To a degree much greater than for industrial accident or invalidity the determination of the fact of illness is subjective; it cannot possibly, as in old age, be made at a distance, occasionally or by correspondence; it requires close and frequent check and the closer the contact and personal acquaintance among the members of the insured group the sounder the scheme. There is no preventive of malingering like personal and frequent contacts between members. Just as private mutual insurance companies in Great Britain have grown large, so not all German health funds are small. The larger they become the more they tend to lose their natural advantages of compactness and close relationships between members. To the extent that the large health funds must substitute other controls, always more or less artificial, they cease to be true mutual aid societies and tend to become like any other group organized for the insuring of risk.

This does not mean that laymen can perform the specialized management or medical functions of health insurance. They cannot. But health insurance, more than any other, demands the live interest of each member in the affairs of his fund and laymen here can form general policy intelligently. It is no accident that the German old age-invalidity organization is comparatively an immense bookkeeping arrangement: elimination of invalidity benefits would make it even more so.³¹

principal risk reason for reserves is the British provision of long-term invalidity benefits in the health insurance system.

The British Treasury indirectly makes considerable subsidies to invalidity benefits through the crediting of unearned reserve values to health insurance funds. These subsidies are made through an annual Treasury payment, not to be confused with current Treasury contributions.

³¹ Unemployment insurance would seem to be disqualified from the widest use of self-government for a combination of reasons. The risk insured is so variable, so considerable and so catastrophic, that the only practicable basis of fund organization is nation-wide. So the individual member of the insured group has little personal interest in the healthiness of the fund, and a completely decentralized scheme would mean local spending of central money. Much more than the health risk, the unemployment risk piles up in great waves which use up also the welfare funds of the local governments and provide an added reason for local administration to dip liberally into the national unemployment insurance fund. There is always more or less conflict between the health insurance fund and the local government authorities, particularly

In summary, while technical considerations and the traditions of a century are highly favorable to self-government in German health insurance, two major factors oppose its return: the political regime; the trends to centralization and coordination. From what we can see today, we must conclude that self-government in the old sense is gone, and will be gone for a long time. While the advisory committee may grow in influence, the health insurance bodies will hardly return to their pre-1933 status. Their future position is more likely to be similar to that of the old age-invalidity bodies, if indeed they are not in fact merged physically with the latter.

GERMANY AND GREAT BRITAIN COMPARED

The degree of similarity in the developments of German and British health insurance⁹² is startling. Both systems are marked strongly by the circumstances of their origins. Each is the product partly of a conscious attempt to continue and encourage mutual aid institutions democratically administered, partly of political forces and influences operative at the time of their legislative conception. Each has been an extreme example of social insurance self-government, in Britain the only example. Under the general pressure of a broad movement toward centralized political government and the particular pressure of intensifying supervision, each is surrendering gradually but unmistakably its autonomous powers to central authority.

It would be a mistake to conclude, however, that their position in the social insurance structure and the general characteristics of the two health insurance systems are identical. The actual degree of autonomy of the individual German fund, despite recent developments, is much higher than that of the British. The Germans, as we have seen, have lost much of their self-government, but, in 1933 particularly, they lost it to the officials of what is still usually a local fund. Even without the advisory committee,

welfare, but it is nothing compared with that which arises between welfare and unemployment insurance authorities in the bitter emergency of depression unemployment. There must be strong controls from above to preserve the insurance fund. Laymen are as capable intellectually of guiding general policy in unemployment as in health insurance, but the crisis places too heavy a strain on divided loyalties. Inevitably the national (insurance) fund has pushed on it burdens legally the responsibility of local (relief) finances.

⁹² See Chapters 9 and 10.

the officials of the rural or general community funds are local officials, politically appointed but subject at least to the political and other controls of local opinion and franchise. In both countries the average size of the fund is increasing, with the inevitable adverse effect on the chances of real participation in administration by the members, but the hegemony of the British industrial society, really an enormous commercial insurance company, has no parallel in Germany. So impossible practically is real participation by British insured members that in 1926 the Royal Commission on National Health Insurance concluded that administration of the Societies must be a function of public administration and not of democratic organization.

The democracy of the British Approved Society is fictitious. In the German sense of the expression, the British never had self-government, i.e., the continuous and comprehensive participation by both employers and workers in routine administration. Employers in Britain have never shared in administration,²³ workers in increasing proportion have selected as their Societies the enormous impersonal industrial organizations, health insurance has not been the specialized function of the Approved Societies but has been mixed with provision for saving, house construction, social diversion and the like.

While the pressure of the centralizers is evident in both countries, the fact is that today the German fund retains more of its pristine privileges. Since 1928 the Ministry of Health has in fact if not on paper regulated day-to-day administration in Great Britain; most German intensive regulation of this type is still on paper. German health insurance reserves have recently been taken away from the funds but have been transferred to another more or less autonomous social insurance institution, and in any event reserves in Germany are not the important matter they are in Great Britain, which provides long-term invalidity benefits and has a complicated capitalization system. (Invalidity benefits are a part of the old age insurance system in Germany.) One-half of British fund investments by law are in the hands of the central authority; in practice most funds except the largest

²³ Except in a few employers' provident Societies, in which workers do not participate.

voluntarily entrust the other half as well.⁸⁴ Each German fund is still a fiscal unit; for years the British Societies have been required to pay a part of their contributions to a Central Fund, or reinsurance reserve.⁸⁵ Only in personnel matters do the Germans go further than the British.

The prospects for the future are for a further increase of central supervision and control in both countries. There are still important areas in each for extension of control, particularly in Germany, where contribution and benefit rates are still the concern of the individual fund. The rate of change will undoubtedly be faster in Great Britain, because local opposition is less, the central power more firmly entrenched. The Royal Commission on National Health Insurance listed as reasons for non-democratic health insurance administration the apathy of the average man to technical matters and his abiding trust in officialdom. It justified its recommendation for closer central financial control by the financial contribution of the government. There is no government contribution in Germany; in Britain the statutory subsidy equals one-seventh of benefits for men, one-fifth for women, also part of administrative cost. In 1935 British Treasury grants equalled more than one-fifth of employer and worker contributions, one-sixth of total insurance income. An additional reason for increasing British centralization must be noted in the major share of compulsory insurance controlled by the large industrial Societies. Even if we assume no change in relative strength since 1928, over three-quarters of insured persons are in 2.5 per cent of all Societies, itself an evidence of centralization and a situation in the long run more favorable to central government regulation than a heterogeneous complex of insurance bodies as in Germany. The large British commercial insurance companies have powerful political talking points, but in the long run these are less potent than the particularism of the German provinces. Reorganization of multi-insurance bodies into a single national

⁸⁴ *National Health Insurance Act, 1936, sect. 142.*

⁸⁵ Since 1921 both the government grant and the Societies' levy to the Central Fund have been suspended because of the size of the balance. In practice the individual Society's contingencies fund has proved to be sufficient to absorb losses without recourse to the Central Fund.

fund has been proposed in Great Britain, and officially rejected.⁸⁶ In Germany it stands in the law in the proposed *Gemeinlast*. But it would be a mistake to rush to the conclusion that this reform will come first, if ever, in Germany. Despite recent German events, Britain has the more ancient, the deeper inclination to centralization.

* The case for a national body or a group of regional insurance bodies is much stronger in Great Britain than in Germany, because of the way many British bodies spread over the entire Kingdom, producing endless duplication in facilities, useless competition and other wastes.

CHAPTER 23

CAN UNEMPLOYMENT INSURANCE AND RELIEF BE COORDINATED?¹

THE GERMAN APPROACH

THE GERMAN unemployment insurance-unemployment relief scheme is a complex. In terms of organization it contains three distinct elements: the remnants of unemployment insurance, mixed with unemployment relief, highly centralized; and two decentralized systems of outright relief. In terms of financing, the arrangements are even more involved: of the three classes of unemployed persons now recognized, one is entirely supported from the resources of the Federal Institution for Employment Service and Unemployment Insurance,² one by local governments, and a third by the two combined but principally the latter. Table 4 briefly summarizes for 1932 (the year of greatest unemploy-

¹ Sources for the German materials include: Carroll, *Unemployment Insurance in Germany*; National Industrial Conference Board, *Unemployment Insurance and Relief in Germany*, p. 6; Weigert, *Administration of Placement and Unemployment Insurance in Germany*, p. 182; Memorandum of the Federal and Prussian Ministry of Labor to the author, *Entwicklung der Wohlfahrts-hilfe in Deutschland*, March 4, 1937 (unpublished); the admirable survey of unemployment relief and insurance by J. Nothaas, *Die finanzielle Entwicklung der Arbeitslosenhilfe in der Nachkriegszeit* (R. A. Bl. II, November 25, 1936); *Statistisches Jahrbuch für das Deutsche Reich, 1936* (Statistisches Reichsamt, Berlin), especially p. 520; *Ninth Report of the Federal Institution for Employment Service and Unemployment Insurance*, especially p. 53; *Ten-Year Report of the Federal Institution, 1927-1937*, especially pp. 29, 79; Karl Goerdeler, in *Jahrbuch der Kommunalwissenschaft, 1936*, pp. 51-81; Markmann, in *Deutsche Verwaltung*, October 20, 1936; Robert Adam, in *Blatt für Öffentliche Fürsorge*, Vol. 21, No. 11, pp. 109-113. The arguments for Dr. Friedrich Syrup's plan are digested principally from his book, *Der Arbeitseinsatz und die Arbeitslosenhilfe in Deutschland* (Berlin: Elsner Verlag, 1936), especially pp. 182-9, and the article by Robert Adam in *Deutsche Verwaltung*, October 20, 1936. The local government position is digested principally from the articles by Goerdeler, Adam and Markmann.

Sources for the British materials include: *Final Report of the Royal Commission on Unemployment Insurance, 1932*, pp. 106-113; U A B, *Report, 1935*, pp. 12, 26, 40-47, 306-7, and *Report 1936*, pp. 3-4, 16, 27-8, 150, 198-9; *Report of Ministry of Health, 1935-36*, p. 140; *Report of Ministry of Labour, 1935*, p. 61; P E P, *Planning*, No. 30, p. 13; and *British Social Services*, pp. 135, 174.

² Changes in December 1937 and January 1938 have, for the time at least, eliminated the former distinction between persons receiving regular and emergency benefits. See later in this Chapter for an account of these changes.

ment) and 1937 the number of persons benefiting in each category and the administrative and financial arrangements for each.

This summary suggests the complexities of the administrative and financial relationships in the unemployment insurance-relief system. Equally important in a consideration of these relationships are the shares of financial responsibility assumed by the

TABLE 4. DIVISION OF FINANCIAL AND ADMINISTRATIVE RESPONSIBILITY FOR UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT RELIEF IN GERMANY, 1932 AND 1937

Status of unemployed persons	Administrative authority		Financial responsibility		Average number of persons drawing benefits, in thousands ^a	
	1932	1937	1932	1937	1932	1937 ^b
1. Persons insured in Federal Institution receiving regular benefits (these same persons may also be receiving supplementary support under 3 below)	Federal Institution (application of means test after 6th week by local welfare authorities and local employment offices of Federal Institution)	No change	Federal Institution (employer-employee contributions supplemented by loans from Federal Treasury)	Federal Institution (employer-employee contributions)	1,089	277.1
2. Persons insured in Federal Institution receiving emergency benefits, after 26th week ^c of unemployment (these same persons may also be receiving supplementary support under 3 below) ^d	Federal Institution (application of means test by local welfare authorities and local employment offices of Federal Institution)	No change	Federal Institution (supplemented by emergency loans from Federal Treasury and contributions from local governments)	Federal Institution (employer-employee contributions)	1,447	523.8
3. Employables under 60 (so-called AWE ^e) not eligible for or having exhausted rights to regular or emergency benefits and persons receiving supplements to 1 and 2 above	Local welfare authorities (certified as employable by local employment offices of Federal Institution)	No change	Local governments (supplemented by sums from Federal Treasury and Federal Institution)	Local governments (supplemented by sums from Federal Institution)	2,048	183.0
4. All others (so-called NAWE) ^f	Local welfare authorities	No change	Local governments	No change	1,006	377.3

^a Excluding dependents.

^b For 12 months ending March 1937.

^c In 1932, after the 39th week in rare cases in which benefits were extended. In 1937 emergency benefits after the 20th week.

^d No new accessions since December 1937. Benefits under (1) now paid without limit on duration. See later in this Chapter for summary of changes in December 1937 and January 1938.

^e See footnote 5 of this Chapter.

^f See footnote 6 of this Chapter.

Sources: For groups 1-3 in 1932, *Konjunkturstatistisches Handbuch* (Berlin: 1936), p. 17. For group 4 in 1932, *Fünfter Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, April 1, 1932-March 31, 1933, Summary 3, p. 31.

For 1937 figures, *Neunter Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, April 1, 1936-March 31, 1937, Summary 2, p. 4.

local and central authorities and by the Federal Institution. Table 5 shows these shares, including the cost of public works, placement and vocational training, from the beginning of the insurance system. For comparison the average number of unemployed is also shown.

TABLE 5. NET EXPENDITURES FOR GERMAN UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT RELIEF, CLASSIFIED BY SOURCE OF FINANCING

	1927 ^a	1928	1929	1930	1931	1932	1933	1934	1935
	<i>In millions of Reichsmarks</i>								
TOTAL NET EXPENDITURES.	759	1,659	1,907	2,940	3,237	3,152	2,914	2,041	1,708
Local governments.....	66	152	271	618	893	926	681	596	461
Federal Institution.....	445	982	828	1,219	1,256	1,307	1,681	1,440	1,220
All other (principally the federal Treasury).....	248	525	808	1,103	1,088	919	552	5	27
	<i>In per cent</i>								
TOTAL NET EXPENDITURES.	100	100	100	100	100	100	100	100	100
Local governments.....	9	9	14	21	28	29	23	29	27
Federal Institution.....	58	60	44	42	39	41	58	71	71
All other (principally the federal Treasury).....	33	31	42	37	33	30	19	0	2
Average number unemployed (in millions).....	1.3	1.3	1.9	3.1	4.5	5.6	4.8	2.7	2.1

^a Half-year. All are fiscal years ending March 31st.

Source: J. Nothaa, in *Reichsarbeitsblatt* 1936, II, p. 482.

BREAKDOWN OF GERMAN INSURANCE-RELIEF PLAN

No one in Germany, as we shall see, is satisfied with the unemployment insurance and relief system. No one has a good word to say for it. It is, and has been for years, an emergency arrangement, revised from time to time to meet new situations, to bridge new financial crevasses. When the Germans created their unemployment insurance scheme in 1927 they believed they had come through the worst of their financial hard times and built accordingly. The new Federal Institution for Employment Service and Unemployment Insurance was to carry eligible workers, without reference to need, through the worst of their unemployment: for at least the first 26 weeks. The contributions of insured persons and their employers were calculated to be sufficient for this initial period; thereafter, and for persons who were not in the insurance scheme or had exhausted their benefit rights, a special form of unemployment emergency relief was provided out of federal and local government funds. It was distinctly understood and believed that the emergency allowances would be of secondary importance:

“designed for periods of peculiarly unfavorable labor conditions.”³ Payment of emergency allowances was left to the discretion of the federal Ministry of Labor, could be limited to localities, occupations or even individuals. They were a form of relief, depending on proof of need, but because of the special status of the claimants, the conditions for qualification were made less difficult and were standard for the entire country.

Between an insured person's insurance rights (benefits in exceptional cases could run to as many as 39 weeks) and his emergency relief rights (32 to 45 weeks) the framers of the law expected that only the direst national emergency would force insured workers on to local general welfare. Need would have to be shown only in the most unusual cases, and then not to local welfare authorities who investigate every case individually, but to the local offices of the new Federal Institution, applying broader and more impersonal tests. The morale of the nation's permanent labor force was to be preserved at the same time local government treasuries were to be spared.⁴

Tables 4 and 5, particularly the second, tell the story of what happened to these hopes. Already in 1929 insurance benefits and emergency allowances had to be reduced both in amount and duration. The burden was shifted on to the local governments. Hundreds of thousands of unemployed persons exhausted their rights even to emergency relief (the majority of these were formerly self-employed), local government welfare offices were forced to supplement inadequate insurance and emergency relief benefits. The federal Treasury was obliged to begin payment of special subsidies to local governments for support of the unemployed. In 1930 it gave RM 3.7 millions; in 1931, RM 233.8; in 1932, the high mark of Germany's post-War financial crisis, the enormous sum of RM 652 millions.⁵ Even with this aid from the federal

³ Carroll, *op. cit.*, p. 57.

⁴ The local governments' contribution was limited to one-fifth of the cost of emergency allowances.

⁵ Beginning in 1932, this group was treated as *Anerkannte Wohlfahrtserwerbslose* (AWE), literally, certified unemployed welfare clients. To establish the rights of the local government to federal subsidy, the unemployed person had to be certified by the local employment office of the Federal Institution as employable and not over 60 years of age. For each person in this group the local government received, first from the federal Treasury, later from the Federal Institution, a monthly subsidy based on a formula or *Schlüssel*. The *Schlüssel* is a graduated scale of subsidy payments per head, the effect of

Treasury the load on the local governments was insupportable, was a direct cause of their nearly universal bankruptcy. Unemployment relief in 1932 alone took over 15 per cent of local government income. For over a million unemployables they received no subsidy at all.⁶ In this same year the local governments contributed 29 per cent of total German expenditures for unemployment relief. Their share in 1935 was still as high as 27 per cent.

The Federal Institution in the meanwhile had been going through a crisis of its own. Its initial reserve of RM 107 millions was quickly exhausted by the heavy unemployment of the winter of 1927-28. Benefits were restricted beginning in 1929; contributions were raised in January 1930 from 3 to 3½ per cent, in August 1930 to 4½ per cent, in October 1930 to 6½ per cent, where they still rest; but the drain on the Federal Institution continued. In 1931 the federal government, in order to lighten its own load, was forced to declare the finances of the Federal Institution independent of its own budget; up to then it had advanced over a billion and a quarter Reichsmarks. Thereafter the federal government kept pressing more and more of its financial load on to the Federal Institution. Loans and advances ceased,⁷ the Federal Institution took over first part and then all of the federal government's share of emergency unemployment benefits, the local governments were further relieved by discontinuance of all transfers from emergency benefit to local welfare, the local governments were excused from paying their one-fifth share of the cost of these benefits and the cost was transferred to the Federal Institution. In 1933 the local governments actually received a greater total subsidy for unemployment relief (certified unemployment relief clients—AWE) than in 1932; more than half came from the Federal Institution.

which is to reduce the average monthly payment as the proportion of AWE increases to the whole population of the local government's area. It takes into account also differences in living costs in communities of different sizes. It sets both maximum and minimum amounts per AWE. No local government with an AWE rate of 10 per thousand or less is eligible for subsidy. (*Weitere Bestimmungen zur Wohlfahrtshilfeverordnung* [further regulations on the welfare order], August 2, 1932 [R. G. Bl. I, p. 395].)

⁶Victims of unemployment other than those in the first three groups in Table 4 are supported entirely by the local governments (*Nichtanerkannte Wohlfahrtserwerbslose*).

⁷The Federal Institution continued to receive an average of over RM 300 millions income from the Unemployment Relief Tax until 1934.

Not until 1933 was the Federal Institution able to show a surplus and then only by dint of retaining the 6½ per cent contribution scale, by application of a means test to insurance beneficiaries and by reducing benefits in many cases below a subsistence level. All advances from the federal Treasury have been returned and more besides.⁸ One important factor in the current discussion of the future of German unemployment insurance-relief is the wish of the Federal Institution to regain control of its finances. Its large surpluses now go principally to finance public works and unemployment relief. Of the Institution's total expenditures of RM 1,500,000,000 in the fiscal year 1937, over a third was paid for these two purposes.

These then are the main strands of a highly complex social, economic and political situation. Various interests are dissatisfied with it for various reasons but there is no lack of agreement that it is bad. It is (despite recent changes to be discussed presently) a tissue of anomalies, a haphazard patchwork of arbitrary divisions in financial and administrative responsibility.⁹ Tables 4 and 5 suggest some of these anomalies: employable unemployed persons are not only to be found under two branches of the Insurance Institution's administration but also among the AWE. Indeed many of the AWE are insured persons who need relief payments to eke out insufficient insurance benefits. Only employables are supposed to be carried by the Insurance Institution, yet for 6 years it has been paying, without time limit, emergency benefits to hundreds of thousands who may never be employed again. Insured workers and their employers see their admittedly excessive contributions expended for all sorts of purposes other than unemployment insurance; they are in fact paying for local general poor relief on an enormous scale.¹⁰ They were asked originally to pay contributions

⁸ Between October 1927 and September 1937 RM 1.95 billions had been transferred from the Federal Institution to the federal government for general relief and the work relief program, against RM 1.39 billions of loans. In addition the Institution had contributed RM .982 billions for emergency relief works (Notstandsarbeiten).

⁹ "If one should offer a reward for the most unsuitable and the most irrational system [of unemployment relief], this system would win the prize." (Goerdeler) "It is vestigial, completely illogical." (Adam)

¹⁰ The *Law for the Extension of Pensions Insurance*, (sect. 33), December 21, 1937, also increases very considerably the financial obligations of the Federal Institution to the old age-invalidity insurance Institutions for wage earners. Until April 1, 1938 the Federal Institution paid these bodies RM 0.50 per

for insurance, now find even their expensive insurance system a relief institution in all but name.¹¹ Local welfare departments and local employment offices, serving different masters and operating on quite dissimilar principles, are expected to work smoothly together in administering the means test for insured persons and in caring for the great mass of joint business resulting from local supplementary relief to insured persons, transfers from one group to another and the like. Even where this cooperation works fairly well, both parties long for a more logical rearrangement of their duties.

A series of orders issued in December 1937 and January 1938 by the Ministry of Labor contain considerable possibilities for the simplification and improved coordination of this situation.¹² The

month for every unemployed person insured in both schemes in return for continuation of their old age-invalidity insurance rights. Thereafter the Federal Institution will pay annually a sum equal to 18 per cent of the contribution income of the old age-invalidity bodies. The effect of this change will vary with the amount of unemployment and employment: in 1935, for example, RM 15,047,730 were paid by the Federal Institution; for this same year on the new basis RM 170,159,040 would have been paid.

Although not officially announced, the purpose of increasing the obligation of the Federal Institution is to readjust the relative levels of the old age-invalidity and unemployment insurance contribution rates: in effect to increase the first, reduce the second. The first rate is at present insufficient to establish statutory reserves, the second highly redundant. Instead of raising the first, it will be supplemented out of the surplus produced by the second. There is likewise no official statement of the reasons for choosing this method of readjustment but several are obvious. Unofficial but informed opinion, for example, ascribes it to the wish of the government not to disrupt the delicate relations between prices, wages and costs during the Four Year Plan. (Lutz Richter, in *Die Sozialversicherung* (Wien: April 1, 1938), pp. 2-3.)

Equally important is the fact that, at the moment at least, the Federal Institution has an enticing surplus. If the insured membership of the two insurances were identical, no great practical difference would result from the change. As it stands, the 14 million persons in the unemployment insurance scheme are subsidizing nearly 9 million persons insured for old age-invalidity but not for unemployment.

¹¹ Increases in unemployment insurance benefits, authorized by Article 1 of *Verordnung über die Höhe der Arbeitslosenunterstützung* (order fixing the amount of unemployment benefit), June 3, 1937 (R. G. Bl. I, p. 616), were announced as a return to the insurance principle. But the right to benefit after the 36th day of unemployment is still contingent on satisfaction of a means test.

¹² *Verordnung des Reichsarbeitsministers über die unterstützende Arbeitslosenhilfe* (order of the Federal Minister of Labor on unemployment benefit), December 22, 1937 (R. G. Bl. I, p. 1410); *Anordnung des Reichsarbeitsministers zur Regelung der Höchstdauer der Arbeitslosenunterstützung* (administrative order of the Federal Minister of Labor regulating the maximum duration of unemployment benefit), December 27, 1937 (R. A. Bl. 1938, I, p. 5); *Erlass des Reichs- und Preussischen Arbeitsministers und des Reichs- und Preussischen Ministers des Innern über die Prüfung der Hilfsbedürftigkeit bei der Arbeitslosenunterstützung* (instructions of the Federal and Prussian Ministers of Labor and of the Interior for the application of the means test for unemployment benefit), January 8, 1938 (R. A. Bl. I, p. 14).

substance of the modifications introduced may be summarized as follows:

Regulations governing emergency benefits are abolished. Provision for emergency benefits remains in the law and the immediate effect of this change is to preclude current admissions to the list of persons receiving this kind of benefit.

Regular unemployment insurance benefits are in general now unlimited in duration. This is official recognition of a situation that has existed for years; i.e., insured persons exhausting their rights were transferred automatically to emergency benefit and paid without limit on duration. But the Ministry of Labor is authorized to impose special duration limits for particular groups of insured persons or districts.

Persons drawing regular unemployment insurance benefits must continue as before to submit themselves after 6 weeks of unemployment to a test of need by the welfare offices of the local governments. But the Federal Institution is no longer bound to accept welfare office certification of the fact and the amount of need. Formerly the Federal Institution could overrule the welfare office when the latter had certified an applicant for benefit; now it is bound neither by a negative nor a positive decision of the welfare office. At the same time, the Federal Institution is allowed to pay higher benefits than those set in the local government certificate.

It is, of course, too soon to evaluate the potential effects of these changes. Assuming that no new emergency beneficiaries will be added, they make possible a considerable advance toward a coordinated German unemployment insurance-relief program. It will be years perhaps before the list of emergency beneficiaries is purged of its heavy load of unemployables; in the meantime the power of the Federal Institution to distinguish between employables and unemployables may be used to accomplish much the same result. A collateral sign of potential increased control of the labor market by the Federal Institution is its increased autonomy in the application of the means test and its authority to exceed local government relief scales. It is a fair judgment to conclude that something has been done which in the long run will clarify and coordinate the German confusion, but much remains. Indeed, the new powers of the Federal Institution over the means test may be regarded as an immediate step away

from coordination. As long as large numbers of unemployables remain inside the insurance scheme, as the *law* authorizing emergency benefits remains on the statute books, as the means test is applied to applicants for unemployment insurance after the first 6 weeks of unemployment, and as the Federal Institution and local welfare offices are obliged to collaborate on the means test,—so long will the fundamental confusion and heterogeneity of the German unemployment program remain.

UNEMPLOYMENT INSURANCE LOSES CASTE

In the current discussion of reform in this field the two principal parties are the Federal Institution and its President, Dr. Syrup, on the one side, and the German Association of Local Governments, now practically a Party bureau, on the other. Other interests are involved, particularly the federal Treasury, but the issue turns principally on the political, financial and other arguments advanced by these two.

It is startling to an outside observer to discover how completely, however they disagree on who should operate it, most responsible Germans¹³ today agree that unemployment insurance is over or indeed perhaps has never been. Usually the statement is made as a self-evident truth: Dr. Syrup, for example, in his recent book in which he presents his reform proposals, lists without explanation the satisfaction of a means test as one of his principles. "Unemployment is a plague, not an insurable risk," says an Oberbürgermeister of Leipzig. "The focus of discussion is not the question of the insurance principle," says Dr. Adam, Director of the Munich Employment Office, because the principle breaks down inevitably in depression. Partly for moral or psychological reasons: "in no other insurance is it so easy to produce the insured event as in unemployment; on the other hand it is very hard to establish malingering." Also, under the pressure of millions of unemployed, the usual insurance controls (e.g., the offer of work) are practically worthless. And finally, depression demands that benefits be linked, not to wages, but to the cost of supporting a family. Despite a system of allowances for dependents in unemployment insurance, local governments in 1935 were

¹³ That is, most officials. A few private individuals and a few officials (privately) would like to see insurance restored.

forced to grant supplements to nearly a quarter million insurance beneficiaries. Unemployment insurance is said to be a failure because it is inadequate.

It is stated or implied, too, that relief is cheaper than insurance and that Germany is too poor to be able to afford the luxury of the latter. "As long as a people must fight for a living the idea of insurance is completely absurd, as absurd as life and accident insurance for war accidents."¹⁴ But the principal argument against insurance is that the new regime has abolished or practically abolished unemployment.¹⁵ The local employment offices of the Federal Institution in the future, Markmann says, "will have only a historical value," except as placing and vocational training agencies and organs of labor market control. The influential Oberbürgermeister of Munich, who is also federal Leader for Local Government in the National Socialist Party Cabinet, believes unemployment is conquered because "there will always be need for houses and roads" and the close control of the regime over the labor market, raw materials and the economic structure as a whole will make the old-style cycle a thing of the past.¹⁶

Not all anti-insurance arguments go as far as this but there is a general assumption in Germany that she has solved a problem America is still muddling over. Current developments are very favorable to this assumption: by late 1936 the number of unemployed for all Germany had dropped nearly to a million, of which perhaps 500,000 were considered unemployable. Since then (August, 1937) the total has gone even lower: to slightly over 500,000.¹⁷ Whatever may be one's opinion about the financial devices used and the kind and level of payment for work that has been created artificially and on so vast a scale, unemployment for

¹⁴ Goerdeler, *op. cit.*, p. 72. He presumably limits himself to unemployment insurance in this indictment but not necessarily. He speaks always for the local welfare point of view.

¹⁵ "When I took over power there were more than 6,000,000 unemployed. . . . Today you must admit that I have fulfilled my promises." (Hitler) (*London Times*, February 1, 1937.)

¹⁶ The proposals of Oberbürgermeister Goerdeler of Leipzig represent an extreme view of the possibilities of this control. He goes so far as to advise abolition of all laws controlling hours and wages, with the expectation that lower costs and increased production will automatically reduce unemployment. An integral feature of the Goerdeler proposals is extensive use of public works.

¹⁷ In August 1937 the number of persons unemployed but fully employable, or fully employable but not suitable for inter-state transfer (*nicht ausgleichsfähig*) was officially reported as 428,000.

the time has been conquered and many Germans even go on the assumption that the victory is permanent. This needs to be remembered in the discussion that follows.

THE SYRUP PLAN

The elements of the so-called Syrup Plan are very simple. It is embodied in four principles, very broadly stated. The principles are:

"The completely outworn distinction" between the four classes (three since January 1938) of unemployed persons must end.

All partially or entirely employable persons who are unemployed, up to age 65 (including those formerly self-employed), for whom public or private work cannot be found, should be supported by the Federal Institution. All other persons would be supported by the local governments.

All provision for unemployment, work, training and support should be concentrated in the Federal Institution.

Support by the Federal Institution should generally be at a level sufficient to make other public relief unnecessary. The amount of relief should be determined by need based on previous wages and local living conditions. Relief should be paid until the unemployed person gets work. The unemployed person should deal with a single agency, the local employment office of the Federal Institution.

It is an open question also, says Syrup, whether in the interests of the insurance principle and the social point of view, support for an initial period of unemployment should be paid without investigation of need.

The leading direct or positive arguments offered by the proponents of the Syrup Plan are these:

This is a coordination measure of first importance. It follows logically the precedent of the law of November 5, 1935¹⁸ which confers complete and exclusive authority for placement and vocational guidance on the Federal Institution. Of the two reasons for his plan which Syrup mentions, one is "administrative simplification." Simplification would result in two ways: in a clarifying of the respective areas of responsibility of Federal Institution and

¹⁸ *Gesetz über Arbeitsvermittlung, Berufsberatung und Lehrstellenvermittlung* (law on employment service, vocational guidance and placement of apprentices), November 5, 1935 (R. G. Bl. I, p. 1261).

local governments; in the release of the funds and facilities of the former for concentration on its logical clientele, the employable unemployed. Overlapping of authority and jurisdiction would cease because the Federal Institution would do the whole job for its own people. Since the fall of 1932 emergency benefits for those eligible *at that time* have been continued without limit on duration; hundreds of thousands of these have become unemployable. Of the total average number of unemployed estimated for 1936 by Syrup, he put the number of only "conditionally employable" at at least 600,000.

Placement, runs a second argument, cannot be separated from unemployment insurance (or relief). Sooner or later, the placement function must enter as a control on payment of benefits. This proposal would continue this relationship for the employable group. No other agency can perform placing and allied functions as well as the Federal Institution. These functions require a centralized organization of national scope and with a national approach to the problems of the labor market.

The Syrup Plan would keep the elite of the nation's working force off welfare rolls as long as possible. Syrup and his supporters maintain there is a world of difference between local general welfare and the benefits offered under the Syrup Plan even if the latter include the means test from the first day of unemployment. There is a tremendous difference between the ordinary poor and persons who are paid benefits in return for contributions to a formal unemployment relief plan. Insured persons today, for example, retain their rights to health insurance while unemployed; they do not have to repay, as welfare clients do, their unemployment benefit.

The financial arguments are perhaps the strongest. By this arrangement the local governments would transfer that part of their relief load which is least capable of prevision and provision: that due to cyclical changes in business. The remainder of their load (for war injured persons, social insurance beneficiaries and for other needy) is influenced much less by cyclical change, presents much more nearly a fixed quantity. It takes a national fund to assume the cyclical risk; Syrup holds out the chance not only of territorial equalization of unemployment costs (for employables) between various provinces of Germany but even temporally, over a

cycle.¹⁹ The Federal Institution would indeed immediately assume more financial responsibility than it could transfer, but in the long run it would gain in closer control of the labor market. The bulk of the unemployment load is today on the Federal Institution but it will gladly assume more if it is released from the demands of the federal Treasury.

The indirect arguments for the Syrup Plan are in part answers to the objections of the local governments. Of these objections the strongest (see also later) is the incapacity of local employment office personnel to perform what is essentially a welfare function. To this its proponents answer that this might once have been true, but that since 1932 when the means test was introduced, the Federal Institution has been accumulating experience. Syrup also argues that in the long run central financial authorities cannot permit local governments to finance part of their unemployment relief out of federal funds and part out of local moneys, because of an inevitable conflict of interest. "With outside money one easily spends too freely," says Adam. For this reason, in the joint arrangements for application of the unemployment insurance means test, the local employment office has never been required to accept local welfare office certification of need (i.e., an affirmative report).²⁰ Particularly in rural areas local employment offices find themselves obliged to check back on local welfare certifications in self-protection.

THE LOCAL GOVERNMENT POSITION

The program of the local governments is not as definite as that of Dr. Syrup, but its essential elements are clear enough. It assumes that unemployment in the future will be taken care of by relief. Positively, it demands for local government entire responsibility for unemployment relief; also it opposes any change which will create another specialized and centralized relief institution. Naturally it expects continuation of federal subsidy for unemployment, principally because the federal government has the widest spread and controls most sources of tax income. In its

¹⁹ The *Employment service and unemployment insurance law* (sect. 159) authorizes an emergency reserve but circumstances have never permitted one.

²⁰ *Ibid.*, sect. 172. Amended by sect. 2 of the order of the Federal Minister of Labor, December 22, 1937 (cited in footnote 12 above).

most extreme form the local government program would abolish entirely the local employment offices of the Federal Institution, retain Federal Institution headquarters and state (provincial) employment offices only as coordinating agencies for placement, vocational training and guidance and as supervisors of local government spending of federal unemployment subsidies.²¹ More moderate statements assume continuance of the local employment offices but for placement purposes only.

The principal direct arguments for this program are as follows:

What is needed is "unified and undivided" responsibility of local government for unemployment relief. It is impossible practically to separate unemployment relief from relief required for other causes. The welfare offices of the local governments are "natural" relief agencies because relief demands individual treatment and German welfare authorities are everywhere acknowledged to have developed case work technique to a level the highest in the entire world. They treat the family as a unit, follow it "from the cradle to the grave." Local welfare officials must go into the same home and often at the same time as unemployment relief authorities, to carry out sanitation, housing, educational, health and other relief functions. Only a single authority can be justified for carrying out functions related as closely as these. Welfare work is one of the fundamental reasons for local government; surely in welfare work if in any sphere it is the privilege of local governments to enjoy that unity of local administration which is guaranteed in the German Local Government Code.

Closely related to this demand for administrative unity is the argument that employability is essentially a relative concept, that the concept varies constantly, depending on industry, occupation, business conditions and other influences, that, in short, the distinction between employables and others is not clear or constant and that the advantages expected from the distinction have been overestimated. For example, the Unemployment Insurance Law regards a person employable if, considering his training and former occupation, he is able to earn one-third the amount a person with similar qualifications in the same neighborhood could earn if he

²¹ This extreme proposal, combined with removal of legal restrictions on hours and wages and with a system of public works, is sometimes called the Goerdeler Plan.

had a job.²² But for thousands of unskilled workers there are no hopes for jobs, except those with pick and shovel for which they are not physically fit. Another instance is the problem of women working a quarter or fifth of full time. Complete local government monopoly of unemployment relief would assure the cooperation desirable between officials who make relief payments and those who investigate need, and would eliminate transfers of clients between two agencies. Classification of the unemployed into two categories would declass a large section of the population, permanently reduce their social usefulness.

Other arguments from this side of the controversy are principally rebuttals of claims and charges by the Federal Institution. Of these by all odds the most common is the allegation that local governments spend too freely when funds come from out of town. The most positive answer to this is Goerdeler's proposal that supervision must go further than "formal reports," it must be "live supervision by living people," with strict accountability and penalties for abuses. In general local government proponents content themselves with blanket denials.

Local government officials look with fear, too, on a new centralization of power, and particularly in this field. Oberbürgermeister Fiehler of Munich expects from it neither financial nor administrative relief. All the Syrup Plan does is make double work. The responsibility of the Bürgermeister will be increased without increasing his authority. Oberbürgermeister Goerdeler of Leipzig expects from it a "new battle of the ink-slingers."

Local welfare authorities scorn the pretensions of the local employment offices in assuming to take over a welfare task; moreover they do not believe it possible to arrange an unemployment relief plan which will make local public welfare superfluous.²³ An organization operating on insurance principles and from central headquarters "according to records and norms" must inevitably fail.

Most unexpected to Americans is the claim that the local governments and local government associations did a much better job of placement prior to 1927 than they have ever been given credit

²² *Employment service and unemployment insurance law*, sect. 88 (1).

²³ The analogies between German and English opinion on this point and on the difficulties of defining employability, are interesting. See later in this Chapter.

for, that placement was never important between states (provinces), and therefore that the local governments, banded in suitable associations, can do the placing as well as the paying job.

THE GERMAN SITUATION IN SUMMARY

It is significant that essentially the dispute between the two parties is not over facts; rather it is the result of a fundamental difference in interest and point of view. For example, it is quite impossible to reconcile the two divergent views as to who should control the employment offices. The local governments feel that they lost them in a political contest and that inter-state placement never was important anyway. The Syrup group answers that one needs a national system of employment offices for national control of the labor market and that the Federal Institution can do things today that were impossible in the old days. Here the logic of recent events is on the side of the centralizers.

Again, the central authorities regard local government insistence on unity of relief administration as a fetich, indeed largely a dishonest mask for local retention of political patronage. They disregard completely the difficulties and the inconveniences that will be created by the establishment of a new category of relief clientele. As a matter of fact, there is a vast difference, depending on location, in the way the system of cooperation between the two agencies has worked in applying the unemployment insurance means test.²⁴ Where there has been mutual confidence, as in Freiburg, Leipzig and Munich, all has gone fairly smoothly; in Berlin, where this trust has been lacking, the local employment office has made all except the initial tests of need. Syrup considers the task of classifying the unemployed as employable or not a minor problem; social workers do not. Syrup regards his as much more than a relief plan; local governments do not. Syrup believes his benefits would make other relief superfluous; the local governments do not. The stronger case on this point is the local governments'.

Where the local governments are weakest is in the generally accepted fact that they are inclined to spend somewhat more freely when the funds come from a higher source.

²⁴This, of course, has no bearing on the larger question presented by the conflict between the local government's principle of treating the unemployed on a par with other poor, as contrasted with the Federal Institution's plan for giving the unemployed special status, with more liberal tests of need.

THE FUTURE OF GERMAN UNEMPLOYMENT INSURANCE
AND RELIEF

It would be a thankless task to attempt a precise forecast of the direction of events in German unemployment insurance and relief. So much depends on intangibles, so much on factors that change nearly from day to day. Not only internal conditions but foreign affairs will have an influence on the decision. Syrup is quite frank in offering as a reason for close control of the labor market the requirements of mobilization in case of war. The combinations and the fortunes of internal political competition are in constant change. On the side of the local governments (distinguishing now between arguments and basic social-political factors) are the deep traditions of community self-help and the universal local desire to save local jobs and to finance local needs as much as possible out of the central fund; the regime must court local support. On the other side stand an Institution and a leader apparently in the confidence of the central government if not of the federal Ministry of Labor: President Syrup is one of two men who have been entrusted with all responsibility for the labor market (*Arbeitseinsatz*) under the second Four Year Plan, and is, moreover, a person of resource and political experience. He is strong enough to have made a formal proposal to end the dependence of the federal Treasury on his Institution. He has recently won one battle with the local government authorities; on the other hand the new obligations of the Federal Institution to the old age-invalidity bodies show that he is not yet master of his financial house. Unless his plan is adopted, ultimately it means the end of his Institution: it cannot justify itself as an insurance body.

The most striking omission in published discussion of this subject in Germany (except for Syrup) is criticism of the extent to which employer and worker contributions have been diverted to other than insurance purposes. Despite promises and the efforts of German business men to have these reduced, they remain at the 1932 level. They represent an inequity of burden that would be difficult to match anywhere in the world. It is hard to see how they can be reduced in the near future. If they are reduced, the entire aspect of things will change and the chances for the Syrup Plan will be greatly reduced with them. If they remain where they are,

the events of the immediate future will be greatly in Syrup's favor. It would not be the first time that powers granted in an emergency were retained as permanent and significant features of a social insurance system.

THE BRITISH APPROACH

Like the German, the British unemployment insurance-relief²⁵ system is a three-way system. It consists of a highly centralized unemployment insurance scheme, a highly centralized unemployment relief scheme and a residual relief scheme locally administered but rather closely regulated from London. Indeed if one distinguishes between legal forms and actualities, the German and British unemployment-relief schemes are considerably alike. Under similar financial and social pressures local resources in both countries broke down under the load of depressional unemployment, both insurance schemes progressively were diverted to relief, both discovered the impossibility of central financing and unregulated local spending of central relief funds; in both countries local government finances and even residual relief, under increasing central subsidies, are becoming more and more matters of national concern; in both, unemployment relief has been highly centralized (in Germany except in name); both recognize in the able-bodied unemployed a distinct category of the poor and attempt distinctive treatment; in both countries but particularly in Germany, local welfare authorities bitterly oppose such separate treatment. In Germany the final decision on the future of unemployment relief has not yet been made; in the meantime Germany has come to the equivalent of Unemployment Assistance on a considerable but not as wide a scale as the British.

Table 6 gives a brief summary of the division of financial and administrative authority in British unemployment insurance and relief before and after the introduction of Unemployment Assistance. A column is added to show the relative importance of each method of treating the unemployed in terms of persons drawing benefit.

The relations between local and central financing of unemployment insurance and relief up to the creation of Unemployment

²⁵ Developments in British treatment of the unemployment insurance-relief problem up to Unemployment Assistance have been covered in Chapter 10; see also Chapter 11.

Assistance have been previously discussed. Table 7 shows the relative shares of financial responsibility of the Treasury, employers, workers and local governments, in 1934, 1935 and 1936. It covers, that is, the last full year of the old system and the first year and a quarter of the new.

TABLE 6. DIVISION OF FINANCIAL AND ADMINISTRATIVE RESPONSIBILITY FOR UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT RELIEF IN GREAT BRITAIN, 1934 AND 1937

Status of unemployed persons	Administrative authority		Financial responsibility		Average number of persons drawing benefits, in thousands	
	1934	1937	1934	1937	1934 ^a	1937 ^b
1. Persons insured in national scheme, receiving regular benefits (same persons may also be receiving supplementary support under 3 below) ^c	Ministry of Labour	No change	Unemployment Fund, Ministry of Labour (employer and Treasury contributions)	No change	943	714
2. Persons insured in national scheme, receiving transitional payments, after 26th week of unemployment (same persons may also be receiving supplementary support under 3 below)	Ministry of Labour (application of means test by local welfare authorities)		Treasury		1,022	
2a. Persons covered by Unemployment Assistance (those exhausting insurance rights, other able-bodied as defined after April 1937) ^d		U A B (Ministry of Labour responsible to Parliament)		U A B (Ministry of Labour responsible to Parliament) 95% of funds from Treasury, 5% from local governments		552
3. All others	Local Public Assistance authorities	No change	Local governments (receive central government block grants-in-aid based partly on amount of local unemployment)	No change	425 ^e	330 ^e

^a Data are for January.

^b Data for groups 1 and 2a, as of March 15, for group 3. January 1936.

^c After April 1937, supplementary support came from 2a.

^d Either transitional payments or unemployment allowances, depending on which was higher for the duration of the "Standstill," January 1935 to November 1936.

^e Including dependents. Data cover England and Wales only.

Sources: Hill and Lubin, *British Attack on Unemployment*, p. 205; P E P, *British Social Services*, p. 203.

TABLE 7. EXPENDITURES FOR BRITISH UNEMPLOYMENT INSURANCE AND UNEMPLOYMENT RELIEF, CLASSIFIED BY SOURCE OF FINANCING

Source of funds	1934	1935	1936
	<i>In million pounds sterling</i>		
TOTAL EXPENDITURES.....	110.4	116.0	119.4
Treasury (net).....	63.6	65.6	66.9
Employers and workers.....	39.3	41.7	43.4
Local governments (Public Assistance).....	7.5	8.7	9.1

Source: Data except for local governments: *Statistical Abstract of the United Kingdom to 1935*, 80th number, p. 128. Local government data: *Report of Ministry of Health, 1935-36*, p. 123. All years end March 31. Treasury expenditures include net additions in Treasury advances to the Unemployment Fund, current (equal thirds) contributions, and all costs of transitional payments and unemployment allowances, but exclude administrative expenses and grants for public works. This last item is not important and is confined principally to the depressed areas. In addition, a part of block grants-in-aid to local governments is for unemployment.

In Part II were outlined the various forces that produced British Unemployment Assistance, a formal organization on a national front of centralized unemployment relief. The analysis that follows summarizes the short history of Unemployment Assistance, outlines the controversy that rages in Great Britain, immediately over Unemployment Assistance, actually over the whole broad area of unemployment insurance and relief.

On the so-called first appointed day named in the 1934 Unemployment Act, January 7, 1935, the newly created Unemployment Assistance Board took over the first part of its new duties: responsibility for investigating the need for unemployment allowances and for actual payment of non-cash benefits (clothing, food, blankets, etc.) for 800,000 able-bodied unemployed persons (and dependents) transferred from transitional payments. On the second appointed day, postponed by the Standstill Act until April 1, 1937, the Board took over the second part of its duties and clientele: 127,000 able-bodied poor persons and their dependents, formerly entirely on local Public Assistance. Together the two groups (except for persons under 16 and over 65) represent practically all British able-bodied unemployed not eligible for insurance benefit. Indeed the jurisdiction of U A B is even broader: it may in certain cases supplement unemployment insurance benefit when this is less than U A B allowance rates. The scope of Unemploy-

ment Assistance is unique. Neither the law nor U A B regulations impose a total or case limit on expenditures; the Board is specifically directed to pay not only cash allowances to its clients, but to promote their and their families' "welfare" in other ways, with a particular view to preparing the wage earner for reentering regular employment.

It was inevitable that a mandate as comprehensive and as revolutionary as this would not only have important repercussions on unemployment insurance and local poor relief, on which Unemployment Assistance directly impinges, but would raise issues even wider.

UNEMPLOYMENT ASSISTANCE: ARGUMENT FOR THE OPPOSITION

Adverse criticism of Unemployment Assistance groups itself principally under the following heads:

It takes one more step toward the destruction of local self-government.

Centralized relief is unnecessary, inflexible, and produces dangerous differences in treatment between U A B clients and other unemployed persons.

It is as much in politics as transitional payments ever were.

It misses the heart of the British unemployment problem.

It perpetuates the needs test.

It is too expensive.

Of these, the first two bear particularly on the problems of co-ordinating unemployment insurance and relief. To a lesser degree the third also applies; the rest which have to do with other phases of the unemployment relief issue need not be discussed here.

The first two criticisms represent essentially the position of those who oppose *any* centralized scheme of unemployment relief. The first is hardly stronger than it was prior to 1934; it has been reinforced somewhat by the acknowledged liberality of U A B benefit scales and of U A B general policy compared with local Public Assistance and insurance benefits. Zealots have even applied the name "bribery" to this policy.

One of the questions that arises in the mind of the impartial observer is why Britain, with so long and successful a history of central subsidies through grants-in-aid, particularly since the 1929 Local Government Act, did not choose this middle way between

outright centralization and the haphazard local-central arrangements that persisted up to 1934. The Royal Commission on Unemployment Insurance after much thought recommended precisely that, with "much the greater part of the burden on the Exchequer" but arranged so that the grants "will not undermine the Local Authority's sense of financial responsibility."²⁶ Grants as high as 80 per cent of total expenditure were suggested informally. The immediate reasons for the House of Commons' failure to follow this advice are more or less obscure; on the surface largely political, essentially they were the same as those that have produced in general so high a degree of centralization in British government and social insurance institutions. Labor fought the needs test because of its hatred of Public Assistance, which means local administration; it knew that adoption of grants-in-aid would mean continuation of local administration and personnel.²⁷ Rightly or wrongly, the old Poor Law (superseded in 1929 by Public Assistance), was in such evil repute that the government was not courageous enough to apply it to Unemployment Assistance. The 1932 municipal elections took place between publication of the first and final reports of the Royal Commission. Contested on the inequities of the transitional payments means test, they resulted in heavy losses of normally Conservative districts to the Labour Party, alarming the government of the day. Other reasons for rejection of grants-in-aid are also really reflections of the British inclination to centralized government. They include the belief that local authorities cannot properly handle a national problem; that subsidies are unsuitable for Unemployment Assistance because of the size and complexity of the problem, and of the rapid changes in the unemployment situation and in the number of persons involved.

The second criticism, or rather group of criticisms of Unemployment Assistance, which comes principally from public welfare officials who are without question the heart of the opposition, has really developed only since U A B has gone to work. The London County Council and the Association of County Councils in Scot-

* *Final Report*, 1932, p. 152.

²⁷ In fact the bulk of subordinate Public Assistance personnel was retained by U A B, particularly on the investigating side, but this is gradually being weeded out.

land were the sole local authorities to oppose centralization of unemployment relief administration before the Royal Commission on Unemployment Insurance. Now old fears are confirmed, new ones have been aroused. Unemployment Assistance, it is alleged, has already proven itself unnecessary. It is only another organization for poor relief. There is no special unemployment relief problem: "U A B is doing the same work we do," says a Public Assistance officer. U A B clients hardly make a new category because, broadly speaking, they are the same group that was formerly on transitional payments and before that on local Public Assistance or poor relief.²⁸ Dependency is indivisible; it is not possible to cut off a piece, call it unemployment dependency and treat it separately. To attempt to do so is "a fundamental error—an affront to all the canons of decent social administration." Local Public Assistance is the only comprehensive relief service. An attempt to treat this group (including dependents) separately must have undesirable social results. One is the "administrative confusion" between U A B and Public Assistance authorities resulting from the difficulties of determining their respective spheres. Who, for example, are the "able-bodied unemployed?"²⁹ (U A B takes the able-bodied client, Public Assistance the non-able bodied.) There is also considerable overlapping between the two assistance services: for example, an able-bodied unemployed person and his dependents are handled by U A B but his adult sons and daughters in need of medical or other care are on Public Assistance. All the able-bodied unemployed excluded from Unemployment Assistance by the 1934 Unemployment (Assistance) Act or by U A B regulations remain with Public Assistance. Finally, it is argued that a relief job on the average can be done better by Public Assistance authorities than by any other organization. Central authority means inevitably more or less rigid administration; exercise of true discretion is not possible and even is not wished for in a centralized scheme. U A B cannot command the variety and the scope of facilities built up in many years by welfare authorities. The qualifications of U A B's investigating staff

²⁸ The Birmingham Public Assistance Committee discovered, in a special survey in 1934, that 60 per cent of its transitional payments cases had been Public Assistance clients in 1923-24.

²⁹ Quotations are from P E P, *Planning*, No. 75, p. 2, and *British Social Services*, pp. 28, 147-8, 155.

are not as high in training or experience as they should be.

An even more fundamental issue is raised by critics of Unemployment Assistance: on the dangerous scope and level of U A B allowances. There are differences, in many cases considerable, between the amount and scope of Unemployment Assistance on the one hand and unemployment insurance and Public Assistance benefits on the other. It is a fact that U A B allowances average higher in amount than the transitional payments (based on local relief scales) that they succeeded.³⁰ Many Public Assistance officials consider them high enough to discourage the desire of the client for work.³¹ They also are higher on the average than unemployment insurance benefits.³² There is some indication that this is already creating a new aristocracy of U A B clients. This apprehension is coupled with a fear that U A B is ambitious, "that in time U A B will crowd Public Assistance out," a natural development if the general position of welfare authorities on the indivisibility of dependency is sound; that is, it will gradually assume relief of other than the unemployed needy. It is even feared that U A B will go into health and old age insurance. It is true that the possibilities of the discretionary powers of the Board, even under the present Act, are considerable. Medicines, for example, are specifically prohibited as allowances, but extra foods may be allowed in cases of under-nourishment, and the dividing line between sickness and unemployment as a cause of under-nourishment (particularly for the children of an unemployed

³⁰ In February 1935, the second month of U A B, two-thirds of its allowances were higher than transitional payments. Since then U A B allowances have been further increased by the new regulations effective November 16, 1936. Immediate increases were granted to over 200,000 persons.

³¹ The Chairman of U A B in his first *Report* (1935) calls "attention to a fundamental question that arises on any scale of assistance for unemployed persons . . . the difficult problem of the relation between assistance given during unemployment on the one hand, and general wage levels and the normal earnings of applicants when at work on the other. . . . The amount of assistance . . . may be so little below an applicant's normal net earnings as to diminish both his eagerness to obtain work and his reluctance to relinquish it. There are already disquieting signs in individual cases. . . . Taken altogether these cases are only a small proportion of the total number of applicants, but they are a significant problem" (p. 12).

³² Exact comparisons on the basis of published statistics are not possible because of the different proportions of married men receiving benefit under the two systems. Average weekly insurance benefit for 1935: 17s. 2d.; average weekly Unemployment Assistance allowance for the same year: 21s. 9d. (low), 23s. 4d. (high). Average unemployment insurance benefit is not published for 1936. U A B allowances rose in 1936 to 23s. 5d. (low), 24s. 8d. (high).

man) is practically a difficult one. Unemployment insurance itself is in danger: there will be a demand, first for higher insurance benefits; this will be followed by an even greater inability of the average man to distinguish between unemployment insurance and assistance. This danger has been exaggerated since April 1937 when certain groups on unemployment insurance benefit became eligible also for supplementary U A B allowances.³³

And, finally, U A B is as deep in politics as ever transitional payments were. The scene, it is true, has been shifted from the local to the national stage, but U A B allowances are still one of the first interests and worries of the House of Commons. Local pressure, we have seen, was so great and bitter in the first month of the new scheme that Commons in approving the Standstill abruptly disowned its own child. This can be explained, partially at least, by the natural difficulties of adjusting a nation to the shock of sudden change, but political interest in Unemployment Assistance continues. Contrary to earlier hopes the Minister of Labour must still debate the equities of particular cases in Parliament. Labour members plead eloquently for abolition of the needs test and for higher allowances. U A B must get annual appropriations from Parliament, must have its regulations approved there. In December 1936 Labour demanded another standstill; that is, abrogation of all reductions produced by the new regulations effective November 16. The Labour Party made considerable use at this time of the contrast between the rearmament prosperity of the south and east and the bitter plight of the depressed areas.

UNEMPLOYMENT ASSISTANCE: ARGUMENT FOR THE DEFENSE

Of the adverse criticisms that bear directly on the problem of coordinating insurance and relief, the defense answers only the second. U A B proponents deny firmly that they are violating good welfare principles. They deny that their group of clients is not a logical one. If the dependency of most U A B clients were caused by factors other than unemployment, there would, admits the first Secretary of U A B, be a case for the opposition. But at least "75 per cent are normal" cases in this sense, and would resent ordinary welfare treatment. A London County Council Public

³³ A contradictory but not widely held prognosis of U A B's status is that, following British precedent, U A B has been set up in such a way as to permit amalgamation with the Ministry of Labour.

Assistance official agrees on the estimate. One test, an over-liberal one, of the accuracy of this estimate (there are no statistical proofs) is in the proportion of cases which U A B refers to Public Assistance and other local authorities for supplementary attention or benefits. In one central London Division, the proportion is estimated at only 2 per cent. On the other hand, the London Survey of 1929-30 established the fact that unemployment is the apparent cause of poverty for 36 per cent of families below a minimum standard of living. And the Ministry of Health estimates that "nearly two-thirds" of local government unemployment relief expenditures in 1934 were to persons normally employed.

Defenders of U A B deny also inflexibility, particularly since the revision of regulations in November 1936 which corrected the worst of the hardships imposed by the rent provisions of the uniform standards. Nothing is harder to measure than relative flexibility, but U A B points out that both in 1935 and 1936 increases in weekly allowances were given in view of "special circumstances" (mostly for extra nourishment and high rents) in 20 per cent of total U A B cases. Also 10,000 and 22,000 lump sum payments were granted respectively for "exceptional needs" (extraordinary expense such as buying clothing, meeting the extra cost of catastrophes, etc.). (The average number of cases in 1935 was about 700,000; in 1936 about 650,000.) In a central London Division 88 per cent of family cases received an increase of their rent allowance over the standard. In one northern Division about 20 per cent of all cases, even excluding family rent cases, received allowances above standard. In a central Division the percentage was 25. Indeed some Public Assistance authorities admit that U A B officers are less bound by fixed standards than they.

Inferior local administration of unemployment relief has been succeeded by impartial centralized administration, with the majority of higher places filled from the permanent service, all other places under civil service regulations. The grades below the top, filled largely from the temporary staffs that administered transitional payments (former Public Assistance personnel), have been left in that status for a probationary period, but the proportion of temporary employees is being gradually reduced.³⁴

³⁴ The proportion of permanent to total staff at the end of 1936 was 41 per cent.

One of the unexpected results claimed for Unemployment Assistance is the stimulus U A B is applying to other welfare agencies, public and private. It has the leisure and the money to make a thorough investigation of every application; when it cannot act itself it refers the case or the need to the appropriate authority. While this at times irritates local authorities, and occasionally the Ministry of Health which supervises them, the social effect is wholesome.

THE BRITISH SITUATION IN SUMMARY

It is not strange that the arguments of proponents of the two points of view do not always meet. As in Germany, their difference is one essentially of philosophy. On some points of controversy, for example, the proportion of the unemployed poor whose dependency is uncomplicated by other causes, time will probably develop data still unavailable. But on such a question as whether centralized relief is too rigid, there will never be a statistical answer. Nor on the dangers of an imperialistic U A B program. Two groups principally are arrayed against Unemployment Assistance: the local Public Assistance authorities and, to a lesser extent, local government officials in general; all opponents of centralization, all protagonists of governmental decentralization and coordination on a regional basis. The latter are not a large nor as yet an influential party. Both concentrate on the second of the criticisms listed earlier in this Chapter; they agree, for example, that a needs test is essential in unemployment relief.

The difference in point of view between the pros and antis is a fundamental one: the fate of U A B will be decided on the issue of centralized versus decentralized unemployment relief. It seems evident that the direction and the force of British events, the power of the central government and the civil service and the administrative efficiency of U A B, all will combine to prevent any important devolution or decentralization of British unemployment assistance. It will take a large and determined opposition to defeat this formidable combination. Such an opposition does not now exist and is not likely to develop in the predictable future.

THE LIMITATIONS ON INSURANCE-RELIEF COORDINATION

This survey of German and British attempts to create a co-ordinated unemployment insurance-relief system provides excellent illustrations both of possibilities and limitations. The tentative nature and the relative successes of all attempts at coordination are suggested: both possibilities and limits are different for the two countries; they change with changing internal and external conditions; many of the limits are inherent in the social and political habits and characteristics of the people as well as in the technical difficulties of reconciling two fundamentally different methods of treating unemployment. Here, as everywhere, choices must be made. A decision, for example, must be made either for retaining insurance or dropping it; if retained, decision must be made on the relations between the insurance and unemployment relief and residual relief systems; if not, decision must be made whether a separate category of the unemployed shall be created; and in turn, if this category is recognized, on the relations between the schemes for the unemployed and other poor. And so on, nearly endlessly, into every aspect of a tremendously complicated set of circumstances.

This section will review, in terms of this specific problem, the operation of the factors which influence the form and effectiveness of the basic organizational pattern described in Part IV.

These factors may be conveniently grouped, for the present purpose, under two heads: social-political, technical.

The *social-political* factors that bear principally on the problem of coordinating unemployment insurance and unemployment relief are:

The relations, particularly financial, between local and central government.

The national wealth and income and its distribution by social groups.

The fact that unemployment is always a political question.

The social habits, prejudices and general characteristics of the country.

The *technical* factors, generally subordinate to and hinging on the social-political, are principally these:

The inevitable, inherent differences between *any* insurance and *any* relief scheme.

The inevitable, inherent differences between *any* centralized or central administration and *any* local administration.

The kind of social insurance organization and its relations to the central and local governments.

The decisions on technical questions such as :

What is the scope of insurance and relief membership?

Who are the able-bodied unemployed?

At what level shall insurance benefit rates, relative to wages, living costs, etc., be set?

If insurance benefit rates are flat sums, shall maximums and minimums be set, and where?

Shall unemployment relief be given according to need, without limit in amount? in duration?

How long should the insurance benefit period run?

These social-political and technical factors are common to Great Britain and Germany (and all other countries). But their relative importance in different countries frequently varies. The clearest indication of this is the substantial difference in the way the British and Germans have developed their insurance-relief programs. It is not necessary here to go into all the sub-factors that fall under the main heads above; illustrations of a significant few will be sufficient to explain important differences in results.

SOCIAL-POLITICAL FACTORS

Basic to the approach in both countries is the important fact that the unemployment problem and unemployment insurance and relief are always and must always be political. Unless the government can meet the unemployment problem in some way satisfactory to its citizens it will and should fall. In both countries, too, we have noticed (Part II) the steady and relentless increase of central influence over local finances and local government affairs in general. Central government, in fact if not in law, is squarely responsible for unemployment.

From this point on, however, the influence of the social and political factors that bear on and shape social insurance-relief organization and administration is different in the two countries. These differences, indeed, determine the whole set of each national approach, and largely in turn the nature of (and the solutions for) the technical problems that have to be solved or at least reconciled or compromised. The British, for example, are firmly

wedded to the contributory insurance principle;³⁵ it enjoys a popularity, perhaps even for unemployment, higher than at any stage in British history. Originally adopted principally for financial reasons "it has proved surprisingly and increasingly acceptable. The population is becoming insurance-minded."³⁶

No one in Great Britain, with the exception of one radical in Parliament, has proposed the abolition of unemployment insurance; in Germany the parties in the present controversy agree on one thing: unemployment insurance is not worth keeping. Welfare authorities in both countries argue against a separate category of the able-bodied unemployed for relief purposes; in Germany they go on to deny the need even for insurance of this group. In Britain unemployment is assumed to be a permanent fact; Germans assume it has been conquered.³⁷ Germans, if the testimony of wel-

³⁵ The world, including the United States, has pretty much given up disputing whether the unemployment risk is insurable. By the criteria of private insurance (coverage of a large number of individuals exposed to risk of the same general kind, a risk not likely to produce loss to a relatively large proportion of the individuals at the same time, a risk producing a loss easily and definitely verifiable, payments to beneficiaries by contract and as a matter of right), unemployment insurance has definite lacks. (Chamberlin vs. Andrews and Bennett, *Economic Brief for Respondents, Factual Background of Article 18, Labor Law, Chapter 468, Laws of 1935*, argued in the Court of Appeals of the State of New York, March 19, 1936, p. 73.) But there is no practical point in arguing the question if it is decided that what is generally called unemployment "insurance" is worth retaining.

Actuarially, then, there is no debate. German industrial accident and health insurance actuaries, for example, smile when unemployment is mentioned in the same sentence with insurance. The German Social Insurance Code does not include unemployment insurance. A political risk is not insurable in the orthodox sense.

But it is precisely this political characteristic, combined with the social and economic, that may dictate the retention of unemployment "insurance." Germany (at least for the time) and Great Britain have made diametrically opposed decisions on these bases. The British say they want "insurance" for its moral values. (There is no needs test; there is less political abuse, there is more incentive to self-help than in any other system.) It also provides "an easy automatic way to take care of ordinary unemployment." Many British wish unemployment insurance retained "just because," with no attempt at explanation. This British assumption in favor of insurance has an interesting German parallel: Germans seem equally inclined to reject unemployment insurance without explanation. In Germany, for the time at least, the social-political atmosphere is unfavorable to unemployment insurance; in Britain it is very favorable.

³⁶ P. E. P. *British Social Services*, p. 160.

³⁷ This is only figuratively true even if one discounts the conditions under which much of German work is offered. Germans include in their statistics of unemployed workers employables and unemployables. Taking the latter at 428,000, the Federal Institution's estimate, the lowest net unemployment figure Germany has reached is approximately 80,000, in August 1937.

fare workers and others is to be credited, dislike the means test at least as much as the British. But the German is under a discipline, psychological as well as political, that does not exist in Britain and his experience with unemployment insurance, compared to the Briton's, is very brief. The key fact is that the German's concept of rights and of liberty is so different from the Briton's that the same words can be and are used to explain and justify equally well two completely dissimilar national attitudes and policies.

But, even after deciding for or being habituated to the insurance principle, national social-political habits and traditions are still important. The British, for example, explain their generally low benefit rates as intended to be enough simply "to get on with for a while." They assume other personal resources, at least for a limited period of insurance benefit. This assumption may be wrong, it may be encouraged by private insurance interests, but it is a fact of enormous social importance. Related to this is the British tradition of flat benefit rates as distinguished from rates graded by wage groups. These rates are based on the twin assumptions that, for the groups covered, wage distribution, and in turn the cost of living, are so nearly uniform for all insured persons and all sections of the country that discrepancies are not important and that, the higher a man's wages when at work, the more he can lay aside in his individual store. The British system of low flat benefit rates is a very maze of social-political bias and habit. The assumption, for example, that wages are distributed fairly evenly by trade and locality in any country is measurably true, if ever, only when the group insured is relatively small;³⁸ the more comprehensive the insured membership the greater the discrepancies between wages and benefits for the higher paid workers and the greater the burden transferred to other methods and sources of support. So in turn other difficult decisions must be made on the relations between insurance and relief standards, particularly as the British insist on preserving for the able-bodied worker a special status.³⁹

³⁸ The British found it advisable to depart from the principle when they set unemployment benefits for agricultural workers lower than under the general scheme.

³⁹ Even less tangible are the factors related to national wealth and income and their distribution. The Germans, for example, say they cannot afford insurance. What does this mean? It cannot be tested. The materials for the

TECHNICAL FACTORS

The technical factors influencing unemployment insurance-relief coordination are secondary because their nature is largely determined by social-political decisions and characteristics, and technical decisions or solutions must be achieved within the limits these impose. When, for example, a worker changes from insurance to relief status, there must be a change in the amount of his benefit. He is passing from contractual to welfare status. Even though unemployment benefits are modified both in Germany and Great Britain by attaching dependents' benefits, these are inevitably more standardized than those of the most rigid assistance scale. This relative rigidity and uniformity is in the nature of insurance; the more and the greater the variables that are introduced into the insurance benefit scale the less it is insurance.

At that point at which the worker passes to relief he will receive what he needs, not what he has contracted for. If insurance benefit rates are low and flat, the break in the amount of benefit is generally upward and is exaggerated: that is the British dilemma. If they are high the break will usually be downward, but there is the danger of insurance benefits impinging on wages. This change is emphasized, perhaps dangerously, when both insurance and relief systems are national or when a large proportion of relief clients receive increases above the insurance benefit. The average man seems to take for granted discrepancies in benefit between two local administrations or even between a local and a national administration. He is not so likely to understand differences between two national systems and benefits.

This inherent difference between insurance and relief is not solely one of benefits. There is a difference in their definition of benefit eligibility; for example, who is able-bodied? Inevitably the standards for insurance will as a rule be stricter than for relief, at least if the latter is genuine relief. In any event their standards will not be the same.⁴⁰

answer would cover not only the whole realm of wealth and income data, national and individual, but of data on the kinds and incidence of taxation including social insurance contributions, the relative cost of the insurance and relief method, etc. As a matter of fact, determination of the shares of the contributing parties in social insurance and relief financing is almost always an empirical and political decision.

⁴⁰ Practically, the definition of who is able-bodied in unemployment insur-

Implicit, too, in any analysis of unemployment insurance-relief relations is the basic factor of local-central government relations. Centralized and decentralized organization and administration have each their advantages and inherent strengths and weaknesses. The coordination problem in Great Britain is that of devising a scheme that will preserve the advantages of the broader view, of national financial control over the spending of national funds and of superior administrative personnel, with the advantages of local cooperation and local knowledge of and interest in affairs close to home. Central government, we have seen, is financially interested in unemployment in Great Britain in many ways: in insurance, to which it gives one-third the cost; in Unemployment Assistance, which it supports entirely; in grants to the depressed areas (mostly for unemployment) and in the new block-grants (partly for unemployment).⁴¹ Particularly since unemployment is so intimately meshed with other problems and issues of national concern—e.g., the tariff, money and banking policy, immigration, industrial subsidies and a score of others—central government must control unemployment policy as well as finance it. But since it cannot take over all relief (this would practically destroy local government), it must provide a *modus vivendi* with local susceptibilities, furnish a workable bridge between unemployment insurance and unemployment relief on the one side and residual relief on the other.⁴²

Any coordination program is by nature approximate, tentative and largely subjective. Coordination, always difficult, is particu-

ance is not only different in different countries but varies depending on conditions within a country from time to time. The volume of unemployment, the state of the labor market, the state of national and unemployment insurance finances, make a flexible definition practically imperative. These changes in turn have repercussions on both local and national welfare burdens.

⁴¹ These last are paid at present mostly for local government losses in revenue produced by derating (reducing local taxes). This is an excellent instance of the complexity of local-central government financial and other relations. See section in Chapter 6 on the 1929 Local Government Act.

⁴² The British system is not as simple as either the Syrup or the German local government proposals. The latter propose, in effect, an Unemployment Assistance Board for all able-bodied unemployed persons. Both at the initiation of their proposed systems and thereafter there would be fewer transfers from welfare to insurance and back, than in Great Britain. In this connection it is interesting to note that Unemployment Assistance in Great Britain is to be made as palatable as possible by a very liberal definition of "able-bodied."

larly difficult in unemployment insurance and relief. The truth is that one asks for coordination of institutions, organizations or administrations only when these have differences as well as similarities. It is always a matter of judgment or discretion, then, even assuming a perfectly rational decision, at which stage to cease striving for the utmost of organizational and actuarial-technical coordination and to be satisfied with a relationship that at the time and place is fairly workable and, to all parties concerned, fairly reasonable. What, for instance, is a desirable degree of coordination for unemployment insurance and relief benefits? Only the crusaders of the extreme left argue for perfect equality, in which case insurance would disappear. If insurance benefits are measurably higher than relief, they may touch wage levels. Says Sir William Beveridge: "We over-insure the unemployment risk."⁴³ And the higher the benefit level the higher will contributions be; the worker may lose more through this attempt at coordination than he gains. He will generally be asked to give a share of the increase; will he get relatively higher *real* benefits? We have noted also the danger of benefits lower for insurance than relief; this will strike the average man as not fair and just, because his "earned income" will have to be supplemented by charity. In the not-so-long run, insurance will suffer.

Actually, decisions and solutions in this field are not principally or usually rational or objective. They are rather empirical. It would perhaps be possible, if not very useful, to refine and expand indefinitely our list of factors bearing on social insurance-relief organization and coordination. It seems a fair conclusion that, while others to a greater or smaller degree bear on the question, three factors have the greatest influence: political pressure, social habit and prejudice, and central-local government relations. Only after these have shaped the major decisions do technical questions arise for decision. Once these have determined the general shape of things, technical questions and in turn technical decisions are largely predetermined.

⁴³ Sir William suggests contributions graded by wage classes. But Germans warn us that, unless wage levels remain fairly stationary, use of graded contributions simply introduces an unworkable administrative feature. In practice German unemployment-health insurance beneficiaries fall principally in 4 wage classes, although 11 are provided: 83 per cent of the total in 1936.

PART VI
CONCLUSIONS AND AMERICAN PARALLELS

IF THERE IS one conclusion implicit in the pages that have gone before, it is that social insurance and the social insurance organizations are traditional and social, rather than technical, institutions. Like most government institutions they take their essential shape not from *a priori* or "scientific" principles, but from the basic social and political conditions in which they originate and function. The social insurance institution is peculiarly a national and sometimes even a local product, and it follows that the most German and British experience can do for us is to point out basic issues, provide German and British solutions that may apply to us more or less directly. Direct imports of foreign experience are always suspect; in social insurance they are often plainly inappropriate if not actually dangerous.

What follows, then, is a series of conclusions on German and British experience; after each conclusion follows a European instance and what appears to be the closest American parallel. There will be no general agreement on the parallels. But it would be absurd to stop with these conclusions, leave an analysis of European results hanging in the air, preserved more or less permanently for future generations of students.

The purpose of these concluding pages is not to provide a blueprint for direct American application but a statement of the possible American implications of German and British experience. It is not possible to select and analyze American parallels to European experience without making judgments, without at least implying an opinion of their validity and suggestions of possible American variations to meet variations in American conditions. To some the parallels and variations will seem dogmatic, to others they will be marred by timid conditions and limitations.

There is no attempt here, finally, to summarize all of the materials of the foregoing pages, but rather to state the conclusions one may draw from them.¹ Conclusions and parallels in Part VI are arranged under four heads:

¹ Sources for materials used earlier but drawn upon again in this Part are not repeated. Authors or organizations are credited with quotations, but the pages in this book on which full citations appear may be located in the index under the name of the author.

- A. General Social Insurance Policy
- B. Insurance or Administrative Organization
- C. Supervisory Organization
- D. Coordination: Issues, Problems and Possible Solutions

A. GENERAL SOCIAL INSURANCE POLICY

Social insurance and social insurance organizations are traditional and social rather than technical institutions. No questions of social insurance policy or social insurance organization can be settled apart from the fundamental social, political and traditional background against which they must operate.

One of an American's most startling experiences in learning about European social insurance and social insurance organization is his discovery that "principles" and rational planning have had so little influence, expediency, national and local bias, tradition and habit and even pure chance so much. "Doubtless," goes an ironic passage from the International Labour Office report on *Compulsory Sickness Insurance*, "they [the governments] are influenced by the advice of specialists, who are generally of opinion that the edifice of social insurance should be constructed or reconstructed on a scientific basis capable of giving the maximum result for a minimum of expense. . . . However, pressure is brought to bear upon the Governments by existing insurance institutions, which naturally do not desire to disappear, and at the time when the laws are being voted, display an intense activity in order to defend their existence and obtain a place in the compulsory insurance scheme. To start with entirely new institutions would be dangerous, because it would arouse dangerous opposition against the compulsory principle, and so it is usual to arrange a compromise, in which the part played by the different types of institutions varies with the number and power of the already existing voluntary insurance funds, the features of the public administrative system, the parliamentary majority and the conditions of each country."

It follows from this that at the most the "ideal" institution or program is that which at the time seems to fit best a social, traditional and political situation highly complex and changeable. This

is not an excuse for a slap-dash irresponsible program or organization. It means that there are no standard or permanent solutions to social insurance problems and issues anywhere; direct European imports to this country are potentially dangerous not only because the European conditions that produce European solutions may not be the same as ours, but because these conditions in addition are constantly changing and making the solutions out of date. It would, for example, be the height of absurdity to copy German precedent in relying, in unemployment insurance and placement administration, on personnel only in very minor part in the civil service. The German situation is the result of a political and social compromise, one that we are not called on to make. At the same time it would be folly for us to expect that we can do the same effective administrative job as the Germans without the protection that in Germany is supplied, in large part at least, by a completely different public attitude toward public administration and by the German advantage of centralized and unitary supervision. Germans warn us, too, against a too quick acceptance of their device of wage classes as a way of simplifying contribution collection and benefit payment: there is a gain only when individual wages and wage levels are fairly stationary. If they hop about, the advantage is partly or entirely cancelled. Again, the British, as the result of a historical accident, leave to the Treasury administration of non-contributory old age pensions. That provides no reason why we should follow suit. We, to meet constitutional requirements, are forced into an equal anomaly when we entrust to our Treasury the task of collecting old age and unemployment insurance contributions. If Europeans were following us instead of the reverse, we should have to say to them of various features of our social insurance system as they say over and over to us: "yes, this is the way we do it but don't copy it."

GERMAN UNEMPLOYMENT INSURANCE-PLACEMENT-RELIEF CONTROVERSY

Unless the social insurance problem or issue is placed against its national setting, it often fails to make sense. When Americans first hear of the German controversy between the Federal Institution for Employment Service and Unemployment Insurance and the local governments over the future of the employment service,

unemployment insurance and relief, they are plainly skeptical. It stands to reason, they say, that placement is the function of a state if not a national institution. But this assumption ignores completely the facts of German social and political history. Within the frame of German conditions—of a new regime operating on an official assumption that unemployment has been conquered, a deep faith in what is still the finest social service and welfare mechanism in the world, a short experience with centralized placement under difficult conditions, a long and in general a successful experience with placement on a state (provincial) and local basis, a deep disposition toward local and state patriotism and particularism that the new regime has hardly limited—the issue takes on a new face. "A Federal Institution for Employment Service," said Dr. Weigert, one of its authors in 1927, "is a break with the whole historical development of the German placement system. Neither of its two predecessors, the local pre-war employment office or private placement arrangements, pointed in this direction, and even the Placement Law of July 22, 1922 allowed the placement service to remain in its local independent setting and limited Federal influence to expert supervision."² In this setting it is the developments of 1927 and since that show themselves as a major break with German traditions and institutions, not the drive of local governments today to recapture placement and unemployment administration from central authority.

Similarly one cannot comprehend the British decision in Unemployment Assistance against extension of their tried principle of the grant-in-aid and in favor of a straight central relief system, without reference to all the factors that entered into it. One of the most important immediate reasons for turning from grants-in-aid was the fear of alienating not only organized labor but the white-collar classes exposed for the first time in Great Britain to widespread depressional unemployment. National subsidies to local government would have meant continuation of local government administration of unemployment relief, an administration rightly or wrongly burdened with an unpopular repute. Neither the idea of Unemployment Assistance as a scheme of relief financing or administration nor the fact of its apparent permanence as an organization, despite all attacks, is plausible until one remembers the

² Cited by Lehfelddt, *op. cit.*, p. 939.

strong British disposition toward centralization, the sublime faith of the British in the civil service, their social and political unity and the snug compactness of their islands.

AN AMERICAN PARALLEL: UNEMPLOYMENT INSURANCE AND EMPLOYMENT SERVICE

Germans find it as hard to follow the reasons for and the complexities of our unemployment insurance-placement arrangements as we of their unemployment insurance and relief controversy. They say that the lateral division between federal and state authority, and the vertical division between the Social Security Board and the Department of Labor are unworkable, will need to be removed to make our system work. They throw up their hands, for example, at the illogic of a plan which gives considerable powers to the Department of Labor over state employment office personnel, vague and indirect powers to the Social Security Board over the insurance personnel working in the same offices, sometimes at the same desks and tasks. They cannot understand why we have embarked on a state scheme of unemployment insurance administration, on a national scheme for old age.

Yet if German experience proves anything, it is that in precisely this sensitive social-political realm we must make haste most slowly. No German expert insists on organizational or technical reforms when they appear socially and traditionally unsuitable; rather, he justifies delays in his plans for improved coordination as being socially and politically premature. We may, for example, agree with the Germans that in the long run only a national unemployment insurance fund is worth the trouble and expense of the insurance principle. In the meantime certain limitations are imposed by our own past. We are still not a nation as much as a continent. The states are not as proud as they were before 1929, but they still resent federal hegemony in what they consider and what they have been told is a *state* function supported by state contributions or taxes. They were grateful to Washington for help in organizing tax collecting arrangements; as time passes, many of them may revert more and more to an attitude of suspicion and resentment at what they regard as federal snooping and an over-zealous or an increasingly intensive interpretation of the federal control provisions of the Social Security Act. The

states, for a time at least, will welcome the help of the federal authorities also in the much more difficult tasks of benefit administration, but the obstacles to a coordinated plan of insurance and placement administration are very real.

On the other hand, there are counter-influences. Working for at least closer coordination between state organizations is a slow but a fundamental trend toward centralization that is the counterpart of the trend we have observed in Great Britain and Germany. It is not as strong as the British, and has a history even shorter than the German. It would be a mistake to presume on it too much as a support for basic changes in our unemployment insurance-placement scheme. A serious depression will speed the coming of a federal unemployment insurance system more than 25 years of the slow pressure of increasing financial burdens and administrative complexities. In Germany reorganization of old age-invalidity and health insurance was impossible until the recent modification of states' rights, bound up intimately with social insurance institutions. Even with the modifications reorganization is mostly for the future.

A SECOND PARALLEL: HEALTH INSURANCE FOR THE UNITED STATES?

Foreigners are likewise completely at a loss to understand why we, from their point of view, have gone at the construction of a social insurance system backwards. The British and Germans started with health insurance; we have completely omitted it.⁸ Yet in what appears to be the present state of lay and medical opinion it would be premature to add health insurance immediately to the American program. It was considered impossible politically to include health insurance in the Social Security Act: old age and unemployment were depressional issues that called for action; health was not, although an additional appropriation was provided for public health work. It is a question of nice political and social judgment to determine just when medical and other opinion in the United States will be sufficiently favorable to health insurance. But as long as organized medicine is in opposition, it is imperative

⁸ A health insurance movement for the United States collapsed during the World War. (I. M. Rubinow, *Quest for Social Security* [New York: Holt and Co., 1934], pp. 207-17.) For the effects of this omission on social insurance coordination, see pp. 293-295.

that we take medical opinion and medical-political influence into account. The German and British medical professions remained largely aloof from the discussions which produced their health insurance schemes, and both they and their opponents came to regret it.⁴ One result in Great Britain is a schedule of medical care benefits so limited that British refer to it as a bottle of medicine and a general practitioner. If we are too eager for immediate results we may well get a health insurance scheme for the United States as limited and as much a drag on future development. As the British and Germans built their schemes around existing institutions and professional and other prejudices, we shall have to also. Even if and when Americans become convinced that they are able to carry an additional social insurance cost and the doctors cooperate, we shall still have to devise ways around or considerably soften a still widespread suspicion of government insurance and administration.

Whatever form the American health insurance scheme, if any, assumes, it will and should not be a straight transplanting from Europe.

A THIRD PARALLEL: SOCIAL INSURANCE AND PRIVATE INSURANCE ARE DIFFERENT

One other possible parallel, rather an important one, suggests itself: social insurance cannot be expected to operate successfully on the principles of private insurance. In social insurance, whether or not the government contributes, there is no need for a precise allocation of financial cost between different groups, for a detailed accounting record or for a precise relationship between benefits and contributions. Membership is compulsory and the number of insurance bodies small (the latter will be even more true here than abroad), so that again much of the extremely complex and expensive supervisory machinery required for a system of multi-private and therefore mortal insurance bodies can and should be dispensed with. Close regulation of contribution rates and reserves, for example, is essential in a private insurance system; private insurance bodies are of greatly different financial strength, individual bodies come and go, they constantly compete with each

⁴I. S. Falk, *Security against Sickness* (New York: Doubleday, Doran, 1936), pp. 127, 277.

other for members and lose them to each other. Adequate rates and reserves are thus essential to assure that, though the individual insurance body fails or closes up shop for other reasons, it will be able to leave its incurred but unpaid liabilities covered. The relatively small memberships of private insurance bodies, moreover, permit and demand investment of reserves in prime securities. When tens of millions are compulsorily insured in a perpetual insurance institution, application of principles suitable for small and voluntary insurance schemes becomes not only useless but at times even dangerous.

The provision in the contributory old age section of our Social Security Act that, if a member dies before retirement age, his estate will receive for him a sum (roughly) equal to his contributions, is an excellent example of the application of a private insurance principle where it does not belong.⁵ It makes of the Social Security Board a gigantic banking and estate-settling body; it piles up unnecessary administrative expense in order to carry out an incidental function that has not the remotest relation to social insurance. If the widow of the deceased insured man were to receive instead a survivor's pension, based not on his lifetime contributions but on his wages at the time of death, the administrative problem would be immeasurably simplified and the social insurance principle extended into an area where it is sadly needed. The relating of contributory old age benefits to the insured person's lifetime wage record is another example of the same thing. Soon or late the mere weight of the load of record-keeping produced by this provision will force modification, possibly to some such arrangement as the German, in which benefits are related, not to actual lifetime wages but to average wages for a limited period preceding retirement.⁶ It is still possible for us, in the very early days of our program—three years before we begin to pay retirement benefits and while we still may officially assume that government contribution is not needed—to pretend an old

⁵ These issues are always mixed. Apologists for this feature say that without it the Social Security Act itself could not have been passed. Thus in this instance an American tradition works *for* private insurance principles, not against them as is usual abroad. The return premium feature can be justified the more readily because we pay no survivors' benefits.

⁶ Benefits would be related, not strictly proportionate, to earnings. The benefits for older workers could be set at any desirable or practicable level with relation to both their own wages and the benefits of other workers.

age scheme on "actuarial," i.e., private insurance, principles. But Europe's experience shows that the older the scheme, the more the government comes to recognize its residual responsibility for the financing as well as the administration of old age insurance, the more incongruous will private insurance principles show themselves, the more we will approximate the broad social and financial base as well as the broad social purpose of the German and British plans.

We may expect here also another development, particularly noticeable in Great Britain, that shows how flexible and vague is the concept of social insurance in actual fact. The British, in gradually formalizing and reducing the requirements for assistance (old age and unemployment) have in effect included assistance in their social insurance program. Thus risks sometimes treated actuarially in private insurance and sometimes under certain forms of relief, are both included in the institution regarded as social insurance. This has a number of important results for social insurance organization and coordination. There appears, for example, to be no important criticism of administration by the British Treasury of the means test for non-contributory old age pensions; on the other hand, there is criticism of the means test as applied by the local government Public Assistance authorities. The sting of relief, it appears, is largely drawn in Great Britain when the means test is impersonal, when it is administered by a central authority, and when requirements are so reduced and standardized they begin to resemble insurance qualifications.⁷

There are indications that Americans during the depression have been learning to make a similar distinction between federal unemployment relief and local public and private relief, old-style. To the extent that this is so, opposition by the states to a federal program for coordinating unemployment insurance and relief will be so much the less stubborn. The states will not only welcome federal subsidies; they will be prepared to accept in return a stronger measure of federal control. We shall find it increasingly difficult to distinguish between federal (and perhaps state) financial responsibility for old age or unemployment assistance and for old age and unemployment insurance. The closer their identity in

⁷ This is not to ignore the fact that the Public Assistance test is on a family basis, the old age test on an individual basis.

the official and lay mind, the more likely that they will be treated as a unit, the sounder their organizational relation is likely to be and the better the chance for their coordination.

Unemployment, unemployment insurance and unemployment relief are essentially political matters. Unemployment insurance should not be judged by the standards applied to other social insurances. Unemployment insurance, and unemployment assistance, require special safeguards to minimize their abuse and misuse for partisan purposes.

It is no accident that one of the main assets of the regime in Germany today is its record (whatever we think of its permanence or its cost) in conquering unemployment. A British government fell in 1931 largely because of public resentment on the unemployment issue, Britain's gravest since the War. "It would be a strange kind of government, in fact no government at all," said Chief Justice Crane in handing down the opinion of the Court of Appeals on the constitutionality of the New York unemployment insurance law on April 15, 1936, "which would not give help in such trouble." In the best and broadest sense of the term, the unemployment problem is political; it is and must be one of the first concerns of government. On a government's ability to meet unemployment, immediate and long-run, will depend its survival.

It is an economic as well as a political fact—they are related—that, in the words of the Minority Report of the British Royal Commission on Unemployment Insurance (p. 407), "there can be no permanence in the details of an unemployment benefit scheme and these may vary as the political or financial or industrial situation changes from time to time." That is the reason why, in the sense of the other social insurances, unemployment insurance hardly deserves social insurance rank. All social insurance institutions are subject to change, sometimes radical, but none like unemployment. The risk covered is too catastrophic, too cataclysmic, to permit a plan as formal or inflexible as for the other social insurances. Any unemployment program, insurance, relief or other, must be a flexible program.

But the basically political nature of unemployment and of unemployment insurance does not justify narrowly political or carelessly expedient organization and administration. Indeed the con-

trary: it makes the more necessary organizational and other controls to minimize slap-dash administration and narrow and partisan political influence. British organization is informal, not irresponsible. The peculiar dangers of unemployment insurance arise from just this baffling double requirement: there must be an unemployment insurance-relief plan; yet the plan, above every other requirement, must be easily and smoothly adjustable to new facts and situations. It is inevitable that, unless public opinion and organizational controls impose restraints, partisans will abuse it, little men misuse it under the extraordinary pressures of depression. Unemployment insurance is subjected to strains the like of which are unknown to other social insurances. However well the unemployment insurance scheme works when times are fair, it will be violently attacked when depression reveals its weaknesses or its inherent limitations.⁸ German agitation for unemployment insurance and relief reform was strongest at the bottom of the depression; it has receded with the initiation of the two-year military service and the success of the German public works and public spending programs, but experienced observers regard this as a lull before the storm.

British Unemployment Assistance was created to take unemployment relief out of politics. It has succeeded principally in transferring the politics from the local and narrow to the broad and national and impersonal level. Unemployment Assistance offers a valuable precedent for American study. Politics of the partisan sort has been taken out of unemployment relief administration, occasional local incompetence has been replaced by a central organization with civil service personnel. Of course nobody would recommend copying for this country this completely centralized organization for unemployment relief. But we should be at work on a permanent plan for unemployment relief, one which will be coordinated on one side with unemployment insurance and on the other with residual relief. It is essential, to assure organizational and actuarial-technical coordination, that the federal government exercise every last degree of supervisory control

⁸ The extraordinary complexity of the interests and motives involved in the unemployment insurance-relief issue is suggested by the statement one hears in Great Britain that the British landlord was not among those who complained of the dole, because British labor's tradition is to pay the rent first and the dole was at least sufficient for rents.

consistent with federal-state amity. It will have to provide the sinews of the next war on unemployment; it should see that it gets its money's worth in the highest possible organizational and administrative standards, particularly personnel. Contribution of federal funds demands federal supervision of unemployment relief administration. This does not mean administration by the federal government. *That* is out of the question. It does demand effective federal supervisory control. We start without Britain's superb civil service and without the British government's solid reliance on British preference for central administration or control. We start with a still general reluctance to trust government, and particularly the government bureaucrat. It is all the more important that we capitalize whatever virtues and advantages we have: the ingenuity that has not usually failed us in other fields, the increasing reliance of the states on the federal Treasury.

American coordination must take into account regional and state differences and susceptibilities, but the lessons of German and British unity of placement and unemployment insurance authority at the top, of the British tie between unemployment insurance and unemployment assistance, and of the British innovation of the Statutory Committee as a means of providing an informed and balanced judgment on the vexing issues of unemployment, should not escape us. Unemployment insurance and placement organization *must* be coordinated or else each is likely to discredit the other along with itself. That is the very least we must demand in an American unemployment insurance-relief program.

Effective social insurance organization is not the product of a spontaneous public opinion. Social insurance organization must create its own support in public opinion by honest and flexible administration and a willingness to explain its case to its clients and the public. Personnel trained and protected from partisan pressures can even make a poor or unpopular law work, and resist, for a time at least, dangerous partisan influences.

In Great Britain top officials of the Unemployment Assistance Board believe that their greatest single mistake in 1935 was failure to prepare public opinion. One senior civil servant character-

izes this as the "failure of a first class bureaucracy," that is, of first class personnel and organization unguided by imagination. When the initial organization was set up, time was too short for establishment of the local advisory committees which now interpret the new scheme to their communities, temper the rigidities and injustices of national standards by presenting the case for local differences and special problems. U A B was able to win through a first rate crisis principally because of firm public confidence in the impersonality and capacity of the British civil servant.

German experience since 1933 demonstrates a more remarkable quality of a trusted and competent permanent service. Even unfriendly critics say that Germany still leads the world in social service administrative standards. The German civil service, with other German institutions, has been "restored" and considerable numbers of older officials have been retired. Nevertheless, the German service has resisted with a remarkable degree of success attempts by Party interests to influence or actually to take over social insurance administration. Sooner or later social insurance institutions, as all others, must conform to the national philosophy. But in the very important middle run, when changes are great, abrupt and erratic, the civil service (or its equivalent), like the courts, can exert a powerful and a valuable resistance to narrow and immediately political aims and pressures.

We need in this country, particularly in the early stages of our new departures, even more the qualities illustrated in recent German and British experience. Both Germany and Great Britain, it is important to remember, had a trained service before they initiated social insurance. We are either attempting the second without the first, or except in a few states, are beginning them together. Our difficulties and problems, serious enough of themselves, are multiplied many times by this administrative handicap. Britons and Germans make an assumption *for* government; Americans still assume *against* government. It is an administrative task of first importance simultaneously to start *and* to explain a social insurance scheme chock full of social and political difficulties and dangers. For example, to many persons the contrast between old age assistance and insurance benefits will seem utterly illogical; this illogic, real or imagined, inherent or stimulated, will be exaggerated by the postponement of retirement benefits until

1942. Imposition of federal standards on state administration of old age and other assistance and of unemployment insurance may keep local resentments stirred up for an indefinite time to come. The great increase of government personnel required by the new laws appears already to be arousing considerable suspicion. This suspicion will feed progressively, unless dispelled or counteracted by a first class administrative performance, on rising social insurance and other governmental costs. If political machines seize on this important new patronage field, the outlook is not at all reassuring.

We need in short and at once in our social insurance administration, trained, protected and imaginative personnel. The very fact that some of our problems and difficulties are to a large degree inherent (e.g., a difference in level between old age insurance and assistance), makes the need the more imperative. They can be reduced but never removed by amending laws. How long it will take for Americans to surrender the cult of the amateur will depend to a great degree on the performance of the new administrative organization.⁹

B. INSURANCE OR ADMINISTRATIVE ORGANIZATION

Technically and financially self-government in social insurance works best when the risk is relatively uniform from year to year, when large reserves are not required, when cost is financed entirely from local sources, when the insured group is homogeneous and relatively small, and when employers and insured workers trust each other and demand participation in the public administration of a fund they regard as their own.

Not all risks are equally suited for self-government, that is, administration of social insurance by employers, by insured workers or by the two together. Unemployment is the risk for which self-government, either on a national or local basis, is least suit-

⁹ We may console ourselves a bit—but not too much—by remembering the German success in public administration with a small minority of civil servants to sweeten the leaven of non-civil service employees and to exert control or influence from the top of the organization.

able. The industrial accident and health risks are most suitable. The principle has been extended to cover the greatest number of persons both in Germany and Great Britain¹⁰ in health insurance, where pre-existing mutual aid and similar societies provided a base and a framework for a greatly expanded self-governing insurance system. The most extreme instance of application of the principle of self-government is German industrial accident insurance, in which occupational associations of employers have sole responsibility for the risk.¹¹

For this country true self-government—really a form of industrial democracy—is, if ever, in the far future. We have still to embark on social insurance of the health risk. Neither employers nor workers are interested in the responsibilities of public administration that self-government imposes. We are still committed by tradition and temperament to governmental and not to industrial-democratic administration. Unemployment insurance by the states in one sense perhaps suggests a form of self-government, but this is political and not industrial-democratic. Also it is precisely in unemployment insurance that true self-government is least practicable.

One step toward social insurance self-government lies in the development and more honest use of the device of the advisory committee. There is distinct evidence that the advisory committee, generally despised when it is not condemned here, can and does have more than rubber stamp importance abroad. The advisory committee, for example, has definite and useful functions both in British Unemployment Assistance and British unemployment insurance. It is the device by which self-government, cancelled in 1933, may gradually be able to re-establish itself in German health and other social insurance.

The comparative failure of the advisory committee here and the low esteem in which it is held, particularly by administrators, go back to essentially the same root causes that in the past have inclined Americans to avoid government service and to make for themselves a chore of their political duties. American advisory committees today are too often collections of impressive names

¹⁰ In British health insurance, employers, with very few exceptions, have no part.

¹¹ Workers have advisory functions only.

not expected to engage even at second hand in the administrative process.¹² Until they are something much more, even the first approach to self-government here is impossible. A new American bureaucracy under the ostensible supervision of an advisory committee but actually a law unto itself is even a graver danger to public administration than a bureaucracy controlled only by politicians. In the latter situation the ultimate responsibility for results at least lies with the people; the former, as the Germans say, is "bureaucracy enthroned."

Social and political reasons may make the step advisable, but foreign experience warns that serious administrative problems and social results are created by the admission of pre-existing and private insurance bodies into a field created by government compulsion.

Both in Germany and Great Britain the multifarious heterogeneous health insurance bodies are the greatest single obstacle to reorganization of health insurance and its coordination with the rest of the social insurance scheme. In Great Britain even pre-existing private corporations for profit were made eligible (on organizing special mutual departments) for the compulsory scheme. These corporations and the trade unions qualifying as Approved Societies today, are generally opposed to reform because most reforms would start with their suppression or drastic limitation. They naturally exert powerful political influence to forestall it. In Germany, where there are no private insurance bodies in the compulsory health scheme, the thousands of health insurance funds raise a similar bar to basic reorganization. It is true that there are real advantages in constructing a new social insurance scheme, particularly health, on the foundation of established mutual aid groups. But as the scheme matures the price that is paid for local interest and support becomes increasingly burdensome. As the size of the average health insurance fund grows, interest and close local contact fade. Yet the organizational form moulded about the local organizations of the pioneer period can be changed, if ever, only in the gravest emergency.

¹² The Unemployment Insurance and Employment Service State Advisory Councils in New York and Wisconsin are conspicuous exceptions.

This is not, it should be noted, the same as saying that mutual aid bodies should have nothing to do with administration. It is possible, though not necessarily desirable, for private associations to help *administer* social insurance laws (e.g., British trade unions and local education authorities pay out unemployment insurance benefits) without acting as insurers of the risk. The major difficulties arise when pre-existing, which means in practice multi- and non-uniform, insurance bodies bear the risk and have a say in the administration of benefits and in the determination of contribution levels.¹³

It is an open question whether on balance the absence of the mutual aid society in our new social insurance scheme is an advantage or a handicap. No private insurance body now wishes a part of the unemployment risk; for the time at least private companies have no wish for compulsory old age insurance business.¹⁴ Our trade unions with few exceptions are too occupied with other affairs, and are not sufficiently interested in public administration to offer to help carry out the insurance function. But health insurance is still to come, and here there are existing insurance institutions. Trade unions, even those few now paying rudimentary benefits, will probably not offer to serve as insurance bodies but the private accident and health business is an important one and its owners are not likely to pass up a chance to participate in an immense new market they have never been able to attract by voluntary methods. Admission of private insurance companies to the government market, if at all, should be on terms designed to

¹³ British trade unions may have the privilege of paying unemployment benefits to their members on condition that they pay additional benefits out of their own funds. They are thus partly risk-bearers, principally administrative bodies. In 1936 approximately 738,000 insured persons were covered under such an arrangement (*Report of Ministry of Labour, 1936*, p. 58). After considering the arguments pro and con on this point, the Royal Commission on Unemployment Insurance (p. 273) recommended "that the principle of concurrent payment of supplementary benefit . . . should be affirmed" but urged that the Minister of Labour tighten up his inspection service to assure "adequate safeguards for the administration of State benefit."

¹⁴ Private old age pension schemes continue as supplements to compulsory coverage. Had the so-called Clark Amendment been added to the Social Security Act, qualified voluntary schemes, most of them covered by insurance contracts, would have been exempted. The most important single reason for the collapse of the campaign for the Clark Amendment was the realization by many employers that the Social Security Act was offering them relief from a financial burden beginning to prove unbearable under private plans, particularly those not insured.

minimize the unfortunate and undesirable results experienced abroad.

One factor, ironically enough, makes the likelihood of private or multi-insurance bodies in government insurance less serious here than abroad. American employers and workers would both rather trust government than each other. We need expect in this country no self-governed health insurance bodies German-style. This is not only because both groups will probably consider they have other more important functions to perform but because each has less than full confidence in the other. This is the reason why, in a country still suspicious of government, government is nevertheless entrusted with functions elsewhere assumed, particularly in Germany, by the parties most interested, employers and workers.

Permission to large employers to practice health self-insurance¹⁵ on a scale comparable to that in American workmen's compensation will create problems similar to those produced by the entry of private insurers. The privilege will no doubt be requested by employers eager to add another bond between themselves and their workers, to keep down insurance costs or to make a gesture against government insurance. Its very partial success—from the social point of view—in workmen's compensation,¹⁶ and the desirability of a health insurance scheme standard at least for an entire state, suggest that health self-insurance be limited to the very smallest group of employers consistent with current political and social exigencies.¹⁷

¹⁵ Theoretically self-insurance means that by reason of his large operations and ample financial resources the employer is permitted to act as his own insurance company. In workmen's compensation, self-insurance usually means only that the employer is exempt from the compulsory insurance provision of the law.

¹⁶ Howard M. Teaf, *Self-Insurance of Workmen's Compensation in Pennsylvania*, Pennsylvania Department of Industry and Labor, Special Bulletin No. 40 (Philadelphia, 1934), pp. 1-10.

¹⁷ The Wisconsin unemployment reserve fund (each employer responsible only for his own unemployment) is really a modified self-insurance plan. Each employer's contributions are credited to his individual account from which benefits are paid to his employees and no others. The employer's contribution rate varies with the level of the balance in his account. Two modifications introduced in the self-insurance plan are: (1) the provision that, within certain limits, benefits may be charged to an earlier employer's account if that of the last employer is exhausted; (2) by an amendment in April 1937 a special statewide "balancing account" is created to absorb overdrafts on the individual employer accounts. Whatever its merits as an employment stabilization device, it will create serious difficulties when coordination with other insurances, health for example, is attempted. It produces, of course, gross inequalities in benefit to the employees of different employers.

The number of social insurance bodies should be kept at the smallest number consistent with the technical and financial characteristics of the risk and the political and social characteristics of the membership.

The greater the number of insurance bodies the less the possibilities of a rounded and well coordinated social insurance system and program. Many bodies inevitably mean diversely organized and administered bodies, with different benefits and contributions, presenting great and often unjust differences in facilities, financial safety and cost. Also, the greater the number the smaller their average size and financial strength. It is axiomatic that the greater the average risk and the longer the average disability resulting, the larger should be the insurance body. Yet in Great Britain we discover that the long-term non-industrial disability risk is covered, not by the old age insurance system to which it is naturally related, but by the multifarious health bodies. Two unfortunate results follow from this saddling on a body usually small and financially weak a risk in its nature expensive and of long duration. Benefits must be kept low to make the arrangement work at all: British disability benefits are paid at one-half health insurance rates, include no provision for medical, surgical or hospital care.¹⁸ Approved Societies, because they are not financially fitted for the disability risk, are often miserly with disability benefits. Ironically, the very fact of disability benefits, even very low ones, is used as an argument against an improved disability system. Basic benefits must be kept so low that even the poorest Society can pay them. And though they are inadequate, their burden on the health insurance societies is becoming a matter of official concern. Disability obligations are beginning to be the tail that wags the health insurance dog. For the (approximately) six-year period between the third and fourth valuations of fund finances by the Government Actuary, health benefit expenditures show a "profit" over expected costs of 7 per cent, disability a "loss" of 8 per cent.¹⁹ Itself not a final proof of unsuitability of the disability risk for the health insurance bodies, the significance of this contrast is

¹⁸ Regular or statutory benefits. See footnote 10, Chapter 4, for a discussion of additional benefits.

¹⁹ *Report of the Government Actuary on the Fourth Valuation of the Assets and Liabilities of Approved Societies, 1937, p. 44.*

increased by the fact that disability benefits, although a minor responsibility of the health insurance bodies, make up in this period over one-third of their total benefit payments, and the proportion is increasing. "Claims for disability benefit have tended to grow from year to year and it is clear" that special steps will have to be taken soon "to maintain the financial soundness of the system."²⁰ No cleaner cut case can be found to illustrate the importance of making the insurance body fit the risk and not vice versa.²¹

We shall probably be able to start in health insurance with fewer pre-existing institutions, insurance or other, to build around and compromise with than either Germany or Great Britain. In any event we should not consider any basis of insurance fund organization except the territorial, thus avoiding the British practice of permitting all bodies, including the smallest to attempt to spread over the entire country.²² The territorial unit should not be smaller than the state, might conceivably be an economic-social region.

C. SUPERVISORY ORGANIZATION

Separation of powers between the government (supervisory authority) and the social insurance (administrative and risk-bearing) bodies appears to produce real and considerable advantages. Where separation does not exist, it is important, and sometimes vital, to secure the advantages of a separation in some other way.

This separation of powers is a characteristic of all German social insurance; it exists also in British health insurance. It is one of the factors that helps explain the capacity of German social

²⁰ *Ibid.*, p. 54. The National Health Insurance Joint Committee, senior coordinating agency in health insurance, has undertaken a "comprehensive investigation into the causes of the rising cost of disablement benefit." Disclosure of the causes, of course, will still leave open or perhaps emphasize the question of the proper insurance body.

²¹ Since it is desirable to have the health and disability insurance systems work closely together, one possibility is to coordinate health with old age and invalidity insurance, as in Germany.

²² If nation-wide private insurance companies are admitted to the system, they should be permitted to operate only in territories or states for which they have established adequate facilities.

insurance organization and personnel to resist so well the shocks and pressures of the recent major political upheaval. It is the necessary result of application of the principle of social insurance self-government: when the government is not the insurer, employer or workers or both must be. In unemployment insurance, where the government is also the insurance body, the British have found it necessary to provide substitutes for the device of separation: the Statutory Committee, for instance, brings the outside and the long view on the financial and other vital issues presented by the insurance and related schemes. Both in contributory old age and unemployment insurance the British have found it necessary to provide impartial appeal authorities to assure that the government does not allow its interests as insurer to dim its appreciation of its function as supervisor.

In a way of speaking, our federal-state unemployment insurance system represents a kind of separation between the supervisory and insurance functions. The division is not as clean cut as it might be. One advantage of separation abroad is that the supervisory body is able to exercise effective controls over the insurance bodies, assure financial safety and honest and impartial administration. To the degree to which the Social Security Board cannot or does not, for any reason, impose the controls necessary to accomplish these ends, our paper separation is a snare and a delusion. Moreover, no right of appeal is provided (or is constitutionally possible) from insured worker or employer to a federal appeal tribunal; it is conceivable that the state, acting both as claims administrator and final appellate authority, might be influenced by its interest as custodian of its unemployment insurance fund to adopt a miserly and unjust benefit policy.²³ Finally and most important, the unemployment insurance funds standing to the credit of the states are really not state funds at all, except in the statutory sense, so that it is a question not so much of a federal authority supervising state funds as of a federal fund incompletely supervised by federal authorities. The Secretary of the Treasury, not the Social Security Board, is custodian of state insurance funds. The interest and the authority of the Treasury are purely fiscal. The Social Security Board has no power to audit or

²³ For a comparable danger in American state workmen's compensation insurance, see D. McCahan, *State Insurance in the United States* (Philadelphia: University of Pennsylvania Press, 1929), pp. 17-23.

check in any way on the Treasury's operations. It has only the general authority to study and recommend "as to the most effective methods of providing economic security through social insurance."²⁴ Nor does the recommendation of the President's Committee on Administrative Management for the appointment of an Auditor General meet the need. His functions also would be purely fiscal.

This concentration of authority on the one hand (all in federal agencies) and omission on the other (no control except fiscal), is not necessarily dangerous but the post-War experience of the British Unemployment Fund suggests that it can be. It would require a comparatively simple change to give the Social Security Board²⁵ a status somewhat similar to that of the British Statutory Committee, i.e., give it also the duty of making an annual actuarial-financial-economic audit and report on the Unemployment (Trust) Fund held by the United States Treasury. As our system stands, there is no actuarial and social-economic watchdog, federal or state, of our unemployment funds. Provision in a majority of our state laws requiring the administrative agency to keep the legislature informed on the status of the unemployment fund hardly provides such a safeguard.

The contributory old age insurance scheme shows also concentration of authority: in this case in a single federal department, the Treasury. The present law makes the Treasury in effect its own auditor and actuary;²⁶ again it would be simple to entrust an annual actuarial audit to the Social Security Board. The need for check and counterweight here is the greater because of the large size of the reserves contemplated in the Social Security Act. Even if amendments reduce the size of the reserve, the Treasury should be relieved of its anomalous double duty. It is desirable also that some such device as that provided in the British Ministry of Health to assure impartial hearings on appeals, be included as part of the appeal machinery on claims for old age insurance benefit.

²⁴ *Social Security Act, 1935*, sects. 904(a), 702.

²⁵ On the assumption that the Treasury for constitutional reasons must continue to handle the funds. If the Social Security Board were to collect unemployment insurance contributions or taxes, a separate body would have to be created.

²⁶ *Social Security Act, 1935*, sect. 201(a).

D. SOCIAL INSURANCE COORDINATION: ISSUES, PROBLEMS AND POSSIBLE SOLUTIONS

A social insurance system which omits health, invalidity and survivors' benefits is incomplete and dangerous to the insurances included in the system.

Perhaps the feature of the new American social insurance system least intelligible to Europeans is the blank left by our omission of health benefits. Both the British and German systems were started with health insurance;²⁷ indeed in both countries the compulsory scheme was an expansion and continuation of existing mutual aid institutions providing health insurance benefits. The European regards insurance of the health risk as central to social insurance because it covers the most workers²⁸ and the risk most important over a lifetime to the average person; it touches the insured membership oftenest and most intimately. Even leaving out of consideration the special conditions which both in Germany and Great Britain helped to make health insurance the keystone of the social insurance system (self-governing administration, for example), foreign experts believe we shall have to fill in the gap as quickly as possible, in order to prevent serious consequences for the insurances already provided. Health insurance, they point out, would have been the best insurance to start with: it is the simplest financially and actuarially, it demands no great reserves, initial benefits may be paid at the same time as contributions start without actuarial or financial complications. By such an arrangement the members learn about social insurance in the most pleasant instead of the least pleasant way: by receiving benefits instead of by simply paying taxes.

Omission of invalidity and survivors' benefits from our system

²⁷ Government compulsory health and unemployment insurance in Great Britain were both initiated in 1911. But health insurance is the pioneer for two reasons. One, government health insurance was the direct successor of important older voluntary plans; unemployment was not. Two, government health insurance in 1911 assumed essentially the form and scope it bears today: membership widespread and compulsory. Unemployment insurance was purely experimental, was limited for the first 5 years to 2,500,000 workers. It reached its present scope only after the War.

²⁸ Industrial accident insurance covers more persons in Germany, primarily because of inclusion of self-employed persons and omission of a salary limit for compulsory coverage. On paper British workmen's compensation covers more workers than health insurance, but the former hardly deserves inclusion in the social insurance system. See footnote 2, Chapter 20.

will in the long run prove just as great a handicap. Immediately the effect will not be as great or as obvious. If there is one conclusion implicit in the preceding pages, it is the importance of assuring that one part of the insurance scheme is not, by failure to coordinate it with the other parts, saddled with obligations and functions for which it is not intended and which it cannot be expected properly to carry out. "It is common knowledge," was the testimony of G. D. H. Cole before the British Royal Commission on Unemployment Insurance (*Final Report*, p. 407), "that the [unemployment] insurance scheme is at present carrying a considerable number of workers under the age of 65 who are not fully able-bodied, or capable of ordinary employment. . . . A scheme of invalidity pensions,²⁹ while it would not relieve the Exchequer, would enable the real problem of unemployment to be more clearly envisaged." When social insurance provision is lacking or inadequate in one direction other insurances are stretched, sometimes dangerously, to cover the need.

Private insurance companies writing workmen's compensation in the United States have complained, with some reason, that industrial accident coverage, as the result of the over-liberal attitude of state administrations toward workers, has been used during the depression to pay losses of income resulting from health and unemployment and even old age risks. Public fund administration will have even greater pressure exerted on it to be "liberal."

It is a certainty that, unless we add health, invalidity and survivors' benefits to the American system, we must expect considerable and perhaps serious inroads on unemployment insurance and other funds. The chief burden will be on the unemployment fund. This is because the unemployment and health risks in particular are so intimately related. It is a difficult and often arbitrary question to determine to what extent the inability of a worker to find a job results from his physical, as distinguished from his technical, incapacity. We know that sickness and unemployment are often successive phases of an endless cycle of events that leads to dependency. It is inevitable that the unemployment insurance administrator, particularly in depression, will interpret the meaning of "unemployment" as broadly as he can. Failure to provide health

²⁹ Modest invalidity benefits (half the health insurance rate) are paid by health insurance funds after the 26th week of disability.

insurance benefits increases by that much the pressure to be "liberal" in unemployment benefit policy.

Invalidity is a long-term non-industrial disability resulting from poor health. Pressure to pay for invalidity out of unemployment funds will operate more slowly but this will also in time supply obvious evidence of the incompleteness of our social insurance scheme on another front. Omission of survivors' benefits (life insurance for widows and other dependents of workers dying from injuries other than industrial) will have, as it now has, its principal effect not on social insurance but on public assistance funds. The inadequacy of widows' pensions in the majority of our state workmen's compensation laws, for example, means a direct transfer of a large part of the financial burden to public and private relief agencies, principally the former. Demand for a program of widows' pensions from social insurance administrators is therefore less likely in the near future.

It is possible to minimize but not to eliminate differences in insurance benefit scales that may be unfair, illogical and even dangerous. Benefit differences most difficult to eliminate are those between social insurance and relief.

Social insurance organization and benefits are essentially traditional and social rather than technical. It is not surprising, then, that foreign social insurance "systems" are characterized by a considerable heterogeneity, not to say a lack of coordination between the various elements. Even if men were entirely rational, the social insurances, because of the technical reasons discussed in Part IV, could not be perfectly standardized or coordinated. It is difficult to eliminate even the most glaring anomalies between the benefit scales of different insurances. Differences between social insurance and relief scales are even more difficult to treat because of the inherent differences in the principles from which each proceeds.

An American is surprised, for example, to find so little comment and criticism on the differences, often considerable, in the amount of benefit an unemployed worker abroad receives while on unemployment insurance and what the same worker receives when he passes to unemployment relief. There are discrepancies that to Americans seem even more unreasonable. In Great Britain

and Germany there appears to be no discussion worth mentioning of the fact that many persons must also ask for relief to supplement their old age-invalidity insurance. The American, particularly as he has carried over so extensively into social insurance his private insurance attitude and even private insurance principles, will be less likely to take this tolerant view.

PROBABLE AMERICAN ATTITUDE TOWARD INSURANCE-RELIEF DISCREPANCIES AND DIFFERENCES

There appear to be at least three reasons why we cannot expect American workers to take the same complaisant attitude as the Briton and German, particularly on insurance-relief benefit differences. First, the differences here will be without doubt greater than abroad. In some fields, for example old age security, the British, as we have seen, have approached practical uniformity of benefit for insured and non-insured persons. This is an extreme case but it illustrates a basic principle abroad: social insurance benefits, and particularly British, do not aim at replacing full, or a standard proportion of, wage losses.³⁰ It will often be impossible, particularly for lower paid workers and in particular sections, to raise our benefit scales to the level of our relief standards. The level of insurance benefits, as distinguished from their duration, particularly unemployment and health, is determined essentially by what can be paid for out of contributions and current subsidies, largely independent of their adequacy. Relief benefits are not. These differences operate in every country, but their importance is exaggerated here because of two peculiarly American factors. One is our disposition to cling closer to private insurance standards, which will work to keep insurance benefits that much the more below "adequacy." The second, which makes the money

³⁰ The German benefits, based on wage classes, go farther than British in attempting to approximate wage losses. But in 1936 one-fifth of the average old age-invalidity pension was covered by a flat federal subsidy; that is, RM 6 a month was added to every pension paid by the Institution, with the result that the lower paid workers received a relatively high proportion of lost wages, the higher paid the opposite. In addition, the amount of that part of the benefit borne by the Institution increases as wages rise, but at a rate less than that of the increase of wages.

The radical cuts in German old age-invalidity benefits resulting in 1921 from German hyper-inflation have never been restored. This makes an important practical modification of the German tradition of relating contributions to wages.

cost of adequate benefits relatively higher here than abroad, is the fact that the American worker must buy health, housing and many other social services at retail.³¹ The German worker, for example, can get along on low money benefits largely because he has access to an unparalleled array of socially-provided services and facilities. "Wage and salary scales as shown in statistical returns are a very unreliable guide to real social conditions in Germany since the individual receives from the State many things and services which would in other countries be paid out for wages and salaries."³² While it affects both insurance and relief money costs, the American tradition of providing these services at retail probably affects the latter much more than the former.

Americans are likely to be more critical than Europeans of discrepancies between relief and insurance benefit levels for another reason. The American worker has a quite different attitude toward relief itself. This is perhaps partly because European differences in insurance and relief levels are less than they will be here. It is due partly to the disposition, particularly noticeable in Great Britain, to take the sting out of relief by liberalizing and standardizing the old age and unemployment relief needs tests and by administering them through central and not local agencies. Relief (on this British model) approximates very closely social insurance. Finally the German and British relief client is not likely to be disturbed at differences between insurance and relief because he has never regarded social insurance as a sacrosanct institution erected on permanent and sacred legal and financial principles. He has not carried over to social insurance, as we have so extensively, his private insurance postulates and standards; he dwells (quite unconsciously) much less on his rights as a member of the in-

³¹ The provision during the depression of medical care to relief clients by doctors under contract represents a step toward socially provided, complete medical care.

³² This same penetrating observer of the German scene, the British Commercial Counselor at Berlin, says that "this accounts in some degree for the fact that, while the Germans regard themselves as a comparatively poor and hard pressed nation, foreign visitors are usually impressed by the largesse of the German scene, the absence of slums and of slum dwellers from the city streets, the cleanliness, order, well kept appearance and bearing of the inhabitants and their surroundings. . . . It should, however, be remembered that . . . the outward appearance of a certain opulence is in great degree due to efficient collective organization and the mass consumption, as well as the mass production, of culture and leisure (as well as industrial) products." (E. C. Donaldson Rawlins, *Economic Conditions in Germany to March 1936*, p. 199.)

sured group and more on his obligations. His attitude toward social insurance indeed is very like the average American's attitude toward taxes: he is certain and patient of his obligations, he trusts he will in turn get back some of their benefits.

One special factor, a temporary but important one, will make Americans particularly sensible of insurance-relief benefit discrepancies. This is the long wait between the first tax and the first benefit payments. Americans waited, it is true, two years for unemployment insurance benefits, but European observers are amazed at our temerity in asking them to wait, not two but five years, for old age insurance. Insurance-relief discrepancies will be greater, the contrast clearer and politically more dangerous than in unemployment insurance, because of the long wait for old age insurance benefit and the (absolutely) low benefits to our first (older) and to lower paid insurance beneficiaries. Differences between unemployment insurance and relief will be dangerous at particular times, in depressions; differences between old age insurance and assistance will be increasingly dangerous over the years, with a steady increase of our aged population and of the persons on old age benefit.

COORDINATION OF OLD AGE INSURANCE AND RELIEF

The problem of organizational and actuarial-technical coordination of unemployment insurance and relief is still unsolved both in Great Britain and Germany. Technically and politically it is a much more difficult problem than that of coordinating old age insurance and relief. Because old age payments of both types go to persons well beyond the family rearing stage, the possibilities of actuarial-technical coordination are much more favorable. Amendment of the Social Security Act to keep contributions at a maximum of say, 2 per cent each from employer and worker would do something to soften the contrast between the rights of those who pay and those who do not pay for old age benefits. Addition of invalidity benefits, inevitable sooner or later, would do something more by adding to the attractiveness of insurance, giving something not provided by old age relief. The most likely possibility is an increase of old age insurance benefits, particularly to the first and older beneficiaries and to lower paid workers, and extension of benefits to wives and widows of insured men. These

changes mean increased cost, and inevitably recognition by the government of its residual financial responsibility for old age provision for the masses of workers. Recognition will mean also a thorough-going review of the entire federal financial structure, and particularly of federal-state financial-tax relations. It may mean a complete reconstruction of the old age insurance-assistance program, with wide extension of the federal income tax base to include as many ultimate old age beneficiaries of both types as possible, important modification of the insurance elements of the program, and a corresponding expansion or modification of the federal grant-in-aid principle in state old age assistance.⁸³

Centralization is the surest although not always the most rational or safest way to secure improved coordination in the social insurance system.

Centralization has its dangers as the most effective approach to improved organizational and actuarial-technical coordination. In its most extreme form it may produce "apoplexy at the center and anæmia at the extremities."⁸⁴ It does not proceed directly or (with rare exceptions) rationally toward coordination; coordination is usually the by-product of the centralizing process. But it is more to be relied on than coordination by direct approach because direct coordination virtually always means a *new* program that upsets existing arrangements to which officials and vested interests in and out of government have become accustomed. A direct movement for coordination is not a strong movement practically and politically because no strong interest or group gains by it; if nothing else, mere inertia holds out against it. Coordination is rational; social insurance institutions essentially are not.

So the nearest way to improved coordination in this as in every country is by indirection. Here, as abroad, basic social and political movements will in the long-run support and encourage increased centralization in social insurance organization. But, despite an increasing reliance of the states on federal financial aid, we shall probably have to go more slowly even than the Germans. The states and regions of this country have their pride and their

⁸³ This is an area in which we might explore the British block-grant principle, that is, central financial aid based not exclusively on local ability to pay but on local ability and need.

⁸⁴ King, *op. cit.*, p. 9.

special interests: these must be regarded and properly so. The mere size of our country and the diversity of its economic and social interests suggest that we should never expect the degree of centralization at the national level that exists in Germany and Great Britain. A federal or federalized social insurance program with state apathy or opposition is not only undesirable, it is impossible. Decentralization of the organization of the Social Security Board into regional offices is at least in part recognition of the force of the economic and social differences that inevitably mark off from each other the regions of a continent so vast and varied as ours.³⁵

A social insurance system, coordinated organizationally and actuarially-technically, is easiest to achieve when the number of supervisory and insurance bodies is smallest. The best social insurance organization is usually the simplest.

It is difficult to make generalizations about a matter as complicated and permeated with qualitative values and imponderables as coordination, but it will probably be generally agreed that, while the British have gone farther toward a coordinated system, the Germans have made, despite enormous handicaps, the greater relative progress. The German trend to centralization is not as strong or as old as the British; German separation between government and insurance bodies and the German tradition of multi-insurance bodies are factors inherently opposed to centralization. German progress toward coordination is traceable, despite its still relatively weak powers, more to the influence of a single supervisory body, the Federal Insurance Office, than to any other organizational and technical influence.³⁶

³⁵ Birchard E. Wyatt and William H. Wandel, *The Social Security Act in Operation* (Washington: Graphic Arts Press, Inc., 1937), pp. 20-1. Particularly in the preliminary stages of organization, this decentralization is technical, not true decentralization. In view of federal responsibility for and the technical nature of contributory old age insurance, an organization in which Washington makes policy and the region executes it is the most practicable in the long run as well. But Washington, to secure local cooperation and confidence, must keep itself informed on local habits and problems and keep its supervisory organization flexible enough to meet special local and regional situations.

³⁶ It is no contradiction to say at the same time that financial reasons have provided the principal *motive* for coordination. Financial and social policies are worked out in Germany through a single federal organization, the Ministry of Labor.

British social insurance coordination is due essentially to the simplicity, despite their multiplicity at the top or Whitehall level, of British social insurance institutions. With the exception of health and to a degree unemployment insurance, the British join the supervisory and insurance function in a single body; this has its defects, but the gain in simplicity and (at least potential) coordination is unquestionable. The high degree of centralization *within* the British supervisory-insurance bodies works in fact at least as much against as for coordination between them; luckily the number of bodies, compared with Germany, is small.³⁷

THE AMERICAN SOCIAL INSURANCE ORGANIZATION TODAY

American social insurance organization at the federal level approximates the British rather than the German. For two main reasons it is less than completely logical. The framers of the new system were obliged to build it around existing government agencies, principally federal; they were unable or thought they were unable to affront departmental sensibilities by a too drastic transfer or concentration of powers. This factor alone is enough to explain most of our division of the power and the glory at the top: between Treasury, Social Security Board and various bureaus of the Department of Labor. Public health, for accidental reasons, was in the Treasury before the new law, and there it remains.³⁸ Mothers' and children's welfare, though largely a health service, is entrusted to the Department of Labor, partly because this Department has been interested in child welfare before the Social Security Act, partly because there exists no federal Department of Public Welfare. Vocational rehabilitation remains with the Department of the Interior. All remaining federal social

³⁷ In Germany supervision of local government affairs including residual public relief is concentrated in the Federal Ministry of the Interior. Public works supervision is scattered among several public agencies, including the Ministry of Labor and the Federal Institution for Employment Service and Unemployment Insurance; execution among scores of semi-public corporations. Since 1936 very extensive powers over public works have been conferred on Goering, chief of the Four Year Plan.

In Great Britain the Ministry of Health is responsible for local government and residual relief (except Unemployment Assistance) supervision. Public works supervision (and in part execution) has been in the hands of various committees more or less closely related to the Ministry of Labour.

³⁸ This is no more and no less logical than British Treasury administration of non-contributory old age pensions.

insurance and assistance functions provided in the Social Security Act were conferred by Congress, largely for reasons of expediency, on a new federal body, the Social Security Board.³⁹ Thus was created a whole host of organizational problems largely non-existent in Great Britain or Germany, the most serious of which is caused by the separation between federal bodies of two services, unemployment insurance and placement, that are joined everywhere else in the world.⁴⁰

In addition, the American social insurance system suffers under special organizational handicaps resulting from our need for avoiding constitutional pitfalls. Foreign experience, particularly British, shows that multiplicity of supervisory-insurance-relief bodies, though disadvantageous, need not be fatal. But no foreign country has ever tried to organize an unemployment insurance system in which one authority (the federal Treasury)⁴¹ is empowered to define taxable employers and workers and to collect these taxes, another (the state unemployment insurance agencies) to define eligible beneficiaries and pay out benefits.⁴² There is, as we have observed, no virtue in combining or coordinating bodies of dissimilar function just for the appearance of unity or coordination. Coordination is useful only when the bodies or functions coordinated have something in common. The functions of tax (contribution) collection and of benefit certification and payment are so close they should by all means be in the same body; whether they can be separated successfully remains very much a question for the future.⁴³ Our problem in unemployment

³⁹ Workmen's compensation, not mentioned in the Social Security Act, remains with the state departments of labor. The Railroad Retirement Board handles old age and unemployment insurance for railroad workers. Veterans' pensions are in a separate Veterans Administration.

⁴⁰ The disadvantages of this separation are accentuated by the different organizational and personnel standards of the two bodies. Their personnel must work jointly in the same employment offices, yet that of the Department of Labor is (in effect) under federal civil service, that of state unemployment insurance bodies is not. Even in states which have combined the two services in a single department, distinction must be made—an impossible one in the absence of a state civil service law equal to the federal—between the qualifications of the insurance and employment office staffs.

⁴¹ The state agencies also may define taxable employment.

⁴² In old age insurance, the Social Security Board in fact certifies the beneficiary's name and the amount of the benefit to the Treasury, which makes the payment.

⁴³ For example, the Social Security Board which administers old age benefits must have access to the contribution records of the Treasury which collects taxes. It is already clear that this mere physical separation of the functions of

insurance is exaggerated by a further separation between state and federal taxes (contributions) and tax collecting organizations.

The flaws of social insurance organization abroad are never as serious as one would suppose from an analysis of forms and regulations. This, though we dare lean much less on imponderables than the British, is also true of our new organization. Working relationships are, they must be, established between departments sharing a common task, even though the law and the written regulations do not provide for them. A potentially very serious lack of coordination at the federal level was recognized and, in principle at least, eliminated in the agreement between the Department of Labor and the Social Security Board for joint action through a coordinating committee in administering the federal-state unemployment insurance-placement scheme. While this agreement is drawn in broadest terms and leaves two agencies where perhaps there should be one, some such cooperative relationship is essential if they are to carry out even the most nominal of their duties under the law. A still more informal liaison operates between the Social Security Board and the Treasury. In the formative stages of organization, and while there is still a chance of reorganization, perhaps this omission to set up more formal coordinative machinery has its fortunate side. As the British say, the informal agreement gives officials the opportunity to make changes and compromises with a minimum of strain and face-saving. But soon or late, preferably soon, because we dare not assume the public or the civil service tradition that justifies and supports British "muddling through," simplification and improved coordination must come in our social security organization.

AMERICAN COORDINATION AT STATE AND REGIONAL LEVELS

Coordination in American social insurance and related organizations will no doubt have to take account of state and regional differences. We have noted some of the obstacles in this country

the two agencies causes delay. Another problem is raised in the possible conflict between the two bodies in their interpretation of tax (Treasury) and benefit (Social Security Board) coverage. It is indeed impossible to imagine two sets of interpretations as independent in fact as they pretend to be in the Social Security Act. It is heartening to learn that delays and difficulties are being minimized by an agreement to coordinate, still largely informal, between the two bodies.

to organizational and actuarial-technical coordination at the federal level. They include such factors as the size and diversity of the various areas of the continent, the strength of local and regional feeling, the Constitution which produces lateral and vertical divisions in authority, rivalry and competition between federal departments. But whether or not we are to have major changes in the present organizational lines at the federal level, foreign experience suggests the wisdom of our taking into account, in our planning, all the factors that abroad bear on and determine the usefulness of the social insurance organization.⁴⁴ One of the most important of these, for us, is the purely geographical influence, and the social-political differences this influence produces. Even if we make the state or the region the center of the American social insurance organization, we shall still often be covering larger areas than a British or German national scheme in its entirety. We *must* decentralize to this extent, at least in function if not in control, if we are to get close enough to the insured person and his personal and local slant. Even in these smaller foreign countries a distinct, though not a universal trend, to administrative decentralization has become apparent, e.g., German old age-invalidity and health insurance at the state (provincial) level. Our need for decentralization is vastly greater.

In the assistance and public health services, decentralization here would build on the solid ground of existing institutions and traditions. In this sphere the state, with or without federal subsidy, is already primarily responsible for financing, entirely responsible for administration. In public health, for example, federal grants-in-aid now supplement state funds; an expanded program of medical care, if provided on a relief or other non-insurance basis, would join with this naturally.

The extent and exact degree of decentralization in the American social insurance organization cannot be decided on *a priori* principles. They will depend primarily on two factors: the technical nature of the insurance or assistance concerned, the degree to which local autonomy proves administratively necessary and practicable. In old age insurance, to take one extreme, decentralization will be almost entirely functional, that is, will consist essentially

⁴⁴For an analysis of these factors, see Chapter 17.

of a subdivision of functions. But in old age assistance, financed on a combined state-federal basis, much greater leeway must and will be permitted to special regional and state requirements, real or other, and thus to the discretionary powers of the local or regional official. That is, decentralization here will be true decentralization: delegation of power, not a mere splitting of function under close federal control. Even true decentralization, of course, does not and should not preclude federal supervision and maintenance among the different regions of minimum administrative standards, particularly in personnel.

Americans are like the British in that they dislike not so much the idea of central subsidy as the idea of direct central administration. They will, that is to say, increasingly (though not always gracefully) accept administration by a local person selected under federal standards, paid partly out of federal funds, supervised by federal authority. The federal grant-in-aid will be the principal method by which we may hope to raise and maintain reasonable social insurance and assistance standards on the state level.⁴⁵ It is remarkable that we have made so little use of the block, as distinguished from the percentage grant, which discriminates automatically against poorer communities. The block-grant would appear to offer considerable possibilities for American social insurance and assistance administration.

The best time to coordinate a social insurance system is at the time of its creation.

The mould of organization sets early and it tends to set hard. Even features which seem purely technical on their surface get imbedded in the popular mind, become part of the tradition and habit of social insurance, and are as hard to change actually as those based on a major principle or on local or national prejudice. There is, as we have seen, no perfect organizational or administrative plan, even on paper. At the time of its creation, social and political forces may be and usually are more important than technical considerations or the dictates of pure reason. In the nature

⁴⁵ It is not impossible that the federal-state unemployment insurance scheme may some day be reorganized on the federal grant-in-aid basis. This would place unemployment insurance on the same basis as the employment service, and immediately produce results on state administrative standards.

of the case, organizational simplicity and a high degree of organizational and actuarial-technical coordination are therefore essentially ideals, to be constantly worked for but never actually achieved on all fronts.

Fortunately there is still time in this country, within the limits we have outlined, to plan for a relatively simple and well coordinated system. Our situation is much more like the German than the British: German experience with coordinating programs warns us not to expect too much. The vertical line of authority, because of our federated government and because we cover so immense and diverse an area, will not be as clear as the British. The horizontal organization can still be made as simple as the German. We have advantages as well as handicaps in our search for a well coordinated, simple, effective social security organization. It is the fashion to emphasize the second, and the handicaps are real enough. The important thing for us is that we capitalize *now* our few opportunities; in ten years they will be far fewer. For one, we seem to be entering a gradually rising market for public administration. As the opinion spreads that our economic frontier has filled up, we shall get not only a better supply of human material to man the new service and apply to public administration the imagination and ability that in the past have gone principally into business, we shall get something more important—public understanding of and support of public administration. Again, our lack of precedent and experience has already proved a stimulus as well as a handicap in devising new ways around administrative problems.⁴⁶ Finally, and most certainly, we can count on the slow pressure of increasing federal hegemony and increasing state reliance on the federal Treasury. Depending on one's philosophy this double development may appear desirable or ominous of a slow national decay. We can at least assure ourselves that both Germany and Great Britain have preceded us in the same development and that, whether it proves ultimately desirable or otherwise, a similar development for this country appears inevitable.

⁴⁶ E.g., the proposal to establish two-way teletype connection between the regional and Washington offices of the Social Security Board for quick transmission of wage and other data, which would permit decentralized adjudication of old age insurance claims.

APPENDIX

BRIEF DESCRIPTION OF THE ORGANIZATION OF GERMAN AND BRITISH SOCIAL INSURANCES

The three diagrams in this Appendix illustrate only the principal supervisory and administrative relationships in the social insurance systems of Germany and Great Britain. To have included all the lines of authority and cooperation would have resulted in a hopelessly confused picture. As a supplement to the diagrams the following outline briefly summarizes the chief characteristics of the two systems which have particular bearing on coordination and centralization. Since coordination is a horizontal relationship, it is normally found in the relations between supervisory bodies, between administrative or insurance institutions and cooperating agencies, and between insurance schemes (external organization). Centralization, essentially a vertical relationship, appears within an insurance scheme or institution (internal organization).

GERMANY

The main organizational characteristic of German social insurance is the strict separation of administrative and supervisory functions. Administrative functions are exercised by insurance *institutions* which are public corporations and autonomous, and supervisory functions are exercised by insurance *offices* which are essentially government agencies organized in a strictly defined hierarchy descending from the national via the provincial to the local level (Federal Insurance Office, under the supervision of the Federal Ministry of Labor; Superior Insurance Offices; and local Insurance Offices). Supervision in Germany always includes the function of providing appellate facilities and of formulating and applying administrative regulations.

I. *Old Age-Invalidity Insurance*

Covers approximately 18.7 million wage earners employed in industry, commerce and agriculture. Salaried employees are covered in a separate insurance system covering approximately 4 million persons. Provides uniform invalidity and old age benefits and widows' and orphans' pensions; additional benefits in kind are optional and vary among insurance institutions. Financed by employer and worker contributions, and (for the wage earners' funds only) by a government subsidy. Germany has no separate

categorical old age relief or assistance scheme; the aged who need relief are treated as part of the residual relief group.

A. *Administrative organization*

32 insurance institutions: 28 general funds for wage earners organized *territorially* according to governmental subdivisions, and a separate *nation-wide* fund each for miners, railroad workers, marine workers and salaried employees. Each general wage earners' fund is relatively autonomous in its own administration, with only a slight degree of central supervision, and highly centralized within its own organization at the state (provincial) level. Each fund has a few local representatives of its own, but mainly its local functions are exercised by other cooperating social insurance bodies and by certain government agencies at the local level. Financially, however (through the operation of the so-called Schlüssel), these funds are practically a unit.

The old age institution for salaried employees (and with minor modifications, the institutions for miners, railroad and marine workers) is organized as a single *nation-wide* fund, highly centralized both in function and control, with practically no organization at the state or local level.

B. *Supervisory organization*

General supervision by Federal Ministry of Labor. Despite the federal subsidy, central supervision is relatively slight. Occasionally the local Insurance Offices (supervisory bodies) act as local agents of the old age insurance institutions (administrative bodies).

C. *Relations to other social insurance institutions*

Actuarial-technical coordination among old age insurance bodies for wage earners, salaried employees, miners, marine and railroad workers is fairly close and is increasing.

Until 1934, no important organizational or actuarial-technical coordination between health and wage earners' old age insurance. The new program contemplates partial unification of the two systems: health insurance institutions have been made local agencies of the state (provincial) old age insurance bodies, are represented on their advisory committees, and occasionally issue and exchange old age insurance stamp books. To the old age insurance institutions have been transferred

health insurance reserves and the so-called community duties and the nomination of the leaders of health insurance bodies. In the future old age insurance bodies will audit and inspect health insurance funds.

D. *Cooperating agencies*

Local police issue and exchange stamp books, hand out benefit application forms. Local branches of the Federal Post Office sell contribution stamps, pay benefits.

II. *Industrial Accident Insurance*

Covers approximately 24.5 million wage earners and salaried employees in industry, commerce, agriculture, etc. for industrial accidents and certain occupational diseases. Provides uniform pensions, medical care and rehabilitation. Financed entirely by employer contributions.

A. *Administrative organization*

291 insurance bodies organized nationally: 63 for industrial workers, 37 for agricultural workers, 191 for public employees. Have the highest degree of autonomy of all German social insurances; are highly centralized internally.

B. *Supervisory organization*

General supervision by Federal Ministry of Labor.

C. *Relations to other social insurance institutions*

Close organizational and actuarial-technical coordination between industrial accident and health insurance institutions, increased since 1936.

III. *Unemployment Insurance*

Covers approximately 14 million employees, including all wage earners covered by health insurance, and all salaried employees except those in higher wage classes; but excluding farm workers and female domestic servants. Provides uniform ordinary and emergency cash benefits plus family allowances. Financed by employer and worker contributions.

A. *Administrative organization*

Single nation-wide fund (Federal Institution for Employment Service and Unemployment Insurance); originally highly decentralized in function (not in control), but increasingly less

so. The Institution has a complete regional (provincial) and local organization of its own.

B. *Supervisory organization*

General supervision by Federal Ministry of Labor, but less than for old age and health insurance. Actually, the federal Treasury exercises more control: through loans to the Institution during the depression and the diversion of Institution funds since 1933 to help finance the political and economic program of the government.

C. *Relations to other social insurance institutions*

Health insurance bodies collect unemployment insurance contributions jointly with their own; examine employers' records for compliance.

D. *Cooperating agencies*

Local government welfare authorities apply the means test for unemployment insurance benefits (after the 6th week). Local offices of the Federal Institution certify that unemployment relief clients of local welfare authorities are employable.

IV. *Health Insurance*

Covers approximately 20.9 million wage earners, and all salaried employees except those in higher wage classes. Provides uniform minimum benefits in cash and medical care, and additional benefits depending on the financial ability of the individual health insurance body. Both the insured member and his family are covered. Financed by employer and worker contributions.

A. *Administrative organization*

4,725 health insurance bodies: organized territorially (general urban and rural community, and miners' funds); or nationally (union, establishment and substitute funds). Originally highly autonomous, considerably less so since 1933, they still retain control over their contribution and benefit rates, investment of funds, etc.

Normally both territorial and nation-wide funds have their own local offices. Gradually the health funds are being amalgamated with the state (provincial) old age insurance institutions for wage earners. Associations of health insurance funds continue to audit fund accounts, but this function will be taken over by the state old age insurance institutions.

B. *Supervisory organization*

General supervision by Federal Ministry of Labor, formerly slight, now increasing.

C. *Relations to other social insurance institutions*

See section C under old age insurance, industrial accident insurance, and unemployment insurance, for coordinative arrangements with these insurances.

GREAT BRITAIN

The main organizational characteristic of British social insurance (except health insurance) is the vesting of both administrative and supervisory functions in the central government. It contributes considerable sums to all insurances, except health insurance. To offset this high degree of centralization, Great Britain has established semi-independent appellate and financial-actuarial authorities.

I. *Old Age Insurance*

Covers approximately 19.2 million employees, i.e., practically all employees 16 years and over. Provides uniform old age benefits to insured persons over 65, and widows' and orphans' pensions to eligible dependents of insured persons. All benefits in cash. Financed by employer and worker contributions and a government subsidy.

A. *Administrative organization*

Single nation-wide fund, operated by the Ministry of Health (Pensions Branch, Alterations Branch), highly centralized in function and control. The Ministry of Health is both the administrative and chief supervisory (including appellate and regulatory) authority but appoints semi-independent referees at the local level, selected in accordance with regulations made by the National Health Insurance Joint Committee.

B. *Supervisory organization*

Ministry of Health is the chief supervisory authority, through its own divisional officers and local Outdoor Staff. The Comptroller and Auditor General audit the Pensions Account and the Government Actuary makes decennial reports on the financial status of the scheme, both at the national level.

C. *Relations to other social insurance institutions*

Health insurance bodies (Approved Societies) collect old age

insurance contributions together with their own. (See Health Insurance under IV below.)

D. *Cooperating agencies*

Local branches of the Post Office sell contribution stamps, hand out benefit application forms and pay benefits. The Treasury is custodian of the contributory old age Pensions Account and invests the funds.

The non-contributory old age pensions scheme is administered and supervised by the Treasury. Although there is no coordination between the Treasury and the Health Ministry in the *administration* of the two old age schemes, there is close *financial-actuarial* coordination. The Treasury provides out of its own funds non-contributory pensions for persons over 70 who are in need, and also takes over the financing of contributory pensions for persons who are over 70. The Ministry of Health is the highest appellate authority for both old age schemes.

II. *Industrial Accident Insurance* (Workmen's Compensation)

Widest coverage (all wage earners, and all salaried employees except those in higher income brackets) of all British social insurances, although there are no official figures. Provides uniform cash benefits for industrial accidents and certain occupational diseases, but no medical benefits except in case of death. Financed entirely by employers. Insurance compulsory only in the coal mining industry.

A. *Administrative organization*

Insurance, if elected by the employer, is furnished by private insurance companies.

B. *Supervisory organization*

While private insurance companies are subject to the usual governmental controls, the government has no special rights as in other social insurances. The Home Office has general supervision over those *employers* whose workers are covered, but not over the private insurance companies which carry the risk.

III. *Unemployment Insurance*

Covers approximately 14 million employees: i.e., practically all salary and wage earners (including farm workers) between 16

and 65 years of age except salaried employees in the higher income brackets. Provides uniform cash benefits plus family allowances (special uniform rates for farm workers). Financed by employer and worker contributions and a government subsidy (equal thirds).

A. *Administrative organization*

Single nation-wide fund (with separate "general" and "agricultural" accounts) operated by the Ministry of Labour, highly centralized in function and control, with complete divisional and local organization of its own. Ministry of Labour both administers and supervises, but sets up semi-independent appellate authorities (Courts of Referees). The highest appellate authority, the Umpire, is completely independent of the Ministry of Labour.

B. *Supervisory organization*

Ministry of Labour is the chief supervisory authority through its divisional officers. Unemployment Insurance Statutory Committee is a semi-independent agency (partly advisory, partly legislative) at the national level: its function is primarily financial supervision of the unemployment insurance fund and improvement of actuarial-technical coordination of unemployment insurance and relief.

C. *Relations to other social insurance institutions*

Ministry of Health (with general supervision over health insurance, see below) inspects employers' records for compliance simultaneously with examination for health and old age insurance; Ministry of Health physicians certify employability of unemployment insurance claimants.

D. *Cooperating agencies*

Local branches of the Post Office sell contribution stamps, occasionally pay benefits.

Unemployment Assistance Board (not an insurance but a relief agency) provides relief payments for able-bodied between 16 and 65 who either have exhausted or were never eligible for unemployment insurance benefits. Financed almost entirely by the central government. UAB is a single national authority, highly centralized in function and control, with its own divisional and local organization for investigat-

ing need and administering benefits in kind. Close organizational and actuarial-technical coordination with the Ministry of Labour which provides registration facilities, pays UAB cash benefits, trains and retrains UAB clients, post-audits UAB expenditures, and is responsible for UAB appropriations in Parliament.

IV. *Health Insurance*

Covers approximately 18.8 million employees, practically the same group covered by old age insurance. Provides uniform minimum benefits in cash for sickness and maternity, and (at lower rates) for invalidity both of the insured person and his wife. Modest minimum medical care benefits are provided for insured persons. If the Ministry of Health approves, additional benefits may be paid by health funds with surplus reserves. Financed by employer and worker contributions and a small government subsidy.

A. *Administrative organization*

Over 6,000 Approved Societies, organized nationally or locally. They vary considerably in size from huge commercial insurance companies with special non-profit departments for compulsory health insurance to small mutual aid clubs, and are in general competitive. Compared with other British social insurances, the Societies are decentralized (in control), operate as self-governing funds.

B. *Supervisory organization*

General supervision by Ministry of Health, increasing in extent and intensiveness. The National Health Insurance Joint Committee serves as the supreme coordinating agency for health insurance in the United Kingdom.

C. *Relations to other social insurance bodies*

See section C under old age insurance and unemployment insurance for coordinative arrangements with these insurances.

D. *Cooperating agencies*

Local branches of the Post Office sell contribution stamps, hand out benefit application forms.

DIAGRAM I. ADMINISTRATIVE CENTRALIZATION IN GERMAN AND BRITISH
 OLD AGE INSURANCE COMPARED

GERMANY

GREAT BRITAIN

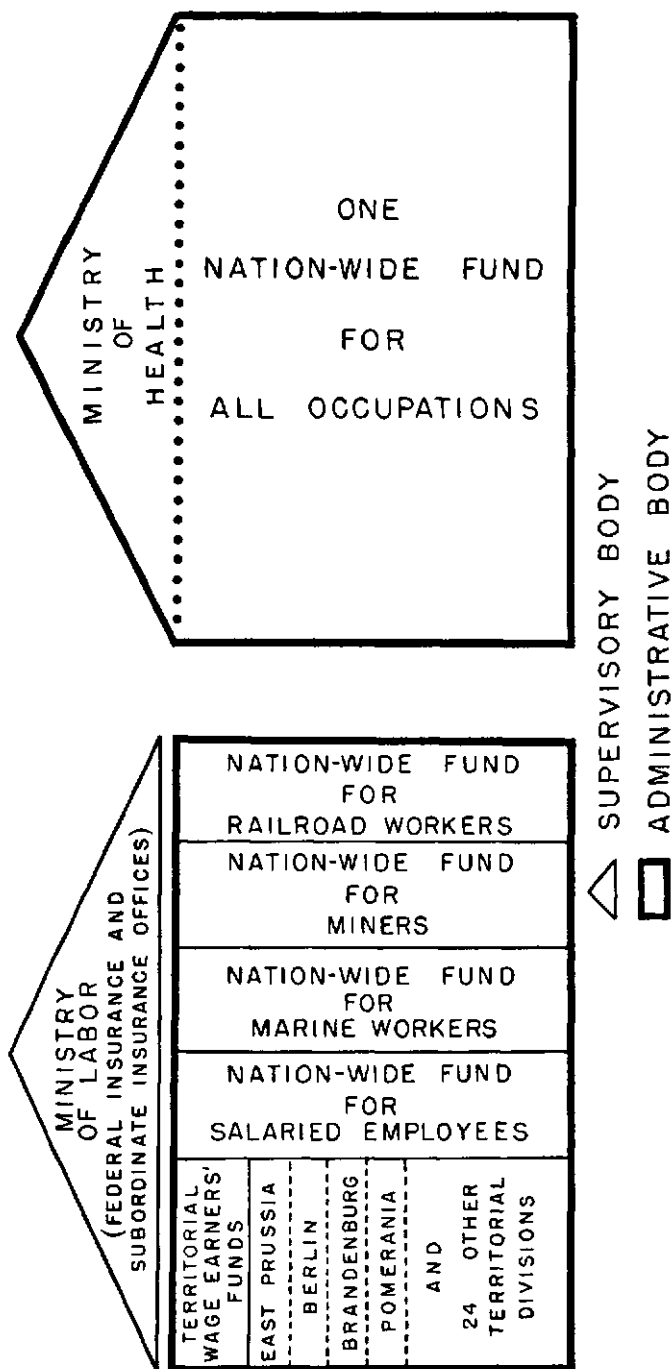
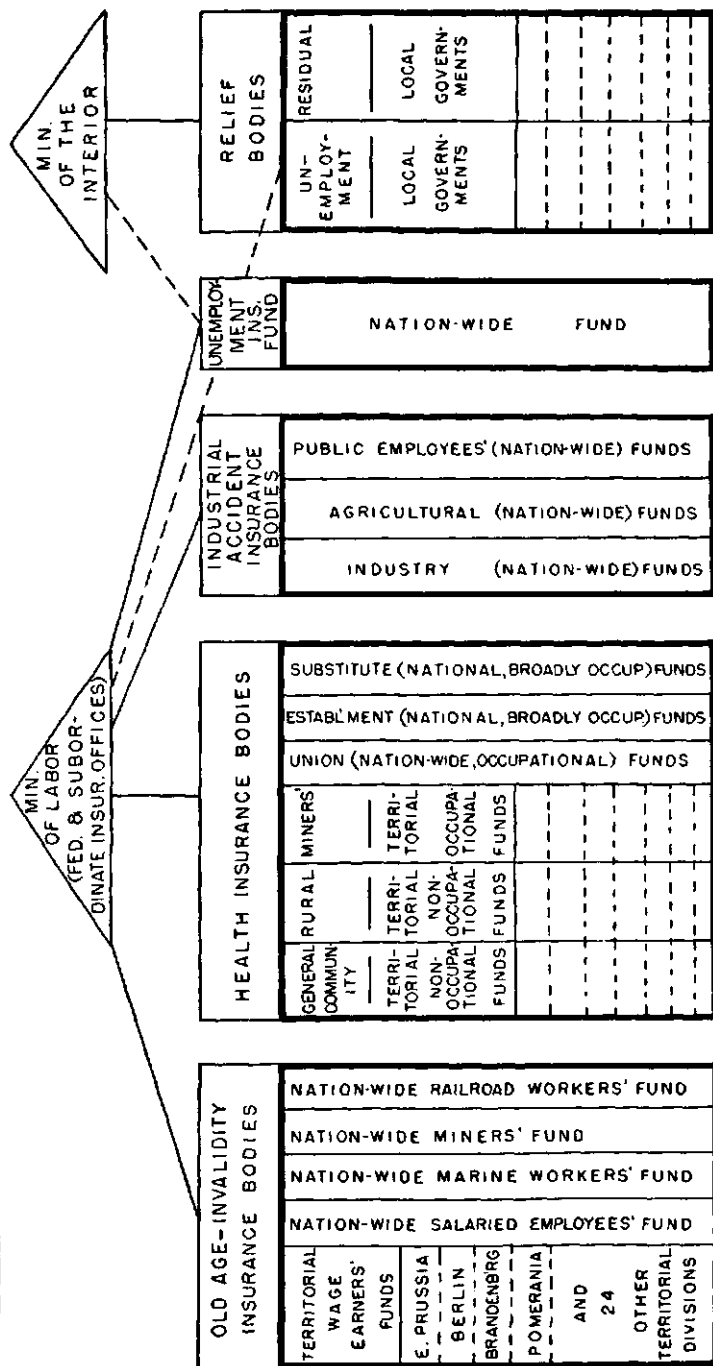


DIAGRAM II. RELATIONS BETWEEN SUPERVISORY AND ADMINISTRATIVE BODIES IN
GERMAN AND BRITISH SOCIAL INSURANCE AND RELIEF

A. GERMANY



B. GREAT BRITAIN

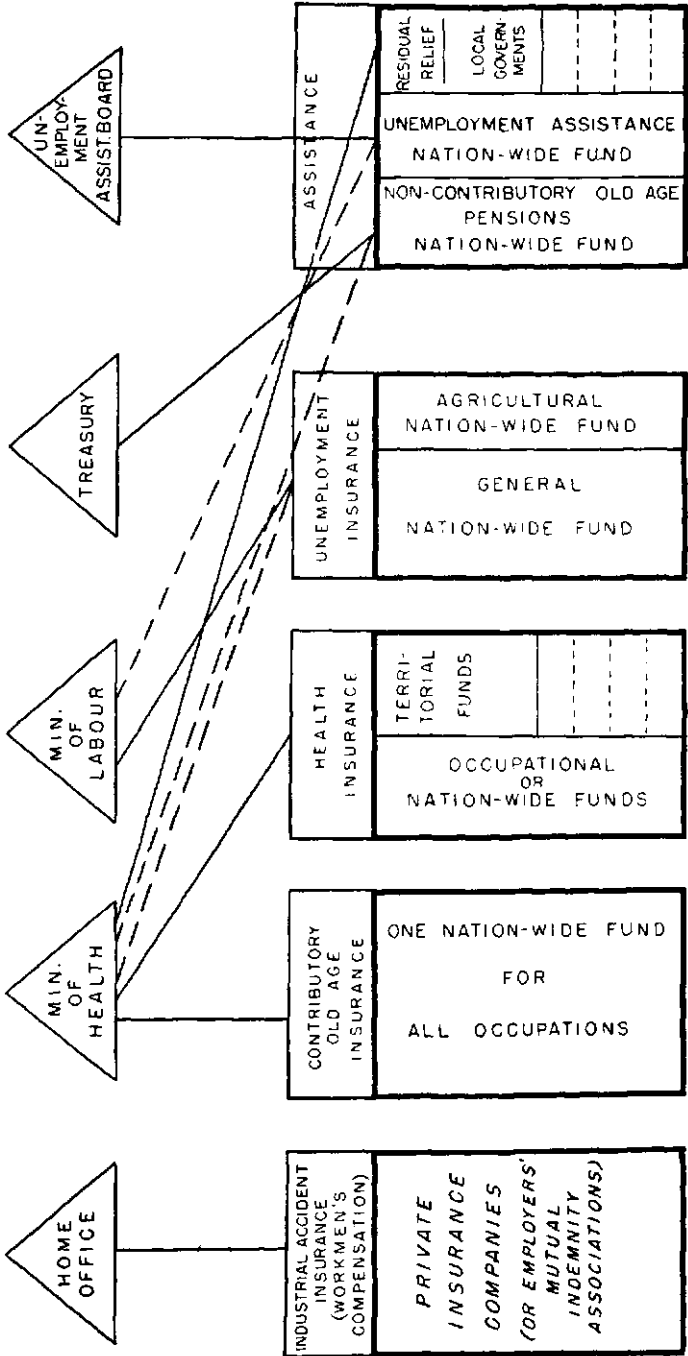
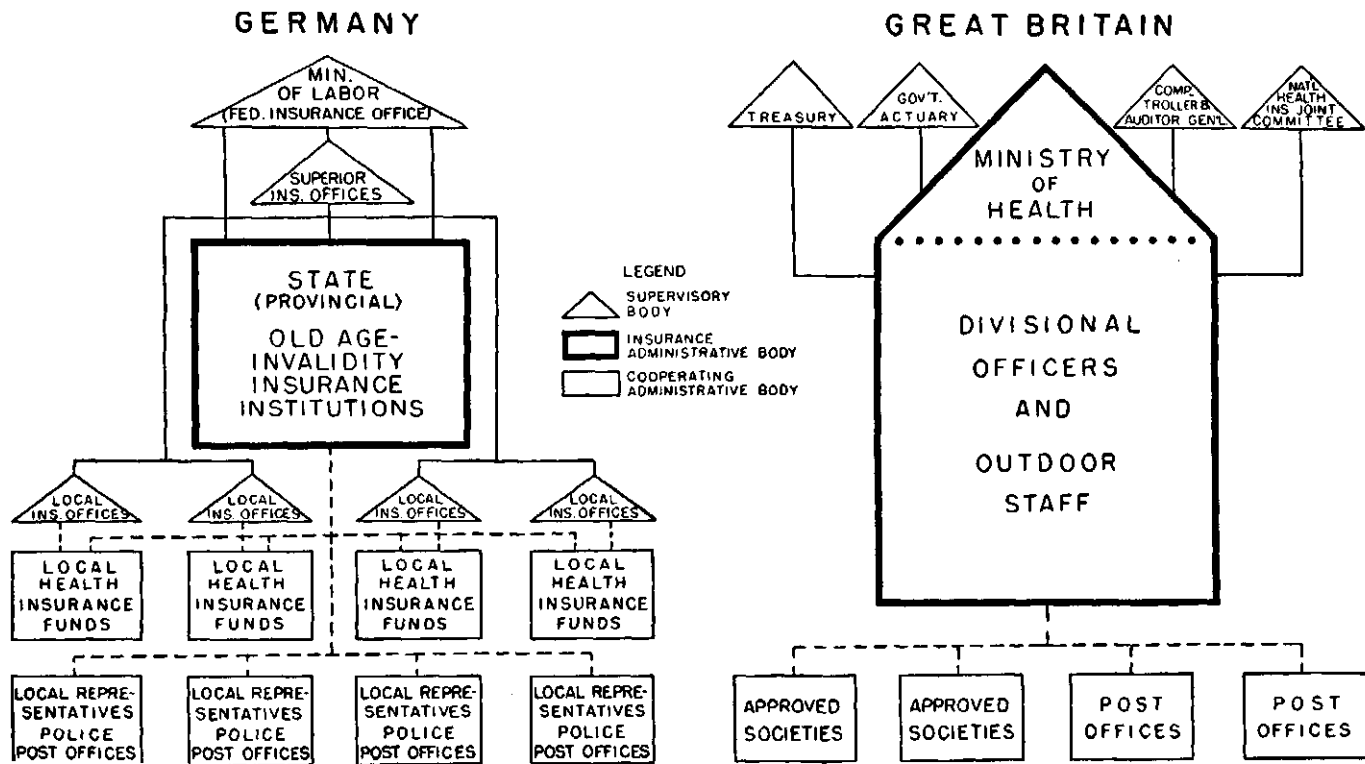


DIAGRAM III. RELATIONS AMONG SUPERVISORY AND ADMINISTRATIVE BODIES AND COOPERATING AGENCIES AT NATIONAL, REGIONAL AND LOCAL LEVELS, IN THE GERMAN AND BRITISH OLD AGE INSURANCE SYSTEMS



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