

# Rock-Bottom Responsibility

By ROBERT F. WAGNER

**I**T has been only since the full force of the present depression struck our country that we have come to see how unprepared we were to deal with its ravages. No reserves had been laid aside to care for prolonged, involuntary unemployment. As soon as the modest resources of great multitudes were exhausted, they were compelled to turn to public and private charity. Statistics gathered by the Russell Sage Foundation show that the amount of non-pension relief increased 449 per cent between the first half of 1929 and the first half of 1931. In eighty-one cities having a total population of more than thirty-six million, the sum of \$132,000,000 was spent for relief during the twelve months of 1931.

Yet charity, whether public or private, should be the last resort and not the first choice in dealing with the economic problem of the wage-earners for whom we fail to supply work. Such charity calls for greater voluntary contributions and for higher taxation at the very time when incomes and values are reduced. The consequences confront us on every hand in terms of inadequate relief in spite of the extraordinary efforts of private citizens, states and municipalities. They comfort us in destitution, malnutrition, and spiritual deterioration.

Is there a better way? Can we by adequate preparation preserve the people of the United States against the suffering attendant upon widespread unemployment?

With that question we come to the rock bottom of social responsibility for unemployment. Men are thrown out of work through no fault of their own. It is not the men who walk the streets in search of work who create the industrial system of which unemployment is a part. The obligation rests upon society to make sure that they shall not go cold or hungry. The alternative is between charity and insurance; and I have no hesitation in making my choice in favor of insurance.

Compulsory insurance against unemployment under state auspices dates from the passage of the British insurance act in 1911. Eight years later, Italy adopted a system and was followed by Austria, Bulgaria, Germany, Luxemburg, Poland, Russia and Queensland. Eight countries—Belgium, Czechoslovakia, Denmark, Finland, France, Netherlands, Norway and Spain—have voluntary systems. In Switzerland in some of the cantons insurance is compulsory, in others voluntary. Upon the establishment of the Irish Free State the compulsory system was continued. In all

of these countries the insurance systems, even where privately organized, are encouraged by the state. In all, except Austria, Germany and Italy, the state contributes part of the premium costs. At the present time approximately 37,500,000 workers are so protected of whom 34,673,000 workers (exclusive of Russia) are protected by compulsory insurance.

Many of these systems have encountered serious financial difficulties. They were not organized to cope with periods of unemployment so prolonged and widespread as this one. They were intended to cover such risks as occur in the normal routine of industrial activity. To draw an analogy, it was not at all surprising to find that companies organized to deal in fire insurance found it difficult to meet the losses that arose out of the San Francisco conflagration of 1904. It should be noted, nevertheless, that both in the Irish Free State and in Italy the unemployment insurance systems have accumulated substantial surpluses despite three years of depression.

## The British System

**T**HE original actuarial calculations behind the British system rested on experience showing the average unemployment in the insured trades over a period of years up to 1919 to have been 5.32 per cent. In 1921 began a decade of chronic unemployment unrelieved by any sustained period of prosperity, in which that average has been over 13 per cent. Obviously enough the system was inadequate to meet the demands of a doubled load. That, however, was but one of the difficulties. Great Britain lived in constant expectation that abatement of the depression was near at hand. Consequently it was not generally felt that there was need for a radical change in the accepted view that the country was dealing with a temporary emergency. Modifications intended for short periods were frequently made in the insurance setup. "Uncovenanted," "extended" and "transitional" benefits were introduced. These benefits shared the character-

istics of both insurance and relief. Nonetheless the British insurance fund in 1924 actually operated at a profit of \$45,000,000.

The sturdiness of the system was further revealed by the fact that in the face of further liberalizations as to scale of benefits and further relaxations in the conditions for qualifying for them, despite also the devastating effect of the coal strike and general strike of 1926, the fund in twenty years accumulated an indebtedness of only \$200,000,000. This (March 1930) was on the

*The junior senator from New York has been responsible for the outstanding series of measures at Washington dealing with unemployment. Here he gives the heart of those "individual views" which he has filed as minority member of the Select Committee of the U. S. Senate appointed last summer [Senate Report No. 629] to investigate the subject of unemployment insurance. It was a striking fact that no one who appeared before its hearings dissented from the proposition that some form of insurance or reserve must be established. If, as newspaper interviews indicate, the majority members should in the final report subscribe to compulsory insurance, it will be a way-mark of the hard times.*

eve of the present acute depression. Since then the debt has steadily mounted until it reached \$500,000,000 by September 1931. During the past six months, it has remained approximately static because of an increase in premium rates and a reduction in the rate of benefits paid.

Certain factors, however, must be taken into consideration in measuring that debt. First, almost half of the amount (\$225,000,000) represents the cost of administering for over twenty years an elaborate system of labor exchanges, an interest charge of over \$50,000,000 for funds borrowed from the government, and all other overhead of the insurance system. Second, it is a fair inference that a very large proportion of the debt represents not the cost of the insurance but of the pure relief which was dispensed through the insurance mechanism. Careful calculation has shown that the entire amount of the debt would be repaid by the normal operation of the insurance fund within five years if the rate of unemployment fell to an average of 10 per cent.

The British insurance can not therefore truthfully be called a "dole." Evidence in our hearings revealed that 82.5 per cent of all the benefit payments during the life of the system were supplied from premium receipts and that only 17.5 per cent comprised extraordinary appropriations and loans. The so-called dole originally consisted of a free gift, paid not out of insurance funds but entirely out of state funds to ex-service men and civilians for a period of twelve months during 1919 and 1920 to meet the special emergency of the transfer from war to peace conditions.

### The German System

THE German insurance system came into effect at the very moment when the problem of unemployment was reaching extraordinary dimensions in 1927 at a time when 1,470,000 workers, more than 9 per cent of those insured, were unemployed. Within a year the average number out of work increased to 1,658,000, grew in 1929 to 2,019,000 and in 1930 to 3,483,000. During 1931 the average number of unemployed surpassed four and one half million. Thus in Germany too the problem of unprecedented unemployment placed an unforeseen burden upon the insurance fund which was met in part by borrowing from the government which aggregated during the first twenty-nine months \$148,274,000. These loans have since been canceled. Premiums have been increased from a total of 3 per cent of standard wages to 6½ per cent.

A total of \$1,500,000,000 was paid out in Germany from October 1927 to March 31, 1931 for all forms of unemployment relief. The noteworthy fact is that more than 57 per cent of this sum of \$858,000,000 had its origin in the premiums paid by employers and employees. The balance of \$642,000,000 represented the entire outlay of the German federal government, the state governments and local communities for all forms of emergency relief expenditures including even local poor relief. During the year 1931 the insurance fund alone supported an average of close to two million workers.

It is difficult to make comparisons between conditions in Great Britain, Germany and the United States. An examination of the facts leads to the conclusion that many of the evil consequences of unemployment which have been evident in the United States have for the most part been avoided in those countries and at a relative cost not in excess of that incurred in the United States.

The European experience with unemployment insurance

### Senator Wagner's Nine Points

1. The evil consequences of unemployment can and should be mitigated by the establishment of unemployment insurance or wage reserves.
2. Unemployment insurance or wage reserves, to be successful, should be inaugurated under compulsory state legislation and be supervised by state authority.
3. The federal government should encourage state action by (a) cooperating with the states in the establishment of a nation-wide employment service [S. 2687], and (b) by allowing employers to deduct from income tax a portion of their payments into unemployment reserves [amending the Revenue Act of 1928].
4. Every system of unemployment insurance or reserves should be organized to provide incentives to the stabilization of employment.
5. The insurance or wage reserve system should be built on a plan financially and actuarially sound so that the premiums paid into the fund shall be sufficient to meet the obligations of the fund.
6. Compulsory unemployment insurance eliminates the competitive advantage of the employer who refuses to recognize his business responsibility for unemployment.
7. Compulsory unemployment insurance preserves the mobility of the worker and his freedom of action in attempting to improve his economic position.
8. Unemployment insurance will beneficially affect not only the workers but agriculture, industry and trade; all alike profit from sustained purchasing power.
9. Sound business and good conscience both command us, in dealing with unemployment, to abandon the methods of poor relief with its ballyhoo, its inadequacy, inequality and uncertainty, which are a drain on the sympathy of the giver and a strain on the character of the taker. Let us, like civilized men and women, organize intelligently to prepare today for the exigencies of the future.

has admittedly revealed serious weaknesses. It is all the more significant to note that the European public, both employers and employees, accept unemployment insurance as an essential part of the prevailing economic organization. The reports of U. S. consular representatives prepared at the request of the Bureau of Labor Statistics and submitted to our committee showed that where compulsory systems are now in existence such objections as are evident are directed toward details of administration and not against the principle.

### American Experience and Proposals

PROVISION against unemployment is no new phenomenon in the United States. One trade union, the Deutsch - Amerikanische Typographia, has had an unemployment benefit system since 1884. In April 1931 forty-eight trade-union benefit plans were in operation. In addition, fifteen companies had established reserve funds. There were also sixteen joint-agreement plans set up mutually by trade-unions and employers. Altogether there were seventy-nine plans in operation, covering approximately 160,000 workers or approximately one half of 1 per cent of the wage-earners of the country. About 65,000, or 40 per cent of these workers, were insured under union-employer agreements, of which that in the men's clothing industry is outstanding. Indeed the largest single group among the sixty-five thousand employees insured under joint agreements were members of the Amalgamated Clothing Workers of America.

# UNEMPLOYMENT BENEFIT PLANS IN THE UNITED STATES 1928 AND 1931 (APRIL)

Type of plan	Number of plans		Number of employees covered		Benefits paid	
	1928	1931	1928	1931	1928	1931
Trade-union						
Local	37	48	33,400	44,648	\$264,000	\$1,870,005
National	4	3	1,320	900	13,613	17,265
Union-employer	22	16	65,000	65,000	998,200	1,444,503
Employer	9	15	8,500	50,000	11,781	872,701

Since 1916 more than thirty bills dealing with compulsory unemployment insurance have been introduced in six state legislatures without any tangible result. Some of these provided for state systems in line with European experience with contributions to be made by employers, employees and the state; others—and here we come upon American variants—provided for separate insurance funds for each industry with contributions to be made by employers, employees and the separate company funds. This last is the system put forward in February by an interstate commission representing the states of Connecticut, Massachusetts, New Jersey, New York, Ohio and Pennsylvania which reported in favor of compulsory systems of unemployment reserves. It is also the system projected by the first and only state to have thus far enacted a compulsory insurance law, Wisconsin (January 1932). The law goes into effect on July 1, 1933 unless employers of not less than 175,000 employees shall have sooner established voluntary systems of insurance.

The advocates of the so-called American plans declare that insurance on the basis of a state-wide pooling of premiums and risks puts unjustified burdens on the employer who gives steady employment to his workers. The premiums are pooled so as to take care of those who may become unemployed, and a company which employs its workers for twenty-six weeks a year will pay premiums into the unemployment insurance fund for only twenty-six weeks. Once the plant has shut down obviously no employment is given; and since premiums consist of a percentage of payroll, the absence of a payroll after the shutdown means that no premiums are paid. The result is similar, if a plant is accustomed to discharge one half of its employees during slack seasons. In contrast, the competitors of the irregularly operated plants may have reached the state where they can give their employees regular employment, an attainment realized only after an expenditure of funds and the application of great effort. Nevertheless, under a general pooling of premiums, these stabilized plants have to pay premiums for fifty-two weeks each year. In other words, the employer who regularizes would be penalized.

These considerations apply not only to individual concerns but to entire industries. If all premiums are pooled into a single insurance fund the industries which operate regularly have to bear the burden resulting from the irregularities in other industries. Experience in England is particularly germane in this connection for there the electrical manufacturing, amusement and distribution industries have had to pay a large part of the cost of the benefits paid to the irregularly employed workers in textiles, shipbuilding and coal.

The proponents of the American plans undertake to eliminate these alleged inequalities by providing for (1) insurance by industry, or (2) company funds.

## Insurance by Industries and Companies

THE American Association for Labor Legislation has developed a plan for compulsory pooling of the unemployment risks of each major industry. All employers in

the clothing industry, for example, would contribute to the same fund, thereby relieving both employers and employees of other more regularly operated industries from supporting idle clothing workers. The size of the necessary reserve fund and consequently the amount of the premiums would be directly determined by the degree of unemployment in the particular industry. Anything done to curtail unemployment in an industry would benefit employers in that line.

The advocates of the company-fund idea contend that insurance by industry has some of the same weaknesses as the all-inclusive insurance system and that the individual employer who succeeds in regularizing would be compelled to bear part of the burdens of his less progressive competitors. They contend, too, that any stimulus to regularization can be effective only if applied to the management of a given company.

Under the company-fund plan each employer bears his own and only his own risks. The plan in itself is exceedingly simple. It calls for the establishment of an unemployment-insurance fund for each employer and for the creation of a state agency for the necessary administration and supervision. Each fund is to be separately managed and administered. Contributions are to be made only by the employer.

Provision is made, however, for arrangements whereby employees, individually or collectively, may agree to make contributions for the purpose of securing additional unemployment benefits. The amount of contribution varies. The Wisconsin act provides for a premium equal to 2 per cent of wages paid. To stimulate the employer to regularize, he is relieved from making any payments once the fund has reached a predetermined size sufficient to cover reasonable needs in a given year. Thus the Wisconsin law provides that whenever the fund of a given establishment is equal to \$75 for each employee on the payroll, further contributions cease. When the fund falls below this amount but is more than \$55, contributions are to be 1 per cent of the payroll. Underlying this provision is the theory that it affords added incentive to the employer to regularize. If he has little unemployment in his plant the fund will reach the required size in a relatively short period. Thereafter he is relieved of making payments until the fund is impaired by unemployment benefits paid to his employees.

It will be noted that the company-reserve fund operates in just the reverse fashion from the all-inclusive insurance scheme. Whereas under the latter the employer who gives the most employment pays the most premiums, under the former the employer who gives sufficient employment so as not to impair his benefit fund pays no premiums at all. There can be little doubt that the company-fund idea bears more directly upon those sources from which the will and desire to stabilize must emanate than any other plan proposed for unemployment insurance.

## Shall Insurance be Compulsory?

THE question whether unemployment insurance shall be voluntary or compulsory was the principal issue developed in the course of our hearings. Yet it is a question which does not present a real alternative. The experience here and abroad has already been cited. No extensive insurance has ever been established by the voluntary acquiescence of employers. To advocate insurance with sincerity is to advocate compulsory insurance.

Compulsory insurance does not mean that the states must operate the insurance system, (Continued on page 256)



# Out From Confusion

By FRANKWOOD E. WILLIAMS, M.D.

**W**E are a product of our civilization. We have accepted that civilization and its philosophy as we accept the Brooklyn Bridge or as a child accepts the radio. It has not occurred to us seriously to challenge the principles of that civilization. We have recognized defects in our social organization and in our various professional ways have striven to correct those defects and to better what we have found. But, whether we have been aware of it or not, back of all our efforts have been these principles involving certain concepts of man, and the end towards which we have striven has been the more effective carrying out of these principles in fulfillment of men as conceived.

Our world is unsettled. What has gone wrong? We examine our methods and techniques. We talk about plans. We inquire of the economist, the sociologist, even of the psychologist and the psychiatrist. These cannot help us in any fundamental way. There has been nothing wrong with our methods and techniques. The specialist with his particularized knowledge and technique can be helpful now only as a mechanic. He will discover this and that and direct us how to repair. One cannot be sure that he will be able to put the machine together again but the best that he can do will be to recreate the machine and cause it to function once more. If he succeeds we may again be doing what we were doing only a few years ago.

But what were we doing? We were so busy getting somewhere and somewhere was so near—just around the corner—that it was impossible to see how pathetically inadequate we were even at the moments of our greatest successes. We were building a better society, on the basis of justice, duty, generosity, charity, derived from brotherly love. In place of asylums we built hospitals; for prisons we substituted reformatories and then better reformatories; for orphanages, homes; for rigid courts, courts with some semblance of a scientific approach to their problem; for old types of schools, new types of schools. We made carefully planned and scientific investigations and demonstrations. We sought out injustice and unfairness and devised now this law and now that to meet the situation. How busy and happy we were building a better society—better housing, better working conditions, improved standards of living. What prodigious effort in time, money and energy! What rejoicing at our successes! With what a glow of happiness and satisfaction we reported our progress to our boards and how sincerely did they congratulate us and

rejoice with us for they knew what strength and earnestness had gone into our efforts. A child-guidance clinic in Philadelphia! But not only Philadelphia—Los Angeles, Cleveland, Minneapolis, most extraordinary of all New York City—but also Dallas, New Orleans, Pittsburgh; and a booklet full of the names of mental-hygiene clinics started all over the United States. Could there be any doubt of the success of our years of effort? But there is a joker in this.

A child-guidance clinic in New York City with its 1,500,000 school children. Why a clinic in Philadelphia, a clinic in Cleveland, a clinic in Minneapolis, a clinic in Los Angeles and the like? Does this seem at all strange to you? It did not seem strange at the time; it was beyond all expectation. It was what we called a "beginning."

**B**UT did it ever occur to you to consider why "beginning" must be made in this way? What is acknowledged as good for a few hundred children must be equally good for the thousands of children. Why not a dozen or more clinics in New York City? It is not because there is not need for them. Of course, we understand why—there is not enough money. But really? We have been given candy and a rubber ball to play with! And how quickly we have accepted them and what fun we have had bouncing our ball about!

Or did it ever occur to you to consider why there should be *even one* child-guidance clinic in New York City? Why one anywhere? Does it seem strange that there should be so many troubled and troublesome children? However, as you may not all be familiar with child-guidance clinics let us seek our illustrations elsewhere.

Does it seem strange to you that only after mighty effort was it possible to have gasoline which, at the time, was a drug on the market, clearly differentiated in the stores from kerosene, then much in use, even though many died horrible deaths from explosion as the result of mistakes? Does it seem strange to you that only after the most courageous fighting has it become possible to make public announce-

ment of epidemics? That there must be a *contest* over the matter of pure food and pure drugs; a *contest*, as yet unwon, over the control of narcotics? That there must be contests over such matters as proper housing, child labor, a living wage, workmen's compensation, unemployment insurance? One can understand that much effort might go into the preparation of an adequate compensation or unemployment insurance law but once this effort had been ex-

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*In three recent articles in Survey Graphic (January, April and May) Dr. Williams has written from the viewpoint of a psychiatrist on the spiritual revolution of New Russia and its results in the mental health, education and wellbeing of that people. Here in an address given at the May meeting of the National Conference of Social Work in Philadelphia he turns the spotlight on our own current confusion and examines, as an American, the contrast between the ways in which our idealism has led us and those forecast by the realism on which the Russian experiment is based.*