

The New Social Insurance Act of the Czechoslovak Republic

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The Czechoslovak Act of 9 October 1924 on workers' insurance provides for insurance against sickness, invalidity, and old age. It applies to all persons who perform work or render services under an agreement for work, service, or apprenticeship, but it is not to come into force until the passing of a further Act for the insurance of persons working on their own account. The organisation consists of a Central Insurance Institution, working through a number of local institutions formed as far as possible by taking over, and when necessary amalgamating, the existing sick funds. The employer and the insured each pay half the contribution; and the state pays a subsidy to invalidity, old age, and widows' and orphans' pensions. The administrative bodies of all the insurance institutions are composed of representatives of the government, the employers, and the insured. In order to provide for adequate control of the local institutions, their officials are appointed by and are responsible to the Central Insurance Institution. Disputes are dealt with by a system of arbitration courts and insurance courts, with final appeal to the Superior Insurance Court at Prague. The Act is expected to come into force in 1926.

THE Workers' Sickness, Invalidity, and Old Age Insurance Act¹ of 9 October 1924 was published in the Collection of Laws and Orders of the Czechoslovak Republic on 7 November 1924. The debates on the Bill in the Legislature had lasted nine months, after a special expert committee appointed by the government had spent nearly three years on the draft.

There is one question which has usually played a part of the highest importance in discussions on other social insurance Acts, and has led to the greatest difficulties. This is the question whether the insurance should be extended to other sections of the population than wage-earners, and if so, whether it should be introduced by the same Act and covered by the same organisation. In Czechoslovakia the question was settled in advance by the parties forming

¹ INTERNATIONAL LABOUR OFFICE ; *Legislative Series*, 1924, Cz. 4.

the government, so that it did not come before the expert committee. It may be remembered that the social insurance Bills introduced in Austria before the war provided for compulsory invalidity and old age insurance both for wage-earners and for persons working on their own account. A social insurance institution was to be set up, with new local branches, the district offices (*Bezirksstellen*), to deal with local business. Protests against the political tendencies of the proposed structure were made by the workers during the parliamentary debates on these Bills. The representatives of labour drew attention to the fact that the age distribution of wage-earners and of persons working on their own account was quite different; that the insurance claims of each group would differ, those of persons working on their own account being heavier on the insurance institution, and that therefore, if the average insurance premium were the same for the two groups, the wage-earners would be placed at a disadvantage. Finally it was argued that the assimilation of wage-earners with persons working on their own account in a single insurance organisation would mean a departure from the natural basis of organisation of workers' insurance — the sick funds — and that new special bodies would have to be sought which would in turn involve an unreasonable degree of expenditure.

Before the war all these questions were discussed from political points of view, and since labour was politically in a comparatively weak position, they were solved to its disadvantage. Even after the war they remained political in character, but the political position of the workers was fundamentally altered during and after the war. This phenomenon was more clearly evident in the new states created after the war, for they could not have been set up without the active co-operation of the workers, and they needed this co-operation still more for their consolidation and prosperous development. The natural result was the reinforcement of the political power of the workers. When the problem of social insurance became acute in the Czechoslovak Republic, it was the representatives of labour who were called upon to draft a scheme for its solution. It is therefore easy to understand that they would use their political position to settle the question of principle in such a way that labour would at least not suffer politically or materially, even though they could not and would not draw direct advantage from their position.

The government, which was very much under the influence of its Socialist elements, consequently decided to introduce social

insurance in two parts, the first being the insurance of wage-earners, the second the insurance of persons working on their own account. The representative of labour assumed an obligation to secure the insurance of the latter group by including in the Workers' Insurance Act a provision postponing its operation until the introduction of an Act for the insurance of persons working on their own account. Thus, even before the expert committee began its work, it was decided that the first Bill to be drafted by it should deal with workers' insurance.

In passing it may be noted that in the discussions on the insurance of persons working on their own account, the first question that arose was whether the insurance should cover both old age and invalidity. It had to be admitted that for these persons invalidity was of less importance than it was for wage-earners, since their occupation — and consequently their earning capacity — was not always dependent on the possibility of utilising their labour power to the full, as in the case of wage-earners. Moreover, it is not so easy to establish the existence of invalidity among persons working on their own account as among wage-earners. Finally, the expenditure involved is fairly heavy. If, however, it is impossible to count on the payment of the insurance premiums by persons working on their own account, the insurance loses its compulsory features, turning into voluntary insurance with average premiums, and suffering from all the disadvantages of such insurance both to the insured as a whole and to the carriers of insurance. Alternatively, as in most cases the collection of the premiums by legal authority can hardly come into consideration, it may be well to examine the question whether certain corporate bodies, such as guilds, should not be required to guarantee the payment of insurance premiums which cannot otherwise be collected, or whether the losses could not be covered by supplements to the taxes on earned income and on land. All these difficulties press for the simplest possible solution, namely, that the insurance should be limited to the attainment of a certain age and to cases of total invalidity. This would not wholly remove the technical difficulties of administration, but it would make it easier to overcome them, as they would not have such far-reaching results as in ordinary invalidity insurance.

These questions have merely been touched on to draw attention to the problems to be dealt with in the second part of the insurance system. In framing the first part of the system — a work now concluded — these difficulties have been avoided, since the question has been one simply of insurance of wage-earners.

ORGANISATION OF INSURANCE

This circumstance made it easier to settle questions of organisation, the importance of which is generally recognised. Since invalidity and old age insurance covers almost the same persons as the existing system of sickness insurance, nothing was more natural than to use the organisation of sickness insurance as a basis for the whole structure of invalidity and old age insurance as well. As far back as 1919 systematic preliminary work was begun with this end in view. The Act of 15 May 1919 extended sickness insurance to all persons performing work or rendering services in accordance with a contract of employment. These were the persons whom it was desired that invalidity and old age insurance should cover. In the Czechoslovak Republic there was no question whether agricultural workers and domestic servants should be insured against invalidity and old age, for this had already been settled in the affirmative in 1919.

An existing structure was also available. The Republic took over 1,992 of the Austrian sick funds, most of them very small and quite unable even to cope with their obligations as sickness insurance funds. Even less could they be counted on to take over the burden of the local business of invalidity and old age insurance, if the organisation of this insurance were to be combined with that of sickness insurance. Legislation was adopted which reduced the number of these sick funds to not quite 500, so creating institutions which were powerful enough to serve as carriers for the whole insurance system, and were therefore unhesitatingly approved for this purpose. Consequently there was no need in the Czechoslovak Act to seek for new forms of organisation, which led to such difficulties and expense elsewhere. In spite of the fact that four-fifths of the bodies administering the funds represented the insured, the workers, whose political influence in municipal and state administration had proved most satisfactory, were able to dispel the fear of their influence in social insurance, a fear which in Germany had led to the complete separation of invalidity and old age insurance from sickness insurance, in spite of the close relation between them, to the detriment of social insurance as a whole.

As a result of the organic connection between the two branches of insurance, the sick funds both can and do undertake all the local business and transactions between the parties; they thus become organs of the Central Insurance Institution and subject to its

control. The functions of the Central Institution further include the granting of pensions and the financial management of insurance. This is the only possible way of combining more than 2½ million insured persons in a single institution.

Hesitating attempts were made to set up several institutions. Not only were these attempts unsuccessful, but they were not even seriously supported. For instance, there was the proposal that insurance should be organised in distinct racial institutions; but this could be taken only as an emphatic statement of a principle, when it is realised how mixed racially many districts are, in which a racial classification would not have been possible.

Technically, a territorial structure for the organisation of invalidity and old age insurance would have been possible, so linking up with the three existing accident insurance institutions. The economic and social structure of Bohemia, however, differs in such important respects from that of Slovakia — in Bohemia one-third of the population is engaged in agriculture, in Slovakia two-thirds — that the burden would have been unequally divided between the separate institutions, and it would have been necessary to create a special clearing office or similar organisation to equalise matters. For these reasons, no expression was given to the demand for territorial institutions during the parliamentary debates.

SCOPE OF THE ACT

Branches of Insurance

On the other hand, the discussion as to which branches of insurance should be included in the Act was very lively. It was clear from the beginning that the Act should cover sickness, invalidity, and old age insurance. In the statement of principles drawn up by the Ministry for Social Affairs for the guidance of the expert committee it was also assumed that accident insurance would form part of the Act, as it did in the pre-war Austrian Bills. Employers put forward a similar demand, for they hoped that the amalgamation of all branches of insurance would reduce the cost of administration. Insurance experts among the workers also entered the lists in support of the idea.

The expert committee, whose members had helped to draft the statement of principles just referred to, did in fact try to satisfy this demand. The first part of the original Bill was based on the principle, but the plan was soon found impracticable. The Austrian

pre-war Bills, although including accident insurance, had not connected it organically with the other branches of insurance, but had planned a completely independent institution for it, just as they had done for sickness insurance. The committee, on the other hand, wished to make sickness insurance the organic basis of the whole system of social insurance. This was incompatible with the nature of accident insurance.

In fact, sickness, invalidity, and old age insurance all insure against the risks of ordinary life. In normal conditions they are unrelated to the place where the insured person works; the eventualities insured against are covered irrespective of whether they are connected with the undertaking. For this reason these branches of insurance can be built up on a system of average premiums. The position is different with workers' accident insurance, which arose out of the risk of accident connected with and springing from the undertaking. It covers only industrial risks (the extension of the insurance to risks on the way to and from work may be left out of account for the present purpose). The cost cannot therefore be the same for each undertaking, but a more dangerous undertaking must pay a higher premium than a less dangerous one. This requires special technical knowledge, which has been accumulated by the central institutions from thirty years' experience—knowledge which is not and need not be available in the sick funds. If only for this reason, it is necessary for the accident institution to be in direct touch with the undertaking in order to classify it in the right risk class. If the sick fund is left out in this most important matter, there could be no advantage in requiring it to deal with the rest of accident business. Further, it is unnecessary for an accident insurance institution to know all the insured, since in the event of an accident it deals with only a very small proportion of their number. It therefore needs no individual notification of joining or leaving the scheme, nor payment of individual contributions. A single payment for the whole undertaking is sufficient. This need only be made twice or four times a year; payment of premiums at more frequent intervals would be an unnecessary burden on both the employer and the insurance institution. If the sick funds were required to perform these duties, they could not work so mechanically as they both can and must in dealing with the local business of invalidity and old age insurance, but would have to make special arrangements. This, instead of simplifying and cheapening administration, would tend to cause delay and extra expense (the question whether the sick funds could not be

required to co-operate in investigating accidents, and in the treatment and supervision of the undertakings and of persons in receipt of pensions, has nothing to do with the main question at present under consideration).

For these reasons accident insurance was not included in the Act. But the Budget Committee of the Chamber of Deputies, thinking that the amalgamation of the various branches of insurance would reduce the costs of administration, adopted a Bill for the amalgamation of accident with other insurance. It would be possible to satisfy this demand in the reverse direction, by retaining accident insurance as such, but placing its administration in the hands of the Central Insurance Institution. At the time of writing (the beginning of December 1924) this proposal is under discussion. It must be admitted that even it meets with objections which cannot be passed by without further notice. If carried out, the Central Insurance Institution would be so large and cumbrous a body that it could be managed only under the greatest difficulties. If the separate official bodies to be incorporated in the three accident institutions were all jumbled up together, they would lose their good qualities. This difficult question therefore remains unsettled.

When the Act was under discussion, it was also proposed that the insurance should cover unemployment and maternity as well, but the proposal was rejected. Apart from the impossibility of at once answering in the affirmative the question whether, under existing unprepared economic conditions, insurance is the right way of covering the risk of unemployment, the inclusion of unemployment insurance in the Act could not be accepted, because unemployment does not represent a risk of ordinary life, but one dependent on conditions not perhaps in an undertaking but at any rate in a particular branch of production. Maternity insurance, on the other hand, would cover sections of the population not included among the persons insured against sickness. This would neutralise the administrative advantages of the Act, which lie precisely in the fact that the sections of the population insured coincide for all branches of insurance.

Persons Liable to Insurance

In principle, the Czechoslovak Insurance Act covers all persons who perform work or render services in the Czechoslovak Republic under an agreement for work, service, or apprenticeship, and not by way of subsidiary or occasional employment.

Exceptions to the principle, however, are allowed; for the Act excludes from insurance groups for whom other provision is made. The most important of these groups is that of public employees, provided that they have rights in case of invalidity or old age at least equivalent to those granted under the Act. Although it had been proposed that this exception should be dropped and public employees included in the general system of insurance, the proposal was rejected on the grounds that there was no material necessity for formal insurance of benefits to be paid by an employer who, at least in theory, was everlasting, and that it would simply mean useless work and administrative outlay for both this employer and the insurance institutions.

Another group excluded from the general system is that of miners. They were the first category of workers for whom legislation on invalidity and old age insurance was enacted; but this insurance was of little value, for the miners' benefit societies were always inactive and unable to fulfil their statutory obligations. In 1922, however, they were re-organised by a special Act which combined them in one central society for invalidity, old age, widows', and orphans' insurance. Before the Act was passed, the representatives of labour urged the miners to give up their separate insurance organisations, but in vain. The miners, supported by the government, insisted on having their own separate insurance system, first, because it guarantees them an invalidity pension in cases of occupational disablement, while the general system can deal only with industrial disablement in general; further, because in certain cases miners' old age pensions are payable at the age of 55, while under the general insurance system pensions are not paid until 65; and finally, because for historical reasons the benefits of widows' insurance are greater under the miners' than under the general system. The miners, it is true, declared their readiness to enter the general system with the whole of their own, or to be incorporated in it, but the declaration was of no practical importance, since such a solution would merely increase the difficulties of administration.

If the miners were able to maintain their separate insurance system, it was obvious that private employees would refuse to allow their existing pensions insurance to be incorporated in the general system. In Germany, too, the attempt to unify invalidity insurance broke down before the opposition of the salaried employee, who wished to maintain their separate system. The result was the same in Czechoslovakia. Since the special pensions insurance

system of salaried employees is to remain, the question is being considered whether some connection cannot be established between it and the sickness insurance of this group, of the same kind as exists between the invalidity and old age insurance of the workers and their sickness insurance. In this way the wish of salaried employees for the vertical organisation of their social insurance would be fulfilled.

BENEFITS

Unlike sickness insurance, the Czechoslovak invalidity and old age insurance is not automatic, but depends on notification to the competent sick fund. This provision clearly serves to protect the Insurance Institution. Local insurance business being in the hands of the sick funds, which are near enough to the parties to check whether the employer notifies the insured correctly, the risk of failure to notify is not so great as in an organisation in which the insured negotiate directly with a central insurance institution and cannot therefore be adequately supervised by it.

On the other hand, it is not impossible that the principle of automatic insurance may at some future date be applied to invalidity insurance, if the experience of the next few years is not against this.

The benefits of invalidity and old age insurance are payable when the conditions for the receipt of the benefit in question are fulfilled and after the completion of the waiting period. The Bill proposed that this period should be 200 contribution weeks, but the economies effected in course of negotiations made it possible to reduce the figure to 150 weeks. Assuming that on an average a worker is employed 42 weeks in the year, the waiting period is nearly four years.

Under the Act, the definition of the contribution week covers not only weeks in which insurance contributions are paid, but also weeks in which the worker was notified for insurance, although no contribution was paid. It will chiefly be the business of the sick funds to make effective contribution weeks of the whole period by collecting the contributions.

The event insured against by invalidity insurance is disablement, which is defined as follows :

A person shall be deemed to be disabled within the meaning of this Act if, as a result of sickness or other bodily or mental infirmity not incurred intentionally, he is incapable of earning, in employment suited

to his strength, ability, training and previous occupation, even one-third of the sum usually earned by a physically and mentally sound employee of the same kind with similar training in the same district.

The report of the Committee expressly stated that this definition of invalidity was intended to express the concept derived from the experience of German invalidity insurance.

An old age pension becomes payable when an insured person reach the age of 65, provided that the person is not engaged in any work or service entailing liability to insurance under the present Act or the Acts on the insurance of miners or salaried employees ; i.e. their earnings must be less than one-third of the ordinary wage.

According to the German statistics for the years 1916 to 1920, the distribution by age of persons entitled to old age pensions who put forward a claim was as follows :

DISTRIBUTION BY AGE OF CLAIMANTS FOR OLD AGE PENSIONS
IN GERMANY, PER THOUSAND INSURED, 1916-1920

Age	1916	1917	1918	1919	1920
65	176	329	560	578	611
66	220	220	245	268	244
67	196	133	63	51	50
68	138	114	41	33	30
69	110	79	34	24	22
70-74	159	117	54	43	40
75	1	2	3	3	3
Total	1,000	1,000	1,000	1,000	1,000

It is probable that the number of persons who claim an old age pension immediately on attaining the age of 65 years will increase still more in Germany and be higher in Czechoslovakia. But the number of persons who continue to work, especially in agriculture, will not be small, and if they could draw an old age pension in addition to their wages they might depress the wages of other workers.

A widow's pension is payable only to a disabled widow. When the Act was under discussion there was a general wish that the pension should be payable also to a widow with at least two children for whom no other provision was made, irrespective of whether she was disabled or not. To put this into effect, however, would have increased the cost so much that for the present such an extension of widows' insurance could not be considered.

An orphan's pension is payable until the orphan reaches the age of 17 years. The choice of this age, which differs from that fixed in other similar Acts (under accident insurance, an orphan's pension is payable up to the 15th year; under pension insurance up to the 18th year), was based on the argument that attendance at school is compulsory until the age of 14 years and that the subsequent period of apprenticeship or training usually lasts three years, so that it may be assumed that the orphan will be a trained worker by the age of 17.

The following estimates show the increase in the probable number of persons in receipt of pensions :

ESTIMATED NUMBERS OF PERSONS IN RECEIPT OF PENSIONS
AT SPECIFIED PERIODS

Number of years in which the Act has been in operation	Number of persons in receipt of			Total
	Invalidity pensions	Old age pensions	Widows' and orphans' pensions	
4	7,637	—	3,620	11,251
5	22,622	3,187	9,204	35,013
6	37,365	10,122	17,010	64,497
7	51,729	18,028	36,881	106,638
8	65,342	26,616	68,683	160,641
9	78,362	35,631	89,519	203,512
10	90,863	44,789	106,934	242,586
15	146,400	84,608	180,949	411,957
20	193,511	108,277	241,681	543,369
25	240,642	118,539	300,802	659,983
50	572,790	275,293	716,988	1,564,071
80	629,349	351,340	786,686	1,767,375

The invalidity and old age pensions are equal in amount. A widow's pension is half the old age pension; an orphan's pension for a half-orphan is one-fifth, and that for a full orphan two-fifths, of the old age pension, which must not be exceeded by the orphans' pensions combined. In addition to the invalidity or old age pension, a bonus of 10 per cent. of the pension is allowed for each child under 17 years of age who is maintained by the pensioner.

The expert committee considered the question of making the invalidity pension uniform, but rejected the idea. It is necessary to obviate the risk of the insured person losing all interest in further insurance and payment of contributions on the completion of the waiting period, a result which might follow if he were to receive the same amount after four years' payment of contributions as after twice as long a period of insurance and the regular payment of

contributions during the whole of the time. The insured person's interest in keeping his insurance in order can be aroused and maintained only if his claim increases with every contribution paid. It was therefore necessary to adapt the pension to the premiums paid.

If however this idea had been consistently followed out in the Act, a worker who was insured only shortly before the event entitling to a pension took place and at the same time was in a low wage category — a subject to be discussed later — would receive so low a pension that it would defeat the object of the Act, namely, to save the insured person from starvation if the event against which he is insured takes place. It was therefore necessary to graduate the pension by the amount of contributions paid, but at the same time to guarantee a certain minimum. This was effected in the Act by dividing the pension into two parts, a basic pension of 500 Czech crowns a year and an additional annual sum equal to one-fifth of the contributions paid for the insured person. The estimated expenditure on pensions calculated in this way is as follows :

ESTIMATED TOTAL ANNUAL EXPENDITURE ON PENSIONS AT
SPECIFIED PERIODS

(In thousands of Czech crowns)

Number of years in which the Act has been in operation	Invalidity pensions	Old age pensions	Widows' and orphans' pensions and children's bonuses	Total
4	5,376	—	721	6,097
5	16,740	2,358	1,949	21,047
6	28,995	7,855	3,802	40,652
7	42,004	14,639	7,781	64,424
8	55,410	22,570	14,179	92,159
9	69,272	31,498	19,199	119,969
10	83,594	41,206	24,004	148,804
15	161,040	93,069	50,158	304,267
20	247,694	138,595	77,929	464,218
25	351,337	173,067	110,671	635,075
50	1,237,226	594,633	389,728	2,221,587
80	1,409,742	787,002	444,068	2,640,812

THE STATE SUBSIDY

To some extent the basic pension naturally evens up the inequalities in pensions, and this object is further achieved by the state subsidy. This might have been calculated either as a contri-

bution to each individual insurance premium, or as a contribution to the pension. In the former case, the contribution would have to be at a uniform rate in order to compensate for the inequalities based on wages. This would involve preferential treatment for insured workers already in a better economic position who are seldom or never unemployed and therefore pay more contributions than less fortunate workers; consequently the social function of the state would not find expression.

The other alternative was therefore adopted, namely, that of paying a state subsidy to current pensions, a system which is both fairer economically and also less costly to the state. The subsidy is 500 crowns a year for old age and invalidity pensions, and 250 crowns for widows' pensions; for orphans' pensions it is 100 and 200 crowns for half-orphans and full orphans respectively, with a maximum for one family of 500 crowns a year. The state subsidy is not paid to a pensioner whose income, exclusive of pensions under the Acts on social insurance, exceeds the amount exempt from income tax. An alien is not entitled to the state subsidy unless old age and invalidity insurance is in operation in his country of origin and a state subsidy is paid there to the pensions of nationals of the Czechoslovak Republic. This provision may be modified by international treaties.

It is estimated that the cost to the state of the subsidy will be 4,254,000 crowns in the fifth year after the Act comes into operation, 79,990,000 crowns in the tenth year, 136,856,000 crowns in the fifteenth year, and 179,404,000 crowns in the twentieth year. Subsequently the state subsidy is expected to exceed half a milliard crowns a year.

Another provision of the Act involving additional expenditure for the state is that the state will pay insurance contributions at the rate of the lowest wage class for persons rendering their statutory military service who were previously liable to insurance or become liable not more than six months after returning from military service. It is estimated that this expenditure will amount to 16,095,000 kronen a year. The importance of this provision is that the waiting period will not be interrupted by the period of military service.

CURATIVE TREATMENT

The Act enables the Central Insurance Institution to exercise considerable influence on curative treatment. It is empowered not only itself to take over the treatment of any sick insured per-

son, but also to supervise the sick funds, which are specifically responsible for providing medical attendance and other treatment. The Institution will have a direct interest in the cure of the sick as a means of preventing premature invalidity, and it is therefore hoped that it will make extensive use of its influence and endeavour by active administrative and financial help to assist the smaller sick funds as well, so as to lessen the present gulf in the matter of curative treatment between large and small funds.

FINANCE

The sums needed to cover the cost of benefits and of administration are raised by insurance contributions. It was settled at the outset that the insured and the employer should each pay half the contribution, this system having been introduced as a preliminary in sickness insurance, although formerly the insured had paid two-thirds and the employer one-third.

The whole question of contributions, however, was the subject of heated dispute which delayed the passing of the Act for three months. The protagonists in the struggle were naturally the employers, who wished to make insurance as cheap as possible. There was no novelty in their advocacy of the system of distribution of costs as opposed to the system of distribution of capital values with a scale of average premiums, on which the government Bill was based. They produced the usual arguments in support of their views: the cheapness at the beginning of the insurance, the possibility of gradual adaptation to fresh burdens, the reduction of administrative expenses, the simplicity of procedure. In this case yet another argument could be added to those which had been produced and refuted during all the discussions on the pension insurance laws. The capital of German, Austrian, and Hungarian insurance institutions has disappeared as a result of inflation and the complete depreciation of the currency. The use of accumulating capital on the system of distribution of capital values is therefore open to question.

It was not easy to face the storm of argument, especially as there seemed to be some danger that even the workers would listen to the promise that insurance would be made cheaper, if not almost free, and as the fear aroused by events in Germany and Austria was still universal. The customary arguments could be refuted in the customary way. With the system of distribution of costs,

the sums needed increase year by year to such an extent that after a certain period they become prohibitive. If undertakings are closed down and workers dismissed in periods of depression, the number and capacity of those left to meet the increased expenditure is reduced. The remaining undertakings will be weighed down by the additional burden, and in this way the insurance system increases the general distress. The employer, who can never know what his future burdens will be, can make no calculations, or rather they change from year to year, thus confusing his foreign clients. In this way the insurance system becomes a danger to economic progress. In any case, insurance built up on the system of distribution of costs promises benefits to the insured as to which nobody knows whether they can be paid when they fall due. The system is neither sound nor honest. These arguments against it were not new, but were drawn from the armoury of the past and its struggles.

A new difficulty to be dealt with was the danger of inflation. The opponents of the system of the distribution of capital values maintained that all the capital of the insurance institutions would be swept away by inflation and the depreciation of the currency. It was not difficult to show that this was only partially true, since some of the capital was invested in stable value securities. It was plain that the German example was a warning, and that the attempt must be made to render Czechoslovak insurance more independent of fluctuations in the value of the currency. Apart from this fact, however, events in Germany are not a decisive argument in the question. Above all, the case is an exceptional one, which cannot be allowed for any more than can an earthquake. In Germany, the capital accumulated not only in insurance institutions, but also in banks and savings banks, lost all its value by the depreciation of the currency. Not only the creditors of these institutions, but also and more particularly the creditors of the state, lost all their claims; and yet it would occur to no-one not to save and not to lend to the state. The fear is one-sided, and directed only against the insurance institutions. It could therefore be shown that the defect lay not in the system of distribution of capital values, but in the way Germany had acquiesced in inflation without considering the question of appreciating the currency in good time. Ultimately this fact was generally recognised.

After the principle of the distribution of capital values had been accepted, the employers' organisations demanded that the percentage should be low at first, and raised in the course of a few years.

Here too it was argued that in this way economic conditions could be more easily adjusted to the burden of insurance. The author of the mathematical section of the Bill, Professor Schönbaum, proved however that this system would suffer from all the disadvantages of that of distribution of capital values, without sharing in its advantages. It would not prevent the growth of a deficit for the insurance institution, amounting in a few years to milliards, which it would be impossible to think of covering. For the contributions cannot be increased so that the next generation to be insured would have to pay higher contributions than those demanded in commercial insurance, merely because the earlier generation had not fully assumed its own obligations and had imposed on posterity an enormous debt so as to make its own insurance cheaper.

In one respect, however, the wishes of employers for cheaper insurance were satisfied. The insurance scheme was based on a 4 per cent. rate of interest on capital. It must be admitted that the average rate of interest at present is over 5 per cent. The demand that interest at 5 per cent. should be used as a basis throughout could not be satisfied, since the experience of old commercial insurance institutions has shown that although a war is followed by a period of a high rate of interest, this does not last long. Consequently the rate of interest was fixed at 5 per cent. for the first five years, at 4½ per cent. for the following five years, and subsequently at an average rate of 4 per cent. on the total accumulated funds. In consequence, the contributions in the first three wage classes could be reduced by 10 heller a week, and in the fourth by 20 heller, which was equivalent to an annual reduction of 13,000,000 crowns.

It should be stated that the insured are divided into four classes according to their wages. Class A covers persons whose daily earnings are up to 14 crowns; class B those earning from 14 to 22 crowns; class C those from 22 to 28.50 crowns; and class D those earning over 28.50 crowns a day.

In all, it is estimated that the insurance contributions for invalidity and old age insurance will amount to 641,400,000 crowns a year. The revision of the sickness insurance provisions will result in a reduction of the contributions for this insurance by 225,000,000 crowns a year, so that the additional sum payable on all insurance contributions together will be 416,400,000 crowns. This will not increase the costs of production by even as much as one-half of one per cent., an amount which cannot affect the competitive capacity of undertakings.

An obvious result of the system of distribution of capital values is that the Central Insurance Institution will accumulate considerable sums. The estimated amount is as follows :

Number of years in which the Act has been in operation	Million crowns	Number of years in which the Act has been in operation	Million crowns
1	482.95	8	4,351.13
2	989.96	9	4,895.40
3	1,527.50	10	5,433.89
4	2,089.49	15	8,037.98
5	2,669.61	20	10,704.73
6	3,235.54	25	13,457.00
7	3,797.39	30	16,306.66

When these figures were published, they naturally gave rise to criticism of what was described as the useless hoarding of enormous sums, which would be withdrawn from national industry and must lead to its impoverishment. The parliamentary debates on the Bill afforded an opportunity of showing the groundlessness of these fears. As already stated, all the calculations are based on an average rate of interest of 4 per cent. on the total funds. These funds must be invested in industry if they are to yield the necessary interest ; the fear that they will be employed for unproductive purposes is therefore without foundation. In view of the unfortunate experiences in various countries with banking institutions, it was of course impossible to decide to deposit large sums in banks, even when an offer was made to attach to the management a finance committee composed of financial experts to test the soundness of the institutions. At best such a committee could only test the safety of a deposit at the date it was made. For the Insurance Institution, however, it is essential that the bank should be sound also when the deposit is to be withdrawn.

The Act contains detailed provisions on the investment of the funds of the insurance institutions. It attaches importance not only to the security of investments, but also to the purposes for which they are to be used. The investment must be mainly in state loans for productive purposes. At least twenty per cent. of the funds must be invested in Czechoslovak national securities, and at least ten per cent. in other securities specified by the government. The investment policy must take into account the proportion in which contributions are collected from the various administrative areas (provinces or counties). Some of the property will be invested in social institutions, where the yield will of course be either nil or very small.

ADMINISTRATION

An institution which is to administer a property of milliards may clearly gain great influence on the financial policy of the state and will have vast responsibility. It is therefore natural that the state should have made provision in the Act for influencing the administration of the Institution. The principle itself was never disputed. Even those who attached most importance to autonomy could not deny the necessity for this influence. The only difficulty was its extent. The expert committee considered that it would be sufficient for one-fifth of the committee to be appointed by the government, the employers' and workers' groups being represented by two-fifths each. On this point the government Bill differed widely from the proposals of the expert committee. The Bill proposed that half the members of the committee should be appointed by the government, although this provision was moderated by the condition that these members should be selected from among the insured and the employers in equal numbers so as to exclude the bureaucratic element. Even with this modification the government Bill went too far for Parliament. The Act struck a mean between the original proposal and the Bill, providing that three-fifths of the committee should be elected by those directly concerned, and two-fifths appointed by the government.

The elections are to be on the proportional representation system, which has been introduced in all official institutions in the Czechoslovak Republic. Experience has shown the disadvantages of this system ; but none the less the argument is decisive that it will increase the confidence of all insured persons in the Insurance Institution.

When it is remembered that the Insurance Institution will cover some two million insured persons entitled to vote, it will be understood that direct elections are out of the question. The Act therefore provides for indirect elections. The committee is elected by the members of the governing bodies of the sick funds. Each fund has as many votes as the number of insured persons for whom it has paid contributions up to the end of the previous year ; these votes are divided equally among the voting members of its governing body.

As already stated, the sick funds are the local organs of the Central Insurance Institution ; they are managed by a governing body, four-fifths of which represents the insured and one-fifth the

employers. The representatives of the insured are elected by the delegates of the insured who form the general meeting ; their election is therefore indirect. The representatives of the employers are elected directly. In order to be eligible for the general meeting of delegates, insured persons must be citizens of the Czechoslovak Republic of at least 26 years of age, and have been insured with the sick fund in question for at least half a year ; the citizenship condition may be altered by international treaties. Insured persons 20 years of age are entitled to vote for delegates to the general meeting.

The draft prepared by the expert committee, which laid no particular stress on the elections, was considerably altered in Committee by the Chamber of Deputies. As far as possible the whole system of election is modelled on the procedure in force for elections to the local authorities, which has proved very satisfactory in practice. Several important simplifications have however been introduced.

There was some opposition to the provision inserted in the Act by the Committee of the Chamber, that an employer should be entitled to as many votes as the number of insured persons he employed. This provision was disputed from the outset. The government was itself unable to decide, and wished to reserve the settlement of the question for a separate Act. This suggestion was rejected by the Committee, as it rightly maintained that, if the disputed point were to be dealt with separately later on, the difficulty would merely become still greater than now, when it formed a minute detail within the whole important scheme. The Committee therefore boldly attacked the problem. It would have been simplest to have given each employer one vote, but the Committee would not take the responsibility for this. It cannot be denied that an employer in a large factory has a very different interest in insurance and the Insurance Institution, and is far more closely involved with its progress, than a woman who employs a single servant. In the sick funds, however, the small employers employing one or two insured workers are in the majority. In the interests of the funds themselves plural voting was inevitable, but it was impossible to reach an agreement on how far it should go. The idea that the interest of the employer in the sick fund and of the sick fund in the employer grows with the number of persons employed was consequently carried out to the utmost, any corrections found necessary being left for future consideration.

As already stated, the internal organisation of the sick funds

was governed by previous legislation. It is true that demands were put forward for the equal representation of both groups in all the administrative bodies of the sick fund, but there was no wish to raise this question again, which it had been found so difficult to settle a few years ago. The Act therefore maintained the previous composition of the governing bodies of the sick funds — four-fifths representing the insured and one-fifth the employers — and of the supervising committees, in which the proportions are reversed.

THE NUMBER OF FUNDS

The most disputed point was the question which sick funds were to administer the insurance. The expert committee had dealt with this question solely from the point of view of insurance, and suggested in its draft that there should be a single fund for each administrative district. This would allow of close relations between the funds and the parties concerned, while at the same time, as there would be only some 200 funds, the Central Institution would have to deal with a comparatively small number of local organs.

This proposal, however, let loose a storm of opposition. All the sick funds which would be wound up if it were carried into effect resisted with every means in their power. The district sick funds, which were always described as the centre of socialist agitation, were defended by labour alone. Yet even the workers advocated concentration, so that no one opposed the winding up of a number of the funds and their amalgamation in larger bodies. On the other hand, the few remaining guild and works sick funds found warm advocates among the employers. At the same time, the agricultural employers demanded separate sick funds for the insurance of their servants and employees.

The government, which had promised the workers to introduce the Bill in the Chamber of Deputies as soon as it had been drafted by the expert committee, was in a position of some difficulty. The opinions and interests involved were so different that an agreement could not be reached in the short time available. An emergency solution was therefore adopted. The government Bill dropped the provisions concerning the organisation of the sick funds, reserving the settlement of this disputed question for a separate Act. In reporting on the Bill in the Chamber of Deputies, the present writer stated that this solution was not practicable, and that the difficulties of solving the problem would be more easily

overcome within the framework of the Act as a whole than if left for a separate settlement. This point of view gained general support, and an attempt was made to find a solution which led to the following compromise.

As a rule there is to be a district sick fund at the seat of and for the area covered by each political authority of first instance (formerly there was usually a fund for each of the much smaller areas covered by the district courts). The other district sick funds will be wound up. In addition to the district sick fund responsible for the insurance of industrial workers, there will as a rule be an agricultural sick fund covering the same area. All other sick funds will be wound up, except those with at least 4,000 members on 1 January 1924, or 2,000 in the case of sick funds whose members are insured only under the Salaried Employees Pension Insurance Act, since these funds will have no connection with the Central Insurance Institution. In this way the number of sick funds left will be about 400, a reduction on present figures which will lead to considerable simplification.

CONTROL

From the fact that the sick funds will be responsible for all the local business of the Central Insurance Institution, i.e. that all invalidity and old age insurance contributions must pass through these funds, it follows that the Central Insurance Institution must have the right to supervise their working. The need for expert control was already recognised. In discussing how the right of supervision was to be exercised, the following arguments were considered. Supervision cannot be effective unless it can be continuous; it was maintained that this would only be possible if the Central Institution could appoint part of the governing bodies of the funds. Objections were raised against this proposal. On the one hand, it would be considered a serious encroachment on the methods of administration of the sick funds. On the other, it would be impossible for the Central Insurance Institution to be well informed on the qualifications of suitable persons throughout the Republic, so that in appointing members of the governing body it must necessarily rely on some local recommendation. Moreover, it is obvious that even members of the governing body cannot exercise adequate control. The only possible method, therefore, was to empower the Central Insurance Institution to appoint

officials for the sick funds. For each fund with not more than 2,000 members, it appoints a manager who also acts as treasurer and accountant; for a fund with more than 2,000 but not more than 5,000 members it appoints two, and for a larger fund three, officials for these duties. These officials are to be under the disciplinary authority of the Central Insurance Institution, and will therefore be independent of the governing body of the fund. In order to make supervision effective, the manager is to be entitled and bound to suspend resolutions of the general meeting or governing body of the fund which he believes to be contrary to the Act or to the rules, and to submit these resolutions to the Central Insurance Institution for its decision. It must be admitted that this provision necessarily limits the autonomy hitherto enjoyed by the sick funds, which on the whole had proved satisfactory in practice. Here and there, however, it has led to irregularities, which under the proposed system will be more easily detected and eliminated than they were before. It must not be forgotten, however, that the sick funds will have to handle entirely new duties, the proper fulfilment of which interests millions of workers. If the sick funds were to prove unequal to these duties when left to themselves, it would be difficult to put right any of their mistakes after the event. The better plan, therefore, is to give them some guidance at the beginning, and allow them greater freedom later on when the present restrictions are no longer found necessary.

This, then, is the method adopted to unify the organisation of sickness insurance and of invalidity and old age insurance.

JUDICIAL PROCEDURE

Finally, some reference must be made to the question of judicial procedure. Since the introduction of social insurance it has been customary to have disputes on insurance benefits settled by special arbitration courts. The chief defect of these courts was that there was no appeal against their awards.

The new Act has maintained the arbitration court system, but remedied the defect. The chairman of the arbitration court of a sick fund will now be a judge, and the parties to a dispute may appeal against its awards to the insurance court for the district. This insurance court will also decide in the first instance in disputes concerning invalidity and old age insurance benefits. Appeals

against its decisions may be made to the Superior Insurance Court at Prague.

Provision for the lay element on all these courts is made by the inclusion of elected representatives of the insured and the employers respectively. The chairman of the arbitration courts and insurance courts is a judge, and the Superior Insurance Court has a bench consisting of three judges.

In conclusion, it may be stated that the Act, whose origin and principal provisions are described above, is expected to come into force in 1926.