



# The Administrative Machinery of Social Insurance

by

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*Certain aspects of the subject of the unification of social insurance have already been discussed in the Review. In November 1923 Mr. Krzeczkowski<sup>1</sup> introduced it in general terms, and put forward the view that the general adoption of a system of unification, in the form of insurance against loss of earnings, would facilitate international action in the sphere of social insurance. In March 1925 Dr. Pribram<sup>2</sup> discussed it in more detail, and from an examination of the principles on which social insurance is based arrived at the conclusion that unification in the strict sense is not feasible, but that some co-ordination of corresponding departments in all the branches of social insurance is both possible and desirable. In the ideal scheme proposed by him, the general financial control, the collection of contributions, and the payment of benefits, would each be centralised in a single office — national or regional — covering all branches, while the local administration of each branch would in general remain distinct for each branch.*

*In the article below Mr. Cohen examines the case against unification, in particular the argument that each risk requires its own machinery and calculations ; he considers this a fallacy, holding, like Mr. Krzeczkowski, that every risk is but a special aspect of the general risk of loss of income and poverty. An examination of the existing practice in various countries leads him to the conclusion that there are no valid reasons, technical, financial, or administrative, against unification. He advocates the creation of a State Social Insurance Department which would centralise all questions of statistics and records, preventive measures, rehabilitation, collection of funds, investment of reserves, and supervision of distribution of benefits, while the local administration would be entrusted to the employment exchanges, on*

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<sup>1</sup> *International Labour Review*, Vol. VIII, No. 5, Nov. 1923, pp. 637-643 ;  
“ Social Insurance and International Legislation ”.

<sup>2</sup> *Idem*, Vol. XI, No 3, March 1925, pp. 303-317 ; “ The Unification of Social Insurance ”.

*the ground that as the exchange is the only organisation capable of administering unemployment insurance, it is therefore the only organisation capable of dealing with all branches of social insurance. Each exchange in its new form would however have to be divided up into sections each dealing with the victims of one risk. Such a unified system, the author holds, would be perfectly possible, and might in time lead to coalescence between sections dealing with similar risks, such as accidents, sickness, and maternity, while it would tend to result in a simplified code of social insurance.*

#### EXISTING CONFUSION IN LEGISLATION AND ADMINISTRATION

**S**INCE the commencement of the war there has been in most Western countries a great extension of social insurance schemes. These have in the last ten years been adopted in countries where they were previously unknown. New risks have been provided for in countries where before only one or two were recognised. Classes of people hitherto omitted by insurance legislation are being brought increasingly within its scope. Gradually the families of insured members are being recognised as standing in equal need of insurance with the breadwinner. Money and service benefits are being steadily increased. Social insurance is in fact developing in almost all directions at a great pace. This wide extension of benefits constitutes one of the few positive gains to the working class during the last decade.

Since however agreement is still lacking as to the exact scope of social insurance, we will commence by defining the term with some precision. It means a right, which is legally enforceable, on the part of the workman to a certain sum in money, or goods and services in kind, as compensation against the loss resulting from certain specified emergencies which lead to a diminished capacity to earn, or involve an increase of expenditure on his part. The term is actually applied to-day to the following twelve emergencies: industrial accident, industrial disease, non-industrial accident, ill-health, maternity, invalidity, blindness, old age, unemployment, burial, unprovided widowhood, and unprovided orphanhood<sup>1</sup>.

The extension, actual and contemplated, of social insurance makes it necessary to examine with a somewhat critical eye the

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<sup>1</sup> There is good reason for including also provision for the workman's children even during periods when he is gainfully employed. Cf. the author's *Social Insurance Unified* (London, 1924).

administration by which it is operated, to see whether it cannot be improved in the direction both of economy and of efficiency — economy on behalf of those who contribute to the costs of insurance, and efficiency on behalf of the working man himself. At the present moment there is nothing in any country which can properly be called an administration of social insurance as a whole. There are in various countries numbers of schemes for insuring working men, each with its own administration, but as yet generally unco-ordinated. Recently, the advocacy of insurance by industry had a certain vogue and this method was proposed as the solution to the pressing problems of administration. Czechoslovakia recently adopted a limited scheme of social insurance in which the various branches are *co-ordinated* and the proposed scheme for France is on somewhat similar lines. But the question which is increasingly gaining attention is whether it would not be both possible and desirable to substitute a single administration which would direct from a common centre and through an adequate machinery a complete and comprehensive scheme of social insurance in any particular country, in a word to unify social insurance.

### *Confusion in Legislation*

The confusion existing in the province of administration is, however, only part of a more general confusion arising out of the defects of existing legislation.

These may be analysed under five heads :

- (a) failure to cover numerous risks ;
- (b) capricious application of the principle of compulsion ;
- (c) inequalities in the scale of monetary benefits ;
- (d) recognition of the needs of the breadwinner and exclusion of the needs of the family ;
- (e) want of uniformity in the distribution of costs.

(a) In no industrial country is provision made against all the risks. In some countries it is unemployment insurance which is most neglected, in others pensions for widows and orphans. In many, inadequate provision is made in the case of maternity insurance and of non-industrial accidents. In Great Britain, which provides for so many workingmen's risks, widowhood and orphanhood among the working classes are not provided for either compulsorily by the state or voluntarily through friendly societies or insurance companies. Nor are non-industrial accidents and illness of wives and children specially provided for by any scheme.

Yet why should health insurance provision be made for men and not for women and children if our object is the maintenance of a given standard of living for the workers ?

(b) In the application of compulsion no fixed principle is followed. In some cases the state obliges workmen to insure against old age, illness, and unemployment. In other cases the workman is free to insure or not as he desires. Sometimes the state compels a workman or his employer to insure in a specific organisation, say with the employment exchange or with a state monopolistic fund for industrial accidents. Sometimes while compelling the workman or his employer to insure, it prescribes nothing as to the nature of the carrier. In other cases again the modern state declares to the employer : " You are compelled to assume responsibility for industrial accidents, but insure or don't insure as you like and insure how and where you desire." Compulsion is applied in the case of illness, unemployment, and old age and not applied in the case of burial insurance, accident insurance, and widows' pensions — a distinction for which there seem to be no logical grounds.

(c) It is quite impossible to justify the differing scales of monetary benefits provided in the case of the various risks. In some instances we find unemployment insurance benefits higher than health insurance benefits and *vice versa*. In the case of industrial accidents, sometimes the provision made is on a generous scale, and in other instances it is not sufficient to make the sufferer independent for long of poor relief. Yet why should a sick worker need less than an injured workman or the latter require less than an unemployed workman ?

(d) There is much confusion in dealing with applicants for benefits who happen to have dependants. In some countries insured members obtain the same benefits whether they are single or married. More usually, special recognition of increased need because of dependants is given in the case of some forms of insurance and not in the case of others. There are even countries in which in fixing compensation for industrial accidents the number of dependants is taken into account if the accident proves fatal but not when the workman remains alive.

(e) There does not seem to be any sound reason, unless an historic accident may be regarded as such, why the employer should be expected to bear unaided the burden of accident insurance and not of unemployment insurance. And again, what real justification is there for the distribution of the costs of unem-

ployment and health insurance in their present ratios ? Authorities may differ as to what ought to be the method of financing schemes of social insurance, and if the scheme is to be contributory, what proportion ought to be met by employers, workmen, the state and the locality. But all will agree that the present haphazard method of financing schemes of social insurance has least to commend it.

In Great Britain at any rate it would seem as if some of these anomalies are likely to be removed at an early date. Mr. Philip Snowden did not represent any one party when, as Chancellor of the Exchequer, he declared that " the whole problem of social insurance was in a most chaotic state. Schemes were lumped together piecemeal, and there was no co-ordination. Whatever government might be in office within the next few years, it could not delay in dealing with the overhauling of the whole system of national insurance."

Now closely connected with this medley in the legislation on the subject, and indeed arising out of it, is the multiplicity of organisations which administer social insurance. This may be illustrated by a survey of the administrative machinery of social insurance in three countries.

### *Confusion in Administration*

Let us examine the existing administrative machinery of social insurance in Germany, in Great Britain, and in the United States of America.

#### *Germany*

Social insurance in Germany covers the following risks : sickness, maternity, invalidity, old age, and industrial accidents. A supplementary scheme applies to certain classes of salaried workers.

There is no state unemployment insurance system, although events in recent years have forced into being a comprehensive system of relieving distress due to unemployment.

The administration is in the hands of various bodies. Accidents arising from industrial employment are provided for through associations of employers in each industry ; accidents arising out of agricultural employment are provided for through special organisations on a territorial basis. Health insurance is covered by a vast network of local, national, trade union, and establishment funds. In 1921, there were some thirty-one regional insurance

institutions covering invalidity, old age, and survivors' insurance. There were in addition ten special institutions for state businesses, mines, and sea transport. A Federal Fund covers employees in such state undertakings as railways, shipping, posts and telegraphs, the army and navy, and yet another Federal institution provides for the insurance of salaried employees. Private companies and public associations, approved by the Federal Insurance Office, are permitted to provide for workers not covered by the above organisations.

### *Great Britain*

The British schemes of insurance, although they were introduced some thirty years after the German, are administered by the same bewildering medley of institutions. Workmen's compensation is administered by insurance companies, employers' mutual insurance companies, and establishment funds. In the case of Old Age Pensions the Post Office makes payments and the Customs and Excise Department has executive functions. The Treasury exercises general control. Health, invalidity, and maternity insurance are administered by "approved" societies, which may be friendly societies, trade unions, collecting societies, insurance companies, or employers' funds. There are, indeed, ten thousand such "approved" societies, and in addition a large number of deposit contributors who come under the more direct administration of the Ministry of Health. Unemployment insurance, in which Great Britain remains the intrepid leader, is carried on by employment exchanges, trade unions, and other recognised societies. Burial insurance is undertaken by private insurance companies, collecting societies, friendly societies, and the Post Office. Finally there remains the Poor Law, which is still the refuge for necessitous widows and orphans; and the last resort of those who having exhausted their rights to insurance benefits are left destitute.

### *The United States*

The social insurance movement in the United States differs from that in Europe. In the absence of a developed poor law system, pensions for mothers are provided now in practically all the States. But there is the greatest variety in administration. In some States there is State supervision and in others the matter is left to the local authorities. In some States most of the work is done by paid officials and in others by voluntary workers. In some cases a State Office with a State agent has been instituted for this work, in others a State commission has been appointed, or

the State board of charities is in charge. In many instances it is part of the work of juvenile or district courts and child welfare boards. In others again it is regarded as coming more or less under the head of charity and is in the charge of the Overseers of the Poor, whilst in one State it is part of the work of the State Board of Education. In all States, however, the pensions are granted on a non-contributory basis. In another branch of social insurance the power of each State to experiment with whatever kind of administrative machinery it prefers has similarly resulted in the passing of every type of workmen's compensation Act<sup>1</sup>. In Ohio there is an exclusive State Fund, i.e. a State monopolistically administered organisation. In New York and Pennsylvania, the State Fund competes with joint-stock companies, mutual insurance companies, and self-insurers. In some States there is no State fund at all.

Although State Funds are usual in the case of widows' pensions and common for dealing with workmen's compensation, the traditional American suspicion of government undertakings comes into play in the case of all other branches of social insurance. This is all the more significant because neither trade unions nor friendly societies are as common or as popular as they are in Europe. Nor do they function very actively as provident societies. The competitive insurance companies are, however, more ready to write out policies for workers' risks and establishment funds are more common. It is interesting to note that experiments are being made to provide unemployment insurance for individual industries through joint schemes of employers and workpeople.

We see then that in these countries there are a multiplicity of agencies conducting social insurance of one kind or another, and the situation in them may be regarded as typical of the variety and complexity of the machinery now administering social insurance schemes in most industrial countries.

The existence of a variety of agencies is objectionable because :

- (a) it leads to a confusion of thought which ignores the underlying object common to all the branches of social insurances ;
- (b) it leads to anomalies, contradictions, overlapping and gaps ;

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<sup>1</sup> There is already evidence that in old age pension legislation a variety of experiments will be made.

- (c) it leads to costly and inefficient machinery ;
- (d) it hampers the workman in claiming his benefits.

(a) All the main emergencies in the workman's life are from the social point of view alike in their effects. It matters little whether he is suffering from unemployment, an accident, or illness. Financial loss, exhaustion of savings, distress and the dread of destitution confront him whatever the immediate emergency. And yet the mere fact that certain forms of insurance are administered by state organisations, others by trade unions, and others by competitive insurance companies has obscured the underlying unity of all forms of social insurance.

(b) We have already seen that anomalies and contradictions and gaps result from our existing systems of insurance. Overlapping occurs when workmen insure in three, four, or more organisations in order to obtain an adequate amount of benefit when certain losses result from a given hazard. In the case of illness and burial over-insurance is common.

(c) The existence of a whole medley of insurance organisations constitutes a needlessly costly and wasteful form of administration. The numbers of private insurance companies who have an average administrative expense of 40 to 50 per cent. of their premium income, the thousands of " approved societies ", the confusing numbers of industrial societies, local societies, and state organisations are costly and inefficient. There are to-day hosts of bureaucracies engaged in this business. State, approved society, insurance company. In all, the army of officials in Great Britain is well over one hundred thousand.

(d) One of the worst effects of the present complex administrative machinery is the confusion into which the workman is thrown in his attempt to establish his rights. Workmen do not always know when and where to claim their benefits. But for the help of their trade union secretary many indeed would pay heavily for their ignorance. The prospect of consolidating their insurances is particularly attractive to many workpeople, because amongst others the advantages to them of one card and one office where they could claim all their benefits are very real.

The objection to the complex and chaotic administration prevalent to-day are thus far-reaching and are more serious than our statesmen yet realise. It is surely time to improve a system which is both uneconomical and cumbrous and which only incompletely satisfies the needs for which it was established.



## THE CASE AGAINST UNIFIED ADMINISTRATION EXAMINED

So great have been the inconveniences caused by the defective organisation of social insurance and so great the need for simplification that proposals for unification have been common for years. But until within recent years, until the national system of employment exchanges was successfully established, there was in Great Britain no organisation particularly suited for the task. It first became possible to urge that all branches of social insurance should be unified and administered by a national system of employment exchanges suitably developed into social insurance offices, after the war had shown their power of adapting themselves successfully to different classes of work<sup>1</sup>. This suggestion has so far met with little acceptance. Having seen the different risks treated in such different manners for many years people have come to believe that each risk has special characteristics which necessitate special administrative machinery. The very language of biology is used to support this idea. We have, it is asserted, developed a number of social functions, and to each function there corresponds an organ perfectly adapted to perform it. Instead of recognising that historical considerations, questions of expediency, and political factors have been responsible for the different forms taken by social insurance in different countries, defenders of the present system assert that existing schemes have been designed by conscious and intelligent public opinion guided by wise far-seeing governments. By dint of constant repetition this assertion has acquired the force of a belief which, without being fully stated or argued and justified, is tamely accepted by a large number of administrators, economists, and parliamentarians in Germany, Great Britain, and France. The writer who has given the most complete statement of this view is Dr. Paul Kaufman who writes<sup>2</sup> : " The organisation of insurance into separate schemes for sickness, accident and invalidity is not due merely to accidents of historical development, but rather to sound technical considerations of insurance and administration. " And he goes on to say, with reference to the German schemes, that the different methods of finance and the raising of funds, the varying benefits for unlike

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<sup>1</sup> The present writer made this suggestion in a paper read to the Economics Section of the British Association in 1922.

<sup>2</sup> Dr. Paul KAUFMAN: *Zur Umgestaltung der deutschen Sozialversicherung*. Berlin, 1924.

risks, and above all the different groups of people covered by the schemes show conclusively why, as a matter of course, a unified system was not even considered.

A French organisation<sup>1</sup> also lays stress on the financial aspects and says :

From the purely technical view of insurance, we repeat that the risks being unlike the different branches of insurance ought to be organised differently. Health insurance can only be established on the principle of distributing losses : old age, on the contrary, necessitates the principle of capitalisation.

English writers are worried by doubts over administration. The *New Statesman* recently remarked that "The case against unification is precisely that the different forms of insurance call for different methods of administration." Sir William Beveridge, who evidently sees the fallacies underlying the view that all risks require their own unique specially adapted machinery, yet favours the division of insurance risks between two great mutually complementary schemes. He writes :

On the side of benefits, unification of machinery is excluded by the difference in the work to be done. At least two distinct types of machinery are indispensable, corresponding to the fundamental distinction between beneficiaries disabled by disease or injury and beneficiaries not so disabled. Nothing is gained by mixing oil and water, the sick and the whole. But there is a great deal to be said for having not more than two types of machinery, not more than two main sections of the comprehensive scheme<sup>2</sup>.

In view of these opinions it is perhaps not surprising to see it roundly asserted by the National Confederation of Employers' Organisations of Great Britain that these emergencies are not so "related either in principle or in substance" as to make amalgamation desirable.

These quotations are typical of the objections raised against the unification of social insurance. And it is no answer to them that the present schemes overlap, are costly and are badly organised<sup>3</sup>. With all their faults, so it is contended, the present schemes work. But would a unified system function at all ? It is argued that an attempt to bring all branches of social insurance under one machine is indeed to invite a complete breakdown of the whole system.

<sup>1</sup> L'union des industriels métallurgiques et minières.

<sup>2</sup> *Insurance for All and Everything*, p. 32. London, *Daily News*.

<sup>3</sup> Cf. M. DEGAS : *Les Assurances Sociales*, p. 25. Paris, 1924.

The case against unification, when critically examined, is found to be nothing but an edifice of unwarranted assumptions and assertions. This is to-day being challenged with increasing vigour, so much so that the older view of the necessity of separate organisations has been put on the defensive and the question of unifying all branches of social insurance has become, as the writer in the *New Statesman* remarks, "one of the most vexed questions of current social politics"; and, it might be added, this remark applies to many countries.

It is noteworthy that the reasons given or hinted at for opposing unified insurance are different in each of the quotations we have given. Financial necessity, administrative considerations, and even the number and kind of people to be provided for, are all adduced as justifying our existing medley of institutions. Are these valid reasons? Or are there others which we do not happen to have mentioned? The only way of effectively answering this question would seem to be to examine the whole list of processes indispensable in the development of each scheme of social insurance and then, if we see no reason why the employment exchange should not administer each, to enquire whether it cannot also administer them all. In developing this theme we shall have occasion to deal not only with arguments against social insurance unified, but also with the arguments against each branch of social insurance which, though disproved by the experience of years of successful working, are still brought up.

### *The Nature of Insurance*

Assuming that there is a desire for insurance, a given risk to be insurable must satisfy three conditions :

- (1) The nature of the risk must be clearly specified ;
  - (2) The degree of risk must be capable of being calculated with some degree of certainty ;
  - (3) Large numbers must be subject to the risk in question.
- The main financial questions in insurance schemes relate to :
- (1) The methods of raising and collecting contributions ;
  - (2) The different rates of benefits ;
  - (3) The general methods of financing schemes. This covers the question of the accumulation of reserves and other methods of balancing contributions and benefits.

The main administrative questions relate to the institution

of adequate means for testing claims to benefits and for the detection of malingering.

To determine whether a single administrative system will be capable of handling the social emergencies which have been enumerated it will be necessary to attempt an objective examination of each emergency in relation to these technical questions<sup>1</sup>.

What kinds of machinery are available for the administration of social insurance? Three main types have hitherto been developed, national state organisations, approved societies, and competitive insurance companies.

State organisations may administer highly centralised schemes, as is the case with the employment exchanges through which unemployment insurance is administered in Great Britain, or decentralised schemes as in the case of Communal Sick Funds in Germany. They may have monopolistic powers, or compete with other organisations. Sometimes they are based on compulsion and at others they are resorted to voluntarily. But the characteristic state organisation is one in which the state having compulsorily insured large numbers of work people, a monopolistic centralised body supervises the administration. The administrative costs are very low.

Approved societies may include friendly societies and trade unions giving insurance benefits, establishment schemes, and industrial guild funds. In order to cover the whole industrial community, branches of private insurance companies have also been " recognised " as approved societies. The chief characteristic of all these organisations must be that they do not aim at profits. Their purpose is to serve their members. They are democratic in form and in theory whatever their actual practice may be.

Private insurance companies undertake business primarily with a view to profit. Occasionally competition is active between them, at other times restricted. Most of their business relates to burial insurance, widows' and orphans' pensions, and workmen's compensation. These branches of social insurance are generally voluntary, and owing to this the public scarcely realises what a colossal business these insurance companies do, and how many millions of people are affected by their proper administration. Contributions are generally collected by canvassers for business

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<sup>1</sup> In this article the author is mainly concerned to prove that unified social insurance through the employment exchange is not impossible. For its advantages over the present system see the author's *Social Insurance Unified*.

who call personally on every voluntarily insured person weekly or monthly. The administrative costs of this method of insurance are very high.

A recent writer has declared that "a unified scheme must be under direct state administration: there is, indeed, really no alternative." This may be true when Great Britain alone is considered; but an examination of the tendencies in the development of social insurance to-day shows that we cannot adopt it in the absolute form in which it is stated. Czechoslovakia has recently adopted a comprehensive scheme based on an entirely different system. It is rather akin to the scheme now before the French Chamber, dealing with illness, invalidity, death, old age, maternity, and "family charges", and the administration is to be in the hands of approved societies. Nor can we rule out as entirely fantastic the possibility of a unified scheme administered by competitive insurance companies. In the United States, where mutual societies are not highly developed and do not enjoy the status accorded to similar organisations in Europe, and where, too, there is a strong prejudice against state administration, health insurance schemes as well as other forms of social insurance are being undertaken by insurance companies, and of late it has even been suggested that they should attempt unemployment insurance schemes. It is too early therefore to rule out the possibility of proposals for all-in policies to be covered by insurance companies.

Which then of the three organisations, state, approved society, or insurance company, will be able to administer a national unified system of social insurance, or supposing we find that it can be done by two or all of them, which will be able to do it best? Let us briefly test all three in relation to the main processes of definition, of finance, and of administration respectively.

### *A Clearly Specified Risk*

The first condition of a sound insurance scheme is that the risks to be insured against should be clearly specified. Death and birth are clearly specified risks, and therefore burial insurance and maternity insurance are legitimate operations. Old age again cannot be feigned. Reference to birth certificates easily enables the claim to be checked. Old age insurance is therefore practicable even when a means limit is introduced (although this complicates the administration), as is proved by Great Britain's experience during seventeen years, as well as that of other countries. The case is similar with pensions for widows and orphans. There

is rather more difficulty in defining an industrial accident, ill-health, and invalidity. But a wide experience over many countries and lasting many decades shows that, with the help of doctors to examine and of such devices as qualifying periods, definitions adequate for practical purposes can be worked out. Even in the thorny question of unemployment, employment exchanges have made possible a workable definition. Surely the administrators of a unified scheme of insurance could institute machinery for establishing tests of claimants to benefits and for enforcing sound definitions in the case of each emergency. The social insurance office with its different sections, which we shall presently outline, would be adapted to achieve precisely that task.

Is there anything here which could not be tackled as well by a social insurance office administering a unified scheme of insurance as by the present separate organisations ?

### *Calculation of the Risk*

Risks must be capable of being calculated with some degree of certainty. Death statistics to-day are sufficiently exact to give adequate mortality tables. Again the birth statistics which are commonly kept with some exactness in modern countries enable us to calculate the emergency of maternity fairly easily. We know also what are the probable chances of survival over seventy, or any other desired age, in a given representative group of individuals. Although our present information relating to widows and orphans who are unprovided for is not satisfactory in many Western countries, there seems no reason why it could not be sufficiently improved for our purpose.

In the case of industrial accidents and of non-industrial accidents statistics can be obtained, but these are not usually as sound as natal and mortality statistics. The individuals concerned, workmen and employers in the case of industrial accidents, will not always report them to the officials and the latter do not always possess adequate powers for securing the desired information.

Non-industrial accidents are frequently not reported to the authorities, so that any scheme of insurance would at the outset have to be based on estimates. Similarly, few countries have kept adequate statistics of illness, and in this case again estimates will have to be resorted to. Unemployment statistics in most industrial countries will suffice as the basis of an unemployment insurance scheme. But the definition of unemployment, like

that of an accident and of illness, will require to be carefully drawn up by experts and the appropriate control effected by a suitable type of officer. In the former case the employment exchange officer will have to test the *bona fides* of the claimant, and in the latter cases a doctor's certificate will be necessary. Thus the task of defining and calculating an emergency is closely associated with the machinery for checking malingering.

It is not claimed that our present statistics are as complete as might be desired nor that our administrative machinery is perfect. But although these deficiencies and difficulties may be admitted they are not of such a nature as to make insurance impossible. Our statistics are complete enough for our purpose, our somewhat arbitrary definitions are sufficiently clear to prevent serious injustice on the part of the administrator, and machinery, experience teaches, can be contrived to obviate the greater evils.

The devices of the modern actuary, estimating from samples and from the experience of other countries, have given us financially sound social insurance schemes, which have generally and very rightly erred on the side of caution. The introduction of the scheme has enabled a really full and sound body of statistics to be collected on which further refinements could be safely introduced. If the statistics of the past have been adequate for separate schemes, our existing greatly improved and increased body of statistics will certainly suffice for a unified scheme.

A considerable amount of confusion results from two objections which are made relating to the statistics of social hazards: (a) that the measure of their intensity requires different periods, and (b) that the natures of the risks are so different as to be incomparable.

In the case of ill health, invalidity, and industrial accidents, the members will probably be much the same for any normal year. Similarly, roughly the same number of people will qualify each year for old age pensions, invalidity and maternity insurance, burial insurance and pensions for widows and orphans. The incidence of these social emergencies for the nation as a whole varies slowly from year to year. On the other hand to measure the amount of unemployment one would have to discover the average from a number of trade cycles. Considering these risks from the view point of the individuals affected it is clear that the expectation of the hazard will vary at different ages. The expectation of maternity insurance benefits will be greatest when the workman and his wife are between 25 and 45 years, whilst his expectation of health insurance benefits will be greatest at a later age period.

The claims to most kinds of benefits in respect of workmen increase with their age.

It is sometimes noted also that the beginning of the old age period is fixed arbitrarily by the legislator at 60 say, or 65, or 70, whilst industrial accidents, illness, or unemployment can come at any time in the workman's life quite independently of Parliamentary decrees.

Most emergencies are personal. Illness, old age, or death occurs to individuals at random, and although very large numbers will be affected annually the sufferers are not necessarily associated either industrially or geographically. In the case of unemployment, however, large numbers will suffer from the same industrial causes seasonally and every few years. It follows from these facts that the task of the actuary in calculating the costs and benefits and what reserves, if any, will be desirable in the case of each emergency will be different. If we assume that the whole working-class population should stand together on the basis that they all run roughly the same risks in their lives, then the consideration that the measure of their intensity varies will not affect the proposal of unified insurance.

It is sometimes also urged that there must surely be a difference between a risk which involves total or partial disability for life and one which involves only a few weeks of sickness or unemployment. Of course there is such a difference to the individuals concerned. But this is purely a subjective matter. From the point of view of insurance, the question that matters is a purely objective one, namely, what money benefit is to be provided, and in regard to this there is obviously no difference between these different types of risks, any more than there is between the duration of the same accident for a long or short period. It is essentially a question of more or less money. The amount of the indemnity must correspond to the nature of the risk, and even where secondary non-monetary benefits are provided, such as medical benefits, instruments, etc., they can be resolved into monetary values.

These rather obvious differences between risks have led to the suggestion that contributions and benefits should be made to vary both according to the risk in each trade and with the age of members. But the amount of risk varies also according to sex and from individual to individual. If therefore we are to take note of all these variations of risk, even assuming — what is very questionable — that it is desirable to do so on general grounds, the administrative difficulties involved would be so great that the



gain would be more than outweighed by the increased costs of administration<sup>1</sup>.

### *The Numbers Insured*

The advantages of insurance, of the device of distributing risks, are greatest when the numbers insured are greatest. Thus if experience shows that the chances of accidents occurring to a given body of work-people are two in a hundred, it is likely that whenever very large numbers of people are taken the proportion will hold. Out of a group of 100,000, for instance, some 2,000 will probably suffer an accident. But if we take a small group, say of ten, it is possible that even four or more members will suffer in a given year, in which case the costs will have to be distributed over a small number. A state system has therefore marked superiority over that of competing approved societies and insurance companies. Whilst the former covers perhaps the whole of the working-class population, the latter, i.e. the approved societies and insurance companies, will divide the population into hundreds or thousands of organisations. A compulsory national scheme can offer better terms than a voluntary or partial scheme. This advantage, the economy of insurance costs when dealing with very large numbers, applies to every hazard.

It is found on examining the different schemes of insurance adopted in various countries that although they all apply generally to the working classes they do not include all those who might be included under the term nor do they all cover the identical people. This is clearly the case in voluntary schemes of insurance such as burial insurance and, as a rule, workmen's compensation. Only a scheme frankly based upon compulsion will cover the whole working-class population. But even compulsory schemes do not in fact include the same groups of people. Some include agricultural workers and domestic servants, others leave them out. Some schemes apply to one set of age groups, others to slightly different ages. These differences are due to considerations of momentary expediency and not to any principle. Clearly the advantages of a unified scheme or even of disconnected schemes of social insurance would be greatest if they applied to the same people. Anomalies would thus be wiped out and administrative

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<sup>1</sup> This question is discussed at some length in the present writer's study: *Insurance by Industry Examined* (London, 1923).

costs lessened. One of the small reforms which would be desirable if a unified scheme were attempted would be to include all the people who are liable to the same risks.

But though desirable this is not indispensable. All three types of organisations, that of the state, the approved society, and the insurance company, could if necessary develop the proper machinery for dealing with the slightly different bodies of people insured to-day.

### *Contributions*

Who should bear the costs of social insurance in the first instance?<sup>1</sup> In countries where no organised schemes of social insurance have been introduced the costs are borne by the victims of the emergencies. One of the objects of social insurance is to transfer the whole or part of such costs on to other shoulders. Various criteria have been used for deciding where to fix this burden. These may be enumerated as follows :

- (a) responsibility for the emergency ;
- (b) the quality and nature of the risk ;
- (c) the need of those who suffer the hazard ;
- (d) the best method of giving workmen an interest in reducing hazards ;
- (e) the convenience of the financial method to be adopted.

It is the general practice to throw on the employer the whole burden of insurance for industrial accidents, but only part of the burden of unemployment insurance. Yet there does not seem to be any very sound reason, unless an historic accident may be regarded as such, why the employer should be expected to bear unaided the burden in one case and not in the other. It is true that a conscientious, socially minded employer who took thought and pains might reduce at least to some extent both the number of accidents and the amount of unemployment among his workmen, and this consideration has indeed led to the promotion of the Unemployment Compensation and Prevention Bill of Wisconsin in which it is proposed that the costs of insurance against unemployment should come exclusively from the employer as in the case of industrial accidents. But why should the employer bear the costs even in the case of industrial accidents ? In what sense is he re-

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<sup>1</sup> No attempt is made here to discuss the incidence of these costs.

sponsible for accidents which are due to the negligence or carelessness of workmen ? And yet it is he who has to pay damages in such cases. Only in the case of the *wilful* negligence on the part of the workman is the employer able to disclaim responsibility. But even granting that the employer is responsible, is it quite certain that the wages he pays do not already include some extra amount equivalent to insurance in the case of dangerous trades, or in trades where employment is discontinuous ? Certainly, economists agree that miners and shipbuilders obtain higher wages than workers of the same standard of skill in industries which are less dangerous and in which employment is more regular. Of course, the amount is not always fixed satisfactorily, owing to friction between the workers and the employer and to lack of foresight and bad judgment on the workers' part. Still, if the employer is made to pay extra for the costs of accidents and unemployment these would no longer be regarded as risks which the workman runs and against which he needs to be insured. Thus in any case of industrial risks there seems no reason why the costs in one case (accident) should be borne in one way, and in another (unemployment) should be borne differently. But even if we decide that the employer ought to bear the costs of the industrial emergencies, of accidents, unemployment, and certain diseases, we are still at sea on the question of the non-industrial hazards. Who should bear the costs of old age pensions and of widows' pensions ? Who should pay for health insurance and for burial benefits ? Who is to be held responsible ? What real justification is there for the distribution of the costs of health insurance in the present ratios ? Should provision for widows and orphans be made by way of pensions or by way of insurance ? It is clear that however we answer these questions the present method of leaving widows and orphans to bear the brunt of the loss caused by the death of the breadwinner is entirely indefensible. We may blame nature, industrial conditions, the employer, the workman's own carelessness ; what is certain is that the victims themselves are least likely to be responsible.

What "principles" can guide us in dealing with this kind of questions ? In the past at any rate expediency alone has settled who shall be held to be responsible for finding the costs, with the result that practice varies in different countries. No principle can be found justifying existing arrangements and none has yet been suggested as the basis for some new distribution of costs.

An endeavour has been made to justify non-contributory old age pensions and contributory health and unemployment insurance in the following terms<sup>1</sup>.

The prospects of attaining extreme old age, of living beyond three-score years and ten seem so doubtful and remote to the ordinary healthy man that it has been found in practice almost impossible to secure from any very great number of people the regular sacrifices necessary to guard against old age. But unemployment, accident, sickness, and the death of the breadwinner are catastrophes which may reach any household at any moment, and every sensible honest man would wish to guard against them if it were in his power to make the necessary contribution.

These assertions are unsupported by any evidence and the reasoning is rather confused. In practice few people make any provision for either old age or unemployment or sickness. If they had the money to do so and if they were wise, they would make the necessary contributions towards insurance against *all* the emergencies which assail their standard of living. We thus see how absurd it is to assert that one hazard "calls for" this method of contributions and the other for another. Because in the past the state was held to be responsible for the needy, the aged, the widows and orphans, a case has been made out for the method of pensions providing for them, i.e. for the method of non-contributory state schemes. Because the Common Law held the employer responsible for certain industrial accidents, he alone now pays as a rule for the costs of insurance against industrial accidents and diseases. It was easiest to raise funds for unemployment and health insurance by contributions from employers, workmen, and the state; therefore that way was adopted. No doubt this kind of consideration should be taken into account in the fixing of responsibility, but it should not be decisive. The last word on the subject so far has been said by the British Government Actuary when he declares that "it is an interesting speculation as to what contributions of the several parties ought theoretically to be for different forms of insurance effected under compulsion, and whether there is a guiding principle by which Parliament can direct itself in such matters". Since we have not yet discovered any such principle, we submit that it is convenient to finance an extended and unified scheme of social insurance by equal amounts collected from the state, the workers, and the employers. ..

(b) Varying contributions have been advocated in the past

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<sup>1</sup> Mr. Winston Churchill; *Manchester Guardian*, 24 May 1909.

on the ground that the objects of different branches of social insurance vary at least in emphasis if not in substance. In the case of old age what might be termed the humane aspect is pre-dominant. A life of labour, it is now commonly held, should be rewarded by an old age free from exacting toil. In the case of maternity insurance, pensions for widows and orphans, and even of burial insurance, the object primarily aimed at is to protect future generations and to save children from under-nourishment. It is the health and proper upbringing of the children which is envisaged in this group of measures. In the case of unemployment, illness, and industrial and non-industrial accidents, the dominant thought is to prevent the lowering of the industrial and moral qualities of the workman and to get him back to remunerative employment as soon as possible. Invalids and persons totally disabled are intended to be relieved from having recourse to public or private charity.

But behind these special considerations there is one common to all branches of social insurance. They all aim at giving the workman's family some sense of security against the hazards of life in a modern community. The fear and shame of destitution are thus to be banished as far as possible. We may concede that the objects of different branches of insurance are different, and yet see no justification for altering the rates of contribution or demanding special machinery for each emergency.

(c) Similarly, we might agree that the needs of those who suffer the various hazards are likely to be different because (1) the amount of wages and savings will differentiate one class of workers from another, (2) the costs of the hazard may be different; and yet object entirely to dragging in the question of need when discussing a scheme of insurance. The insured person should be given a full legal right to a definite benefit whether he is rich or poor. The millionaire as well as the small shopkeeper will claim fire insurance, and it is essential that the same feeling should be engendered with respect to social insurance. An employment exchange officer replied to a complaint that a certain individual was drawing unemployment benefit who was well off and could live without it, with the statement, "Yes, he has a right to his benefit because he is *bona fide* unemployed. Sometimes (he added jocularly) they drive up for their benefits in motor cars<sup>1</sup>."

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<sup>1</sup> The writer is obliged to Mr. J. B. Seymour, a research student at Cambridge University, for this fact.

The idea of insurance is incompatible with the eleemosynary idea of need or poverty as a condition of receiving benefit. Once this notion is adopted, then the conception of a legal claim to a definite sum goes, and all thought of rehabilitation or prevention will go with it. The eleemosynary idea comes out in such remarks as "He will give you £1 a week, so that the family may get along", or when the investigator asks: "What is the smallest amount that will plug up the hole in the wall?"

(d) It is desirable that workmen should have an interest in reducing hazards<sup>1</sup>. But very little of a practical nature has been achieved in this direction. In the British scheme of unemployment insurance a device was introduced with this object in view. Workmen at the age of 60 who had not received in benefits an amount equal to their own contributions were authorised to claim a refund of the difference. After twelve years' experience it is generally believed that the effect of this device on the workman has been very slight, whilst it has proved costly and cumbersome owing to the colossal work involved in keeping a separate account for each workman for forty years. Many people think that it ought to be abolished and increased benefits provided instead. Contributions by workmen towards schemes of social insurance have been often justified on this ground. This may not prevent them from falling ill, but it will lessen the motive for malingering. Such force as there is in this argument, and it is not denied that it has some, will be preserved in a scheme of unified social insurance based on joint contributions.

(e) The collection of contributions can be carried out by all the forms of the machinery of social insurance. But the ability to collect them in a lump sum from both workers and employers is a point in favour of the social insurance office administering all branches.

### *Rates of Benefits*

It is obvious that the benefits granted will vary with the nature of the emergency covered. In the case of the sick man, the invalid, and the insured person who has suffered an accident, and in the case of maternity the services of the doctor are required. Medicines and even medical instruments may prove indispensable. In the

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<sup>1</sup> The "Safety First" Movement, at least in Great Britain, has not yet induced insurance companies to advertise lower rates of premiums for establishments employing their devices.

case of these and other emergencies money benefits will be sought. But how much ought to be given ? Should it be proportional to family need or to " average " wage ? Should it be given as long as the emergency lasts ?

In the case of old age, benefit will doubtless be granted from the commencing year until death. The invalid, too, will need to be supported as long as he lives. In the case of pensions for widows and orphans a period is usually set to the grant of benefits. Disablement due to accident, ill-health, and unemployment may last for a short or long period, but in these cases also a limit is generally set to the period of benefits, after which the recipients must apply for poor law relief or private charity. The costs of providing benefits for the whole duration of the emergency would not be greatly in excess of present charges and therefore an amendment of existing schemes in this direction is desirable.

Benefits provided under schemes of social insurance generally consist of money payments or of money payments supplemented by certain medical services and drugs. The payments are made directly by the organisation concerned and the latter services are rendered by specially appointed doctors. Now there is not the slightest reason for supposing that the money payments cannot be made by one organisation just as well as by another. All types of institution can calculate the varying rates that are to be paid according to the hazard and age and sex. Any type of organisation can engage the services of suitable officials to pay out the additional benefits which it has not hitherto dealt with. There seems to be no justification, therefore, for Sir William Beveridge's idea that there is a difference in kind between the benefits for sick people and those for healthy people, and that the former need some special organisation for their administration. Another point is that the state organisation is in some points at an advantage compared with the others. The medical profession, which must play such an important part in the administration of health, maternity, and invalidity insurance and in the case of industrial accidents, does not gladly suffer the control of the approved society and insurance company officials. Young doctors seeking a practice are obliged to submit to it, but soon they groan under the burden. There is constant friction leading to threats of strikes, and the doctors' attention is diverted from the doctor's chief function, the prevention of disease. In order to maintain their status, doctors are increasingly demanding that their services

shall be undertaken in direct relationship to the state as their employer, and be independent of the favour of approved society officials. There is indeed a marked difference in the relations of the doctors to the Public Health Authorities on the one hand and to the approved societies on the other. Another consideration is the possibility of improving the organisation of the medical service. If the state employed the insurance doctors, it would be able to plan the public medical service more efficiently than at present. As it is, different authorities are to-day in charge of different parts of the machinery, the consequence being that there are overlapping and waste in some parts and gaps in others.

It has been said above that all types of institutions could pay money benefits. But it should be noted that private insurance companies prefer to make lump sum payments such as are usual in the case of burial insurance, survivors' insurance, and workmen's compensation. They have not the machinery for making weekly payments; and in this point again a state organisation has the advantage.

### *Financing Schemes*

So often in the past have insurance schemes broken down through not having provided themselves with adequate reserves, that we are in some danger of overstating the significance of this factor. Private insurance companies, friendly societies, and trade unions have found that as the average age of their members increases, the claims for benefits increase. Moreover, when schemes were voluntary, those subject to the greatest risk, the more aged, the sick, and the inefficient used to insure in greater numbers than those who were young and healthy. Thus there grew up a preponderance of bad risks, and the actual claims on the funds were greater than the expected rate. But reserves have no virtue in themselves. They are only necessary when contributions flow in evenly but the liability for the payment of benefits heaps up as in voluntary schemes of old age insurance. In a national system of social insurance with a constant flow of good lives into the scheme, the need for reserves will tend to be greatly lessened.

It follows that the amounts paid in contributions may be reduced to that extent. This consideration is an argument for a national compulsory scheme and against competing funds of voluntary insurers.



*Prevention of Malingering*

It is tolerably certain that, the burden of work and the conditions of life being what they are, a considerable number of workmen will be tempted to malingering, to feign the occurrence of hazards, in the hope of obtaining substantial benefits by that means. Even if comparatively few are successful, tendencies will set in which would demoralise the whole scheme of insurance. The provision for checking malingering is indeed the crucial test of any machine devised for the administration of social insurance.

Let us then examine the various risks from this point of view. Death and birth are least likely to be shammed. In both cases all that is necessary is the evidence of a disinterested, reliable witness. Burial insurance, or industrial insurance as it is still misleadingly termed, and maternity insurance do not lend themselves easily to malingering; similarly, old age pensions may be safely granted in most modern countries. It is easy to verify the age of claimants by an examination of birth certificates and registers. Fraud can be readily detected. This explains in part why old age pensions or insurance have been more widely provided and introduced rather earlier than other forms of insurance.

Pensions to widows and orphans granted on the death of the breadwinner can be introduced safely because the facts can be easily established. When such pensions are granted also to women deserted by their husbands or by those who have obtained a judicial separation from their husbands, "malingering" is possible. In both cases collusion may be practised and must be guarded against. Similarly, in the case of wives of men unable through illness or physical incapacity adequately to maintain their dependants, careful investigation would have to be made.

It is generally difficult to sham accidents, industrial or non-industrial, especially because even in minor cases the doctor can be called in. But there are borderline cases where it is possible; a given injury, for instance, may be regarded by one as a scratch and by another as a wound, by one as a scald, by another as a serious burn. A really satisfactory definition of an accident is not altogether easy to draw up. There is even greater difficulty in deciding when an injured person should go back to work. It is comparatively easy for the workman who wishes to lengthen his period of convalescence and recuperation to procure sympathy by his general demeanour. Doctors know that the same type of accident will produce different degrees of pain in different individuals.

One workman will regard himself as capable of work at a point at which another, quite as honest, will regard it as dangerous to attempt any labour. The effects will vary with the character of the individual and with his mental and physical powers to resist pain.

Illness and invalidity lend themselves to cheating even more than industrial accidents. Doctors find it difficult sometimes to tell when a man is really ill. Some doctors will be more ready than others to advise a man to abstain from work. They very frequently find it impossible to declare how soon a man who was sick ought to return to his work. These difficulties are greatest in certain mental cases such as neurasthenia. Much will depend on the sufferer's profession. It may be possible for the hall porter or shopwalker to return to work whilst it may be undesirable for the cashier or window-cleaner to do so. Again, in the case of a man who has lost the use of a leg, he may be able to work at a desk but perhaps not at a bench. A man half blind may be able to lecture, but be dangerous as an engine-driver. Malingering in the case of illness being comparatively common, two checks on the claimant are coming increasingly into use. First there is the evidence of the doctor who is called in to treat the patient. Secondly, many approved societies now employ paid visitors to call on the sick. In the days of the old local small society sick visiting was a matter of charity, a spontaneous activity which later began to be organised by the local secretary. Now it is becoming a compulsory and organised part of a highly complicated system for checking claims to benefits.

It is more difficult to establish the *bona fides* of claimants to unemployment pay than to any other kind of benefit. When a workman declares that he is without work and cannot find work, it is not easy to show that he is not merely lazy and shirking. The temptation to malingering is therefore greatest in this case. The only type of machinery which can provide an adequate test of unemployment is a national system of employment exchanges. If a workman claims benefit, the machinery must be there to discover whether he is really unemployed, and whether a suitable job is not available for him elsewhere in some other part of the country.

Without an intimate and detailed knowledge of the condition of each trade it is not possible to tell whether the claimant to benefit is *bona fide* unemployed, and only the employment exchange with its elaborate system for learning of vacancies and for placing workmen possesses that knowledge. It is occasionally suggested that approved societies, insurance companies, or the chambers

of commerce can be adapted for use for this purpose. They certainly cannot do this, however, with their present knowledge and organisation. Indeed it may be said that the only instance in which it is true that a hazard has its own appropriate specific machinery is in the case of unemployment and the employment exchange.

With respect to all other risks suitable and adequate means have been found for checking malingering by approved societies and insurance societies. In the case of deaths and births, widowhood, orphanhood, and old age, a reliable investigator can do the work. In the case of industrial accidents, sickness, and invalidity, the doctor can check the claim of the applicant. Only in the case of unemployment is it imperative to establish a comprehensive national machine to check claims.

Now there is no reason at all for assuming that the state employment exchange suitably modified and extended could not also administer all forms of social insurance besides unemployment insurance. It could clearly appoint investigators and engage doctors to check malingering in the case of those hazards to which their services apply.

The employment exchange, it is true, was not instituted for this purpose. But the unforeseen and unintended indirect effects of social legislation are often of more importance, whether for good or evil, than those deliberately intended. Few who strove for the development of workmen's compensation legislation desired to give huge profits to competitive insurance companies which in consequence organised themselves as a powerful vested interest. Similarly no one wished to give approved society officials the right to dispose of tens of millions of pounds and to talk of "their funds". But the unforeseen effects are not always undesirable. Those who instituted the employment exchange did not fully realise its possibilities for good. The war demonstrated what it could do. And on the basis of that experience we may now advocate the use of the employment exchange not only as the nucleus of the new social insurance office covering all branches of social insurance, but also as the organisation for the administration of any scheme of family endowment or family income insurance that may be adopted<sup>1</sup>.

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<sup>1</sup> There are obvious objections and limitations to family wages provided by the employer alone; it is preferable for the payments for dependants to come from a state fund. The term "family allowance" savours too much of the old poor law atmosphere, and therefore "family endowment" is substituted. But "family income insurance" would be a more exact rendering of this idea.

Our provisional conclusions may now be stated as follows. Risks vary and have their special characteristics, and therefore the task of the actuary and of the administrator will not be the same in all branches of social insurance. But it does not follow that because risks are different in their nature and in their immediate objects they imply different responsibilities and necessitate diverse methods of administration. In practice they *are* administered by different organisations, and this has led to the widely held but mistaken view that the diverse risks call for and necessitate diverse machinery. The truth is that it is possible to administer all branches of social insurance through one institution, provided that the work of the actuary is sound and based on adequate statistics, and provided that the administrative checks on malingering are effective for every risk. Now the statistics available to us are, as experience shows, adequate, and the checks on malingering are effective. The employment exchange is the only type of machinery which can really deal with unemployment insurance for the total working-class population. Hence it is the only organisation which when suitably adapted and extended can administer *all* branches of social insurance. The approved society as constituted to-day can administer every branch excepting unemployment; similarly, with the competitive insurance companies.

Not only is the social insurance office as developed out of the existing employment exchange the only organisation which can administer all branches of social insurance, but it can administer each branch of insurance better than they are at present being run by any other form of organisation.

We can now submit other reasons for the view that the administration of all branches of social insurance through the state employment exchanges is not impossible.

An examination of the existing types of administrative machinery reveals the fact that all different types of machinery do administer all the different risks in one country or another. In Great Britain the state runs old age pensions, in Sweden there is a state system of workmen's compensation insurance. In forty of the United States of America there are state-provided widows' pensions. In Italy there is a state system of unemployment insurance, whilst even in the case of sickness insurance there is at least one State — the Swiss Canton of Glarus — which administers it directly, while the German system employs communal funds.

We find also on examination that mutual societies of workmen,

such as trade unions and friendly societies, do administer in some place or another every form of insurance. The same is true also of employers' funds. It might have been thought that private insurance companies, another type of administrative machinery, did really restrict themselves to, and were suited to, only few emergencies. But even this is now found to be incorrect, since in America such companies are beginning to experiment also with unemployment insurance. In brief, actual experience gives us no warrant for saying that this style of machinery or that is unable to administer any particular form of insurance. Other tests of efficiency can, however, be applied. But this is certain, that no one would advocate, assuming that we had an entirely clear field, i.e. a country unembarrassed by any existing scheme of social insurance, the bringing into being of the existing medley of institutions. Surely no one would to-day propose that certain emergencies, say burial insurance and workmen's compensation, should be administered by private competitive insurance companies which should be specially brought into being or encouraged to administer them, that sickness and invalidity insurance should be covered by approved societies, and unemployment insurance by employment exchanges.

It is indeed a remarkable fact that after more than a century of experimentation with voluntary societies and half a century's experience of state compulsory schemes, those who contend that each form of organisation is particularly adapted to a special risk cannot tell us which form of organisation is actually best suited for insuring against which risk. When therefore the opponent of unified social insurance asks with a flourish whether it would not be better for each emergency to have its own suitable machinery, he is careful not to reveal what in his opinion is the most suitable form of administration for each emergency, and he is equally cautious not to argue that the existing kind of machinery is the most desirable. But supposing we accepted his view and were prepared to exchange the existing machinery in each case for that which we might on abstract grounds discover to be the most suitable, then the probability is that we should have to interfere at least as much with the existing state of affairs as would be necessary in order to introduce a unified scheme. And what reason is there for thinking that any system could be better than one built up on the basis of a state monopoly? As it is generally admitted that the existing complexity of organisations ought not to continue, what alternatives can opponents of the proposed scheme offer?

There is an obvious way of ascertaining whether unified social

insurance is possible. It is to put the question directly to a state actuary : Could you work out the costs of a national unified system of social insurance, if the rates of benefits are provided ? Or again, the head of a national system of employment exchanges might be asked whether it is possible for him to organise and administer a complete unified system of social insurance, without any fear of the whole scheme breaking down. The writer has put these questions, and in both cases has been answered in the affirmative. There are no technical, financial, or administrative reasons which would make a unified system undesirable.

The reader may naturally feel some impatience with this lengthy argument to prove merely that the advantages of the large departmental store apply also to branches of social insurance. He will say that everyone is aware of the fact that it is possible and profitable and therefore presumably economical to sell cheese, bread, meat, buttons, bicycles, and houses in the same store, although this would once have seemed quite impossible. Or to take an instance closer to hand, the private insurance companies have found it to be good business to insure against one risk after another. They sell life and accident and marine and fire and burglary insurance. They also issue policies against hail or against riot. These risks are very dissimilar. They involve different actuarial problems and administrative difficulties. The check on fraudulent claims in each instance is very unlike. But it is profitable for the companies to cover these various risks. Their headquarters, their branch offices, their local agents, their book-keeping system, their advertising, their name and goodwill and their organisation are most profitably used when they carry all these risks. This is obvious, in spite of the fact that these forms of business are voluntary and that very frequently quite different classes of people are interested in the different forms of insurance. When, however, as is the case with the branches of social insurance, the insured population remains substantially the same and compulsion may be resorted to, then indeed the case for unified insurance seems overwhelming.

## OUTLINES OF SIMPLIFIED MACHINERY

### *Its Tasks*

It is desirable now to outline a few of the main features of the proposed governmental machine. We have spoken of the adaptation of the employment exchanges to serve as social insurance offices. What is meant by this phrase ?

We can visualize the organisation of a State Social Insurance Department as follows.

The headquarters should comprise six departments :

- (1) A department of statistics and research ;
- (2) A department for outlining measures for the prevention of hazards ;
- (3) A department for the development of schemes for the rehabilitation of those who are maimed, incapacitated, or too inefficient to earn the standard wage ;
- (4) A department for dealing with the supplementary staff, the individuals and officials necessary for administration, such as the doctors, chemists, and lawyers ;
- (5) A department for supervising the distribution of benefits ;
- (6) A department to supervise the collection of funds and the investment of reserves.

The task of the Office of Statistics and Research would be to collect adequate detailed and comparable statistics relating to establishments, crafts, and industries. Moreover a continuous record could be kept of the industrial conditions and quality of each workman and his family. For the student of welfare economics this information would throw great light on questions of poverty. The administrator would with its help at last be able to measure with exactness the evils he has to combat and so might hope to be able to eradicate their causes.

### *Its Organisation*

The Social Insurance Department thus constituted would have to set up local social insurance offices in every part of the country. Main offices would be necessary in every borough and branch offices would be desirable in almost every village or group of villages in the country. The existing employment exchange machinery would be the nucleus of the new extended organisation. Divisional offices with supervisory powers over the offices in their respective areas would probably be desirable. The whole system of offices should be organised centrally and on a geographical basis. The experience of employment exchanges would be helpful in deciding whether an office is necessary say for every ten thousand of the population or for a greater or lesser number of insured.

The extended machinery would carry on the old policy with respect to disputes and transferences. It would always endeavor

our to be neutral in cases of dispute between employers and work-people. Transferences from one district to another and from one trade to another could be effected without any loss of benefit rights.

The increased functions to be committed to the employment exchange would necessitate the establishment of a considerable number of new offices<sup>1</sup>. In consequence it would be possible for all employers who have to purchase contribution stamps (for it is not suggested that this method of raising the funds should be abolished) to obtain them from the insurance office. The employer would subtract from the workman's wages the appropriate amount covering his statutory liability in respect of all emergencies and he would make one inclusive contribution for the workmen he employs and for himself. One central body would supervise all the sums collected and administer them either in one fund, or if more convenient at the outset in different funds. The same body would also invest the reserves. It might have to fix the rates of contribution in respect of each risk at first merely provisionally, but it could revise them later on the basis of acquired experience. And it would always insist that each branch of insurance must be financially sound and properly administered.

What would be the organisation of a local social insurance office ?

It would be divided up into a number of sections each dealing with the victims of one risk. Each section would have the machinery for testing the *bona fides* of claimants to benefits. Inspectors would be employed in the case of old age pensions and mothers' pensions, employment officers for unemployment insurance, and doctors in the case of ill health, accident, and invalidity. For the payment of benefits conditions would be laid down which would make it easy to discover the malingerer and to deal properly with him. But whatever the hazard, the workman or his representative would call at the social insurance office and make his claim. He would be spared the trial of dealing with officials who had some special reason or desire to deprive him of his rights. Payments under such circumstances would be made with great despatch.

The reference of all risks to a single office might bring about a coalescence between those sections in which the risks could be assimilated to one another, e.g. in the case of industrial and non-industrial accidents, illness, invalidity, blindness, and maternity.

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<sup>1</sup> This would probably prove true even if it were decided to use the post office for the payment of benefits and the social insurance office for all other administrative purposes.



Moreover, the existence of one administrative machine for all branches would tend to result in the production of a simplified code of social insurance, so that the workman would be more likely to know what his rights were and how he could enforce them.

### *National or Local Administration*

An obvious criticism of this proposed organisation is that it will be too huge, that its very size will make it too complicated to be administered by our Civil Service. It must by its very nature become bureaucratic. Experience shows that if business units pass beyond a certain limit in size they inevitably become inefficient. The reply to this is that during the war the employment exchanges did in fact successfully carry through very many different functions. The post office to-day is used for many different services which no one can pretend are in any way related. Even more significant perhaps is the fact that the Prudential Insurance Company reported that in 1923 the premium income of their industrial branch alone was nearly fifteen million pounds. One competitive insurance company issued recently some twenty million burial policies in one year!

Anyhow, time and experience can alone show whether the proposed Social Insurance Department will be too big for our modern machinery and organisation devices. Parliament would easily be able to prevent abuses in the social insurance office. Suitable committees would in any case be appointed in every area to help in the administration of each branch. To these committees appeal might be made from the decision of the insurance officer. They would have to meet sufficiently promptly and at such hours as would be convenient for the insured population. Representatives of local authorities as well as appointed members from panels prepared by associations of employers and workpeople should be given greater powers than these and similar bodies now possess.

Some people who calmly tolerate the bureaucratic character of the competitive firm and of the large approved society view with horror the bureaucratic tendencies in a government department. They find these such a nightmare that they go to the length of urging that local authorities should be used as the agencies for administering social insurance. It is no doubt desirable that local sentiment should be behind schemes of social welfare. In the carrying out of public works which are undertaken by the

localities and in the administration of the local health service it is only proper that there should be the greatest possible co-operation between the local authorities and the administrators of the related schemes of social insurance. But those who urge administration of social insurance through local authorities do not seem to have thought out the full implication of their proposal. Can they mean that the state should provide funds towards the cost of social insurance and have no supervision of them? And if the state is to have certain powers what are to be the respective spheres of influence of the local and central authorities? Will there not be difficulties in cases where the factory is located in one area while the workman lives in another and possibly the employer in a third? Besides, why tie down a new organisation to a division of the country which though suitable for country areas in certain respects is most unsuitable for boroughs? Experience shows that social insurance schemes worked through central bodies such as the post office and employment exchange can be run very satisfactorily. There is no popular demand that these should be handed over to local authorities. If they were, difficulties and discontent would arise from the existence of areas where the hazards were greater than the average. Transferences from one district to another might be impeded and the mobility of labour shackled. An even more serious objection is the danger that if the local authority became the administrative body it would tend to cause certain evils like unemployment, ill health, motherhood in distress, and industrial accidents to be regarded as local problems. This would be in contradiction to the best thought of the last two decades on this subject. Only by being regarded as national problems can schemes for prevention and rehabilitation achieve the maximum success.

Another objection is that local authorities are particularly bad organisations for doing this work because they require the specialised services of considerable numbers of people whose work would be to a large extent technical. It is true that the suggested *ad hoc* advisory committees could probably succeed in understanding the nature of their functions and so might in time aid materially in the administration of social insurance measures, and give real help to the officials. But a town councillor, in office for perhaps a short period, can hardly be expected to assume responsibility for the policy carried out by those officials. Besides, have not the local authorities already enough to do? Nor has the experience of the central government in using other bodies for administrative pur-

poses, such as the approved society or trade union, justified further experiments in the same direction even with the substitution of the local authority for these bodies.

A warning might be given to those sanguine advocates of unified insurance who believe that the dragging of error into light, the demonstration of the wastes of our present schemes and of the possibility of avoiding it by a simplification of administrative machinery, will necessarily produce the desired change. Even if there were no powerful vested interests in the path which have to be confronted and appeased, there would still be the usual *vis inertiae* which every new proposal has to overcome. We know perfectly well in theory how to decasualise labour, but fifteen years of thought and agitation have failed to get the thing accomplished in practice. The spadework required for bringing about a unified system of social insurance will necessitate much thought and effort. Practical shape must be given to our theories, actual experiment in legislation must be attempted. Ideas born of our age and inspired by our determination to abolish insecurity and poverty must be brought into the realm of actual life.