

# INTERNATIONAL LABOUR REVIEW

VOL. LI, No. 2

FEBRUARY 1945

## A Programme of Social Insurance Reform for Czechoslovakia

by

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*Among the aims to be furthered by the International Labour Organisation which are set forth in the Declaration of Philadelphia adopted by the International Labour Conference in May 1944 is the "extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care". Income security, regarded as an essential element in social security, also forms the subject of one of the Recommendations approved by the Conference at Philadelphia, which among other things points to the need for unifying or co-ordinating existing social insurance schemes, extending them to the whole population, and eliminating inequitable anomalies. This need has been fully recognised by the Czechoslovak Government, which, in anticipation of the liberation of the country and of the opportunity to overhaul the whole system of social insurance built up over a period of fifty years, is considering a programme for the reconstruction, unification, and adaptation of the system. The programme was prepared at the Government's request by one of the creators and administrators of that system, Professor Emil Schoenbaum, who has furnished the following article containing the gist of his memorandum to the Government; the programme itself is presented at the end of the article.*

### INTRODUCTION

**T**HE ASSURANCE of minimum subsistence and of medical care as a right, inseparably bound up with the right of citizenship, is implicit in the Declaration and Recommendations on social security adopted by the International Labour Conference at its Twenty-sixth Session at Philadelphia. These Recommendations, which represent an important step towards the protection of every citizen and his family through national insurance, were

drafted and approved very largely under the influence of the new social security plans published by various Governments in recent years<sup>1</sup>, but also of recent insurance legislation and reforms enacted or planned in several Latin American countries, such as the Social Insurance Act of Mexico, the Social Insurance Act of Venezuela, the plans for revising the Social Insurance Acts in Chile and Ecuador, etc.

It is clear that those countries which are engaged in introducing social insurance or are proposing to do so in the near future will be able to profit by the experience, favourable and unfavourable, of those countries which have already established their social insurance schemes. The latter countries in turn will have to adapt their social security laws to the new trends so as to be able to compete not only in the economic but also in the social field. Thus a paradoxical but by no means unique situation has arisen: countries which decades ago were leading the movement for the protection of their citizens through social insurance, and which with their dearly bought experience have enabled other countries to introduce social insurance schemes free from the mistakes otherwise encountered in new legislation, find themselves falling short of a standard the development of which they have made possible.

Such is the case of Czechoslovakia. Social insurance was one of the main pillars of the State and served as a pattern for the legislation of many other countries. Its gradual development led necessarily to complications in administration and to a system of benefits and contributions which, although frequently amended and adapted to the needs of a fast-developing economy, still did not come up to the latest standards required in modern social insurance. Quite apart from the great difficulties created by the temporary partition of the country and the economic and social destruction due to enemy occupation, the experts in social policy and social insurance will be faced after the war with an entirely new problem: how to reform the widely diversified Czechoslovak insurance system so as to bring it into line with the principles contained in the Philadelphia Recommendations. The task lies in the adaptation of a system based on legislation which has developed—not always organically and often under political influences—

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<sup>1</sup> Cf., for example, the British, Canadian, and United States plans, described in *International Labour Review*, Vol. XLVII, No. 1, Jan. 1943: "Social Security Plans in Great Britain", pp. 46-57; No. 5, May 1943: "Social Security Planning in Canada", pp. 591-612; Vol. XLVIII, No. 2, Aug. 1943: "A Bill to Extend Social Insurance in the United States", pp. 247-250. For a review of the evolution of the idea of social security, see I.L.O.: *Approaches to Social Security: An International Survey* (Montreal, 1942); note the resolution—reproduced as an appendix—of the Second Labour Conference of American States Members of the International Labour Organisation on the aims and functions of social insurance.

during a period of fifty years to the modern requirements of universal social security for the entire nation. The correction, simplification, concentration, and co-ordination of the administration of a great number of social insurance carriers is, however, far more difficult than the formal adaptation and unification of the law. For these carriers of social insurance, being living organisms, have a tendency to resist any change enforced from outside, no matter how justified.

This problem of converting social insurance protection based on a number of laws and entrusted to numerous independent institutions into an integral, national insurance is one of the most difficult tasks with which not only Czechoslovakia but many other European States will be confronted.

The Czechoslovak Government has realised that the liberation of a nation which had built one of the most progressive States in Europe will represent an opportunity for the reform and simplification of a social insurance system which was the result of fifty years of development and for its adaptation to modern social trends. It has also realised that the solution of this important problem must be thoroughly prepared in good time and must be supported by the good will and understanding of the broad masses of the nation. The Programme for the reform of social insurance prepared at the Government's request is evidence that, where there is good will and energy on the part of those statesmen who are to rebuild Europe, it will be possible to adapt complicated social insurance systems in such a way that they will comply with the modern requirements of social protection in the form of universal national insurance.

The shortcomings of Czechoslovak social insurance are partly the outcome of the history of the system, which dates back to the 'eighties of last century in former Austria, but partly the result of official indecision and unfortunately also of political influences due to the multiplicity of political parties. Only a detailed knowledge of these shortcomings will make it possible to create a new and harmonious system, incorporating new legislation, new benefits, and new administrative ideas. The defects in social insurance legislation, structure, and especially administration meant that, at first, the system was not adequately understood by those for whom it was intended. It is a reassuring fact, however, that the situation in this respect was steadily improving in the last twenty years and that social insurance was more deeply rooted in the Czechoslovak nation than similar institutions were in other countries. The country can be justly proud of the collaboration that had been achieved in the administration of insurance with the two groups chiefly concerned—insured persons and employers.

The complete change in political, economic, and social conditions that will probably be brought about by the end of the war will provide an opportunity that may not recur for decades, an opportunity to reform the social insurance laws so as to cover those sections of the population and risks which are still unprotected, to improve the quality and quantity of benefits, to introduce new benefits, and to simplify and concentrate the administration and organisation of social insurance. The mistakes made during the years of growth are a warning of the injury that lack of energy can do in periods of political upheaval.

With the exception of unemployment, social insurance in Czechoslovakia covered virtually all the contingencies in the life of employed persons. The economic and financial importance of the system is shown by the fact that at the time of Munich about 3,120 million crowns a year, or an average of 10 to 14½ per cent. of wages and salaries, were paid by employers and employees as normal insurance contributions, in addition to which there were State subsidies and the interest on investments. At the time of Munich these investments totalled 16,750 million crowns, including 15,500 million crowns forming the technical reserves of the pension insurance institutions (even during the depression these institutions were able to devote more than 800 million crowns a year to investment for productive or social utility purposes, through loans to public authorities, and the like). The payments reflected in these figures represent in reality changes in the distribution of income effected for the purpose of guaranteeing the livelihood of the workers and their families in the event of loss or reduction of earning capacity, but above all of preventing or compensating for loss of health due to unavoidable circumstances. One of the principal aims in view in Czechoslovak insurance policy has been from the outset to prevent sickness and loss of working capacity, and only where that is not possible, to provide compensation. The fact that this aim has not been perfectly fulfilled is due to the defects of the system already referred to, which are set forth in more detail in the following survey. The reforms proposed are summarised in the Programme presented at the end of the survey.

#### SICKNESS INSURANCE SCHEMES

Sickness insurance in Czechoslovakia was based on special Acts for workers, miners, salaried employees, and public employees respectively, and it also covered the members of insured persons' families and, in some branches of pension insurance, the pensioners and members of their families. Out of a total population of

14,800,000 at the time of Munich, more than 3,400,000 persons—or, including the members of their families, more than 9,000,000 persons—were protected by compulsory insurance. In addition, self-employed persons were protected at least partly, in the form of voluntary insurance. In the important branch of maternity care, insurance covered more than two thirds of all births and was also, as regards the standard of benefits provided, one of the most progressive systems of its kind.

The extension of sickness insurance to the whole population and the improvement of its benefits, therefore, should meet with no insuperable difficulties.

### *Benefits*

The cash benefits in the workers' insurance scheme<sup>1</sup> were much more liberal than in the sickness insurance schemes of most other countries. They amounted to two thirds of the average basic daily wage, were paid also for Sundays, and even after their reduction in 1934 (to one half the daily wage for the first 14 days in the case of insurance institutions with rates of contribution exceeding a specified amount) remained higher than in all other countries with the exception of the Netherlands and the Soviet Union for some groups of workers. The maximum benefit period was also exceptionally long, being fixed at one year. There was no discrimination in regard to benefits between insured persons according to age or sex. In the granting of medical care to the families of insured persons, the term "family" was defined more liberally than in any other country, and this remained true even after the restrictive reform of 1934, which had been necessitated by the severe economic depression. The standard of the hospitalisation and preventive care in health institutions which was provided in agreement with, and with the assistance of, the Central Social Insurance Institution (the central agency for the administration of invalidity and old-age insurance) was improving steadily, especially with regard to tuberculosis.

The economic situation of the sickness insurance institutions, which had deteriorated during the depression of the early 'thirties, improved rapidly after the reform of 1934. Thus in 1936, 277 local and occupational insurance institutions had a surplus of 74 million crowns and only 19 had a deficit totalling 1 million crowns.

<sup>1</sup> A consolidated text of the Act concerning the insurance of employees against sickness, invalidity and old age was published by a Notification dated 25 July 1934 (cf. I.L.O.: *Legislative Series*, 1934, Cz. 4); for an account of the working of this Act, see *International Labour Review*, Vol. XXXVIII, No. 2, Aug. 1938, pp. 242-253: "Workers' Compulsory Sickness Insurance in Czechoslovakia, 1926-1937".

The reserves, which up to 1934 had been declining steadily, had risen by the end of 1936 to 439 million crowns in spite of the very adequate provision made for depreciation. There was a steady improvement in the independent administration of sickness insurance, based on co-operation between employers and insured persons in full agreement with the democratic character of the country.

With regard to medical care, one of the most difficult problems in social insurance—which has not been solved completely anywhere and which also represents an important problem for all new and modern schemes—is that of the co-operation of the medical profession. An amicable solution of this problem had almost been reached in Czechoslovakia through agreements between the institutions, all the groups of insured persons, and the doctors and their organisations. The result of this peaceful development was that out of 12,500 doctors (9,682 in private practice, 1,530 in public hospitals, 321 in other hospitals, 135 in mental hospitals, 81 in special tuberculosis sanatoria, 132 in private sanatoria, and about 550 in public services), 9,000 were at the time of Munich employed full time or part time in various branches of social insurance. Various methods for the rational organisation of medical care service and for co-operation between the medical profession and the social insurance institutions were in operation, ranging from full freedom for the insured person in his choice of a private practitioner to the services of doctors employed full time by the insurance institution. Although the complete satisfaction of the medical profession's demands could not be achieved, it is permissible to state that, in consequence of the agreements reached after years of difficult negotiations, the quality and quantity of medical care provided by insurance was steadily improving and that with all its unavoidable faults it had reached a comparatively high level in recent years. The influence and consequently the share of responsibility of the medical profession in the administration of sickness insurance was increasing.

After Munich the legislative changes introduced in Bohemia and Moravia represent a deterioration in the benefits in kind and probably also in the quality of medical care. For example, the duration of benefit was curtailed and the insured persons were required to share in the cost of medical care at the rate of 2.50 crowns for assignment to a doctor and 2.50 crowns for each prescription (but not exceeding the actual retail price). Only persons in the lowest wage class or in receipt of unemployment benefit are exempt from the payment of these fees. The object of these changes was presumably to discourage workers from claiming sickness

benefit and thus to exploit their manpower to the limit.<sup>1</sup> The measures in question, which are a serious danger to the national health, must be repealed as soon as possible.

The benefits and other features of the sickness insurance schemes for miners and for salaried employees are analogous to those of the workers' insurance scheme and need not be described here in detail. The principal features of the insurance scheme for public employees are dealt with below under the head of administration.<sup>2</sup>

### *Administration*

The administration and organisation of sickness insurance suffered unfortunately from the multiplicity of its institutions and the lack of co-ordination with other branches of social insurance. These defects will have to be removed. The structure and administration of a social insurance scheme are nearly as important as its system of benefits and contributions, not only from the standpoint of administrative cost but also because they determine the nature of the personal contacts with insured persons, pensioners, and employers, and if these contacts are unsatisfactory, they tend to complicate transfers, to make control difficult, and to produce distaste for the whole idea of social insurance. The importance of smooth organisation is often underestimated.

### *Workers' Insurance.*

In 1936 the workers' sickness insurance scheme was being administered by 295 institutions, namely, 184 district funds, 67 agricultural funds, 17 works funds, 20 occupational guild funds, 1 association fund, and 6 friendly society funds. The total number of insured persons at the end of 1936 was 2,239,570, of whom 80 per cent. were members of district funds and 11 per cent. of agricultural funds.

Different types of insurance institutions often covered the same district and many members transferred from one to another. They had separate health services of the same type, resulting often in duplication of expenditure and more complicated administration, since the identification and check of sick insured persons and of pensioners was thereby impeded and such check is particularly important, especially for invalidity and old-age insurance, which was administered by the sickness insurance institutions as agencies of the Central Social Insurance Institution. Two facts will illustrate these complications. In 1934 the average number of applications

<sup>1</sup> The favourable financial situation of the insurance institutions precluded any measure for making the workers share in the cost.

<sup>2</sup> See p. 150.

for and cancellations of membership per 100 insured persons was 612. Even in the Prague district insurance institution, which had over 100,000 members with comparatively steady employment, each member on an average applied three times a year for membership and cancelled his membership three times a year. From the insurance point of view, the work caused by the mere formalities of transferring members from one institution to another located in the same area is quite superfluous. One of the results is the comparatively high figure of administrative expenses, which in 1936 amounted to 22.13 per cent. of the sickness insurance contributions, or 77.48 crowns per person insured. For agricultural workers the corresponding figure was 31.68 per cent., which may be explained in part by the lower wages of those workers.<sup>1</sup> Yet the average salary of the employees of the sickness insurance institutions, including all kinds of bonuses, expense accounts, premiums and benefits of sickness insurance funds, etc., amounted to not more than 25,812 crowns, a figure which belies the accusation that these employees were overpaid.

The committee of experts which drafted a reform of the sickness insurance system in 1923 suggested that all sickness insurance institutions, as carriers of sickness insurance and as agencies of invalidity and old-age insurance, should be merged in 120 district institutions of a single type. This would have created an economical and efficient system, which could have taken over the administration of invalidity and old-age insurance institutions as well as the decentralised control over insured persons. Unfortunately these proposals were not carried out, and the changes actually made led instead to an increase in administrative expenses, raising them, as mentioned above, to 22 per cent. of the sickness insurance contributions (14 per cent. of the total contributions to sickness, invalidity and old-age insurance).

Judging from the nearly twenty years of experience during which the amended Act of 1924 has been in force, and considering the absolute necessity of a closer connection between invalidity, unemployment, and sickness insurance, I am convinced that we must return to the proposal of the committee of experts of 1923 and accept the principle of territorial organisation and unification of the administration of all branches of social insurance.

Another unfavourable result of the administrative multiplicity of the workers' sickness insurance scheme is the excessive differ-

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<sup>1</sup> It should not be forgotten that these figures include a large part of the cost of administration of the invalidity and old-age pension insurance scheme, for which the sickness insurance institutions are the local agencies. In proportion to the joint insurance contributions, the administrative cost is not in excess of the normal rate.



entiation in the rates of contribution. On 1 January 1937 there were 87 insurance institutions in which the rate was less than 5 per cent. of wages; 77 had a rate of 5-6 per cent., and 50 a rate of over 6 per cent. In the case of institutions with a contribution rate of more than 5 per cent., the reform of 1934 provided for the curtailment of cash benefits from two thirds to one half of the daily wage for at least the first 14 days of sickness, which means that more than 50 per cent. of the insured persons had considerably lower benefits than the others during the first 14 days of sickness. In practice, however, the range of contribution rates was even greater than indicated by the above figures. In 1934 there were, for example, 10 insurance institutions with a rate of 4.3 per cent., 6 with a rate of 4.4 per cent., 82 with a rate of 4.8 per cent., 40 with a rate of 5 per cent., 24 with a rate of 6 per cent.; and there was one institution with a rate of 7.5 per cent. In view of the fact that different contribution rates mean different financial burdens for employees and employers alike, and that high contribution rates often go together with low wages, unfavourable classification of workers by age and sex, or unhealthy occupations, or are the result of local or occupational depression or local epidemics, it is clear that the organisation of the insurance system in this respect did not always satisfy social requirements. 'An insured group that is economically, socially, or hygienically underprivileged often contributes at twice as high a rate as a group of employees with high wages and in good health, while its insurance benefits are the same or even lower.

There is an easy remedy, which has often been discussed by Czechoslovak social insurance experts, more especially as it would maintain the self-government and independence of the local institutions: a uniform contribution rate (already in existence in the workers' pension insurance scheme) should be adopted for sickness insurance as soon as possible for the whole country. Then part (say, one half) of any surpluses obtained by insurance institutions in a favourable situation would be transferred to a common fund, which would be administered by the Central Insurance Institution, and would be used to make up for accidental or even regular deficits of institutions with unfavourable economic results; obviously the control and responsibility of the administrative organs of sickness insurance would have to be increased. The remaining part of the surplus would be used to improve the benefits in accordance with the provisions already in force.

The radical solution of this problem which lies in the establishment of a single central body for sickness insurance for the whole territory of the Republic, such as exists in several other countries, is not desirable in Czechoslovakia for various reasons.

*Miners' Insurance.*

The insurance of miners, which is administered by special miners' benefit societies—acting also as agencies of the miners' pension insurance scheme—for approximately 120,000 miners, could be merged with the workers' sickness insurance scheme; the more so as the minimum pension insurance benefits for the workers also serve as a basis for miners' pensions. If for such reasons as the traditional attachment of the miners to their own insurance this is found impossible, the miners' scheme must be brought into line with the progressive reforms planned, and there must at least be close co-operation between the miners' benefit society and the local district insurance institution.

*Salaried Employees' Insurance.*

Sickness insurance for salaried employees was administered at the time of Munich through different types of insurance carriers. In the first place, there were four sickness insurance institutions providing exclusively for salaried employees. These included the Sickness Insurance Institutions for Private Employees in Prague, which at the end of 1935 had 148,000 members and 21 local offices; and the Sickness Insurance Institution of Prague<sup>1</sup>, which at the same date had 59,000 members, 20 local offices and 8 subsidiary offices, mostly in the same places as those of the institution already mentioned. Secondly, there were 8 guild funds, the largest of them in Prague, which on 31 January 1935 had 30,352 members covered by the Salaried Employees' Pension Insurance Act. Since these funds also insured the workers employed by the members of the guild, they were, however, subject to State control under the old Sickness Insurance Act of 1888.

Thirdly, the district sickness insurance institutions for workers also included salaried employees among their members. These members, who in 1935 numbered about 180,000, were considered a great asset to the institutions, since they enjoyed comparatively steady employment as well as higher wages and therefore paid higher contributions than the workers. Hence the district insurance institutions opposed any unification of salaried employees' sickness insurance; but it may be doubted whether in fact these members were so much of an asset to the institutions, considering that they claimed medical care of better quality and tended to cause dissatisfaction and increased claims among the other members.

The result of this opposition was that a draft Bill to establish a separate sickness insurance scheme for salaried employees, which

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<sup>1</sup> This body was closed down after Munich.

had been prepared in 1928 after four years of work by a special ministerial committee composed of representatives of employers, employed persons, and experts, was never introduced in Parliament by the Government. It proposed certain innovations, such as increased benefits in the event of prolonged sickness, and would have established an organic connection between this pension insurance and the Central Social Insurance Institution. The Government of the Protectorate, however, enacted the measure by an Order No. 365 of 30 July 1941, which came into effect on 1 January 1942, but embodied certain important changes, most of them detracting from the value of the reform. For instance, the complete separation of sickness insurance from pension insurance was maintained; so that cases of prolonged sickness and of invalidity are dealt with by two different institutions.

If, as suggested in the Programme, all pension insurance is unified and based on the workers' invalidity and old-age scheme—with special provision for the higher claims of salaried employees—and if, further, a unified national health insurance scheme is established providing medical care at least of the quality granted under the salaried employees' scheme, there would be no reason to maintain a separate sickness insurance scheme for this group. If, however, such maintenance is considered to be warranted by the special legislation in force for salaried employees under which they are entitled in the event of sickness to full pay for at least six weeks, the economies in sickness benefit expenditure effected in consequence of this regulation could be used to improve the whole benefit system. The rates of benefit established by the Protectorate Order No. 365 are not so high as to justify a separate insurance scheme. On the other hand, the 1928 Bill would have extended the duration of medical care and cash benefits to two years, increased the cash benefits after six months, etc. In view of the fact that the Programme does not limit the duration of medical care, provides medical care for the whole population, and proposes the granting of a temporary pension between sickness benefit and permanent invalidity pensions, the only room for improvement would be in the amount of the temporary pension, of funeral benefit, etc. The situation created by Order No. 365 of 1941, however, presents new problems which it will be necessary to consider.

#### *Public Employees' Insurance.*

The protection of public employees against the risk of sickness was distinct from the insurance system for workers and salaried employees; it covered not only all public employees, including

teachers, in so far as they were entitled to full sick pay for at least one year, but also, as regards benefits in kind, persons in receipt of public pensions. The Public Employees' Insurance Fund, which at the time of Munich insured about 320,000 persons, had three subsidiary institutions, namely, the State Railways Sickness Insurance Institution with about 183,000 members, the Postal, Telegraph and Telephone Employees' Sickness Insurance Fund with about 64,000 members, and the Priests' Sickness Insurance Institution with about 6,000 members (Roman Catholic and Orthodox priests).

The Act of 15 October 1925 concerning medical care for more than half a million public employees had been worked out and passed, partly for political reasons, without adequate preparation, and in the very first years of its existence it met with great administrative and financial difficulties. During 1935 the benefits—consisting only in medical care service—granted to this group of employees amounted to 200 million crowns. In spite of a subsequent increase of contributions and the participation of insured persons in the cost, the financial situation of the Fund remained unstable. The main difficulty was the lack of control over the free choice of doctor, which had been the principal reason for the introduction of this special legislation. Another difficulty was the inadequate and socially inequitable contribution system, which placed a maximum limit of 50 crowns a month on the contribution fixed at 2 per cent. of the salary; thus employees with a salary of over 2,500 crowns a month paid less than 2 per cent., and those with over 5,000 crowns paid less than 1 per cent., a situation which disregards the accepted principles of social insurance. If a separate scheme is maintained for public employees, these defects should be remedied, and special attention should be paid to the provision of high-grade medical care in the event of prolonged illness, fatal diseases, etc., such care to be provided also for the members of insured persons' families. On the other hand, if comprehensive, high-grade medical care for the whole population is introduced as proposed in the Programme, a separate insurance scheme would become unnecessary for this group of employees, but their contributions would have to be adjusted in view of the fact that no sickness benefit is required in the case of sickness lasting less than one year.

In the administration of social insurance in Czechoslovakia, the autonomy of the institutions is a feature which proved of the greatest value. Besides securing the collaboration of insured persons and employers, the participation of impartial experts was also obtained, and both these factors contributed substantially to the progress of the social insurance movement.

## PENSION INSURANCE SCHEMES

The workers' and salaried employees' pension insurance schemes were, from the administrative point of view, better organised than sickness insurance, largely because they were more recent in origin.

The principal scheme, that for workers, came into operation with the passing of the Act of 1924, which was put into force on 1 July 1926. As compared with the original plan presented by the committee of experts in 1923, the Act shows certain defects, due to the administrative multiplicity of the sickness insurance system, since it makes the sickness insurance institutions the agencies for the administration of pension insurance, that is, of the Central Social Insurance Institution.

The salaried employees' pension insurance was in the hands of the General Pension Institution and approximately 30 subsidiary bodies, with a total of about 400,000 members. If this branch of insurance is maintained as a separate scheme, a new definition of liability to insurance should be worked out for it, in order to limit it to the higher services of employees for which it is intended. The definition should provide for the elimination of those categories of employees whose work is not predominantly intellectual in character and the inclusion of those whose work is intellectual and who hold positions of responsibility.

Miners' pension insurance was entrusted to the Central Miners' Benefit Society and was put on a financially sound basis after the legislative amendments of 1 July 1936.

The pensions of public employees are provided for each year in the regular State budget.

An Insurance Act for self-employed persons was passed in 1925 but has not yet come into force; since the ground is well prepared, it could be put into effect in the amended form drawn up by a special committee which sat in 1936 to 1937.

*Benefits*

The benefits granted under the pension insurance schemes were in conformity with the most modern principles. The initial pension rates were comparatively high, especially in the lower wage classes and in the case of premature invalidity, for which case a high minimum pension was also fixed. In addition to pensions, children's bonuses were granted. The definition of invalidity was so liberal and elastic that during the economic depression it was possible to grant pensions to older persons who were not totally disabled and thus make room for the employment of the younger genera-

tion. The system was the first to increase invalidity and old-age pensions by the grant of family allowances and to introduce medical care for pensioners (under the salaried employees' and miners' schemes). The Government of the Protectorate extended these measures to the workers' scheme by Order No. 99 of 1942, but at the same time demanded an excessive contribution towards the cost from the pensioners, by reducing their pensions.

In the years immediately preceding Munich two innovations were introduced of which the country can be justly proud. These are, in the first place, the special pension for employees who have not qualified for invalidity or old-age pension but who have been permanently unemployed for more than one year; and, secondly, the invalidity and old-age bonus corresponding to any uninsured period of time, provided as a means of balancing, at least in part, the claims of the first generation of insured persons with those of the younger insured who are covered throughout their active life. By crediting the uninsured period in the salaried employees' scheme in 1931 and by introducing the so-called age bonus in the workers' scheme in 1934 for all insured persons over 27 years of age, this socially important balance has been achieved and, among other important consequences, the accumulation of technical reserves thereby reduced. It may be added that certain South American countries<sup>1</sup> have also adopted these reforms.

The various reforms introduced by the Government of the Protectorate have not changed the benefit system but have increased the rates of pension. Thus the lowest possible pension in the workers' scheme is 6,200 crowns a year for an insured man with two children, the greater part of the basic amount of the pension being paid by the Government. During 1941 and 1942, and probably later, special lump sums were granted, equal to one month's pension in each of the two years. On the other hand, the establishment of pension claims of all types has become more difficult and the control of pensions stricter, so that in fact the advantage of the increased rates may be said to exist only on paper. In addition, it should be remembered that pensionholders have frequently been forced back to work.

### *Financial System*

Except in the case of public employees' pensions, which are included in the national budget, the pension insurance schemes are based on actuarially calculated average premium contributions and on the transfer of a reasonable part of the burden to future gen-

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<sup>1</sup> For example, Mexico and Ecuador; projects in Bolivia and Costa Rica.

erations. At the time of Munich, the pension insurance institutions, including the workmen's compensation institutions, had technical reserves of 15,500 million crowns, of which about 35 per cent. was invested in State securities and loans to the State and in State funds for productive purposes (funds for the construction and maintenance of highways, water works, electrical power plants, etc.); 15 per cent. in non-State securities, such as mortgage bonds, municipal bonds, agricultural improvement bonds; 16 per cent. in municipal loans for productive purposes, such as canalisation, drinking-water supply, and power plants; and about 20 per cent. in direct mortgages. From 1918 to 1936 the Czechoslovak social insurance institutions helped in the construction of over 46,000 dwellings for insured persons. Their investment policy aimed also in other directions at the improvement of social and health conditions and thus helped to maintain and improve the national health. Moreover, it tended to increase national productivity and, as one of the most important factors on the long-term credit market, contributed consistently to the lowering of interest rates. Around 1935 the rate of interest still averaged about 5.2 per cent., and it should be possible to lower it considerably in order to encourage new investment. It deserves special mention that the social insurance institutions with their long-term credits helped to overcome the crisis of the 'thirties at a time when it was difficult for other institutions to grant such credits.

In considering future investment policy, and in view of the proposed improvement in invalidity and old-age pensions, special attention should be paid to housing. In particular, loans might be granted for the building of houses and dwellings in rural areas, and not only for insured persons but for pensioners as well. The insured person's reserves would serve as security, and reasonable interest and amortisation charges could be met out of the pension. Thus the pensioner, instead of paying rent, would meet the charges on his investment in a small family home, including a vegetable garden, poultry, etc., from which he could supplement his income. The question whether the loans should be granted directly by the insurance institutions or through co-operative societies under State guarantee is of secondary importance. It is certain that they would help in the provision of healthy living conditions, the relief of congestion in the cities, the back-to-the-land movement, and the increase of building activity. The experience gained before Munich and also in South America suggests that the plan is a practicable one. Benefits in the shape of housing might be the first step towards replacing cash benefits by benefits in kind.

## UNEMPLOYMENT INSURANCE

There can be no doubt that the system of social insurance will have to be supplemented as soon as possible by a modern unemployment insurance scheme. The disadvantages of the "Ghent" system of trade union funds hitherto in force are well known. It will suffice, therefore, to note that the first step towards the introduction of unemployment insurance was made by the Government of the Protectorate in its Decree No. 141 of 29 March 1940, which introduced unemployment allowances for persons who "are available for work", and also made it compulsory for applicants for an allowance, when so required, to attend training or retraining courses or undertake work assigned to them. Apart from certain conditions which are unacceptable from the social point of view, the introduction of regular contributions—at the inadequate rate of 1 per cent. (in some cases, 2 per cent.) of wages—makes the transition to normal unemployment insurance possible. The Bill drafted in 1936 by the author of this Programme can be used as a basis, amended in conformity with the most up-to-date unemployment insurance principles and laws and adapted, of course, to the special needs of the country.

## WORKMEN'S COMPENSATION

Of all the branches of social insurance in Czechoslovakia, workmen's compensation is the oldest, and at the same time it was that most loosely connected with the rest. The reason lies in its history and character, since it was in principle an employers' liability insurance scheme. There were four different Acts concerning workmen's compensation: in Bohemia and Moravia, the old Austrian Act of 1887, amended only slightly by later reforms; in Slovakia and Ruthenia, the Hungarian Act of 1907 concerning industrial and commercial undertakings, and for agricultural workers the Hungarian Act of 1900; in Hlučínsko, the German Workmen's Compensation Act. The formal co-ordination of these Acts was very inadequate.

The principal Workmen's Compensation Act was based on the old Austrian theory according to which only "dangerous" occupations are liable to insurance; consequently, workmen's compensation covered only about 1,600,000 full-time workers. Through the development of modern technique, the classification of many undertakings as dangerous lost its justification; for instance, any undertaking using an electric motor, no matter how small, was considered dangerous, but on the other hand the cutting and transport of lumber was not considered dangerous. In agriculture only those undertakings were considered dangerous which used motors, and even



then only during the time these were actually in use. The practical result of this theory was an often exaggerated classification of undertakings, with hundreds of headings and with rates often differing only by hellers.

In the event of loss of earning capacity, the pension granted was as a rule small, amounting on an average to less than 27 per cent. of the wage. The pension was subject to review based on the results of periodical medical examinations. The pensions for total incapacity, which amounted to two thirds of earnings, were an exception and only represented less than 10 per cent. of the total benefits granted. The same observation applies to the widow's and orphans' pensions (fatal accidents are infrequent); after fifty years of workmen's compensation, at the end of 1936 their total equalled only about one third of the widow's and orphans' pensions paid by the Central Social Insurance Institution in its ten years of experience of invalidity and old-age insurance. The introduction of this insurance and the granting of age bonuses meant that the workmen's compensation scheme lost especially in financial respects. Admittedly, the managers of the workmen's compensation institutions have succeeded in bringing the scheme into line with modern requirements in various respects, by promoting accident prevention, by granting voluntary benefits, providing for vocational training and retraining, and so forth.

The suggestion made in the Programme that workmen's compensation as a separate scheme should be abolished and the benefits incorporated, especially during the qualifying period, with those of invalidity and old-age insurance, and that all benefits should be improved by means of the workmen's compensation contributions so made available, was first submitted to the Ministry of Social Welfare as early as 1922. It was proposed that undertakings with exceptionally high occupational risks should pay a supplementary contribution in addition to the ordinary pension insurance contribution. This is the way in which workmen's compensation was successfully incorporated with the system of invalidity and old-age pensions in Greece in 1930. If, however, workmen's compensation is maintained as a separate scheme, it would be advisable to link up the medical care service organically with that of the reformed sickness insurance scheme, and to adjust the compensation so as to simplify the present rather complicated conditions, especially with regard to the cumulation of pensions.

#### CHILDREN'S ALLOWANCES

There is at present no provision for children's allowances in Czechoslovak social insurance. A choice is possible between two

principles. In France, Belgium, and several other countries, a contribution proportionate to wages is paid by the employer directly into a fund, which in turn makes allotments to employers for their workers with large families. In several modern schemes, family allowances are incorporated in the social insurance system and are paid out by the social insurance institutions. The rates are sometimes increased according to the number of children and the financial burden is borne by the State.

Whichever system is adopted in Czechoslovakia, it would be advisable to link it up with the general social insurance system, which even in its present form grants allowances for the children of pensioners. Provisions such as are found in the Chilean Act for private employees, the New Zealand Act, and others might serve as models.

#### FINANCIAL RESOURCES

For short-term insurance, benefits were financed on the basis of premiums calculated in such a way as to cover annual needs and the building up of reasonable contingency reserves. Pension insurance benefits were financed by average premiums, calculated without reference to age, sex, occupation, etc., and based on the principle of complete actuarial equilibrium with a minimum of collective accumulation, which meant that only a limited formation of funds was necessary. As already indicated, it will be necessary to limit this accumulation even further, and the changes in the benefit system proposed in the Programme would have this result. At the same time an accumulation of technical reserves is needed not only for actuarial reasons but also for reasons of financial policy and social hygiene.

It would be a great advantage, even though not absolutely necessary, if during the period of preparation for social insurance reform the system were used as a means of helping to avert inflation. After the liberation of the country the tendency among all classes of the population will probably be to spend the savings accumulated during the war. The amount of these savings can best be judged from the inflated balance sheets of the National Bank, quite apart from any accumulation in the shape of direct hoarding. Such a tendency is easy to understand in view of the sufferings and hardships that the people have undergone. But if the demand for goods makes itself felt while they are still in short supply, the result might well be inflation, accompanied by all the well-known disturbances of a socially unjust distribution of goods and leading ultimately to political unrest. Social insurance could help to prevent this danger, especially during the transition period, by raising

the rates of contribution. Such an increase would be justified by the need of restoring financial equilibrium and of securing adequate funds for the revaluation of existing benefits in accordance with the Programme and for the introduction of new benefits. Thus social insurance would help to divert a considerable part of the savings and very high earnings of the first few years into the creation of capital needed for long-term investment.

The characteristic feature of the system of contributions in Czechoslovak insurance is that they are fixed in proportion to wages, on the basis of wage classes. This principle is in conformity with the large differences in standards of living and in the levels of earned income in different parts of the country and among different groups of employed persons, but also follows from the almost complete lack of private industrial insurance, especially of group insurance. The great extension of voluntary, supplementary insurance in special sections of the pension insurance institutions, through the payment by employers of additional and often substantial contributions on behalf of their staff, is further evidence of the trust which both employers and employed place in social insurance.

It has repeatedly been suggested that the present system of wage classes for the payment of contributions should be replaced by one in which the total contribution is fixed as a percentage of the wage. Whether this suggestion is adopted is mainly of administrative importance, but what is essential is that if the wage class system is maintained, it should be co-ordinated for all branches of insurance, especially as regards the upper limit of the insurable wage.

## **Programme for the Reconstruction of Social Insurance in Czechoslovakia**

### **BASIC PRINCIPLES**

For the reconstruction of social insurance in Czechoslovakia the following basic principles should be adopted:

(1) Medical care and cash benefits in case of loss of working capacity or in case of inability to obtain remunerative work should be provided on the insurance principle.

(2) Medical care should be available to the entire nation under a national health insurance scheme.

(3) Cash benefits for the insured and the members of their families in the event of reduction or loss of working capacity should be organised according to the various contingencies covered, taking into account the special conditions resulting from past develop-

ments only where that is absolutely necessary; while every possible consideration should be given to the acquired rights and privileges of certain groups of the insured population, an organic connection between the various branches of social insurance should be definitely established.

(4) Social insurance benefits should be financed by uniform contributions, applicable throughout the territory of the Republic and calculated as a percentage of earnings or according to wage classes; the uniform and all-inclusive contributions should be collected by the territorial carriers of sickness insurance, which should transfer the appropriate proportion of the proceeds to the particular insurance carriers concerned. The rates of contribution should be fixed according to the latest experience shown by insurance statistics, applying the theory of minimum accumulation in pension insurance and taking into consideration the capacity of the national economy.

(5) The participation of the State in social insurance consisted in the past of the payment of a fixed subsidy to the pension insurance schemes. In the Protectorate, it was extended in that the State took over the payment of all or part of the basic pension amounts and part of the lump-sum benefits. It will be possible to maintain the earlier system, but it will be necessary to make the State exclusively, or at least mainly, responsible for the financing of children's allowances and of a large part of maternity benefits, and for unemployment insurance. Proposals that the State should finance the entire cost of social insurance out of taxation can form a basis for discussion and are acceptable especially in those countries where income tax is the main source of revenue. Where, as in Czechoslovakia, State revenue is based to a great extent on indirect and excise taxes, such a system could mean an increased burden for the poorer classes of the population.

(6) The organisation of social insurance should be simplified by concentrating the sickness insurance schemes—which should also form the basis for pension insurance—in the hands of uniform, territorial carriers of insurance (the district insurance institutions); these should also be placed in charge of pension insurance, and of unemployment insurance, as far as is possible.

#### DETAILED RECOMMENDATIONS

##### *Unemployment Insurance*

To the existing branches of social insurance of all groups of workers and employees, unemployment insurance should be added. The following main principles should be observed:

(a) Unemployment benefit should be granted for twenty-six weeks and should be equal to sickness insurance benefit; after that it should equal the temporary pensions proposed with regard to sickness and invalidity insurance; the qualifying period should not exceed two weeks, and all the other conditions should be in conformity with the 1936 proposal for the introduction of unemployment insurance and with other modern Acts and plans, such as the British, Canadian, United States plans, etc.

(b) In connection with pension insurance, it will also be necessary to adjust the pensions for older insured persons in the event of prolonged unemployment, on the lines of the existing salaried employees' pension insurance scheme.

(c) Contributions should be uniform for the whole territory of the Republic; insured persons, employers, and the State should participate in them, and a central fund should be created at the Central Social Insurance Institution, which would absorb all the surpluses resulting from higher contributions in times of prosperity and out of which deficits in times of depression would be covered.

(d) Unemployment insurance should be coupled with productive care for the unemployed, with an organised system of continued education and vocational retraining in cases of prolonged unemployment, and with all measures for the promotion of full employment, according to modern practice and theory.

(e) The organisation of unemployment insurance should be based on the territorial principle (with district insurance institutions as the units), especially for the payment of benefits and the collection of contributions. Claims to unemployment benefit should be established before the public authorities and employment exchanges.

(f) The Protectorate Decree No. 141/40 should be repealed, but the principle of uniform contributions, such as is laid down in modern Acts, should be maintained.

#### *Insurance of Self-Employed Persons*

(a) The insurance of self-employed persons, including members of the family helping in the work, should be based on the project of 1936 for amending the 1925 Act; this proposed the granting of full sickness benefits in kind in cases of sickness lasting longer than a specified period (thirteen weeks, for instance), as well as cash benefits at the rate of invalidity benefits, converted into temporary pensions if the sickness lasts more than one year, and into an invalidity pension after two years.

(b) Pensions should be calculated either at a uniform rate, as in the above-mentioned project, or as a percentage of the average

income earned in the preceding few years; the introduction of a small number of benefit classes, such as those in the present pension insurance schemes, is another possibility. The organisation of this insurance should be entrusted to the district insurance institutions, as the subordinate agencies, and to a special section of the Central Insurance Institution, which would be the central pension insurance authority in the event of all pension insurance schemes being centralised in one institution; should that not be the case, this function should be taken over by a Central Pension Insurance Institution for Self-Employed Persons.

### *Sickness Insurance*

(a) Every insured person and the members of his family, in other words, the whole nation with a few negligible exceptions, should be entitled to full and first-class medical care, such as was provided for in the proposed Bill of 1928 concerning social insurance for salaried employees, including hospitalisation and care in health institutions. The anti-social provisions introduced by the Protectorate Government, especially the fees to be paid by the insured for being assigned to a practitioner or for being given a prescription, should be abolished.

(b) For cash benefits, a return to the full rates prevailing before the amendment of 1934 is recommended, coupled with the introduction of a temporary pension, which would be converted into a permanent invalidity pension after two years.

(c) Sickness insurance contributions should be at a uniform rate throughout the territory of the Republic; a special compensation fund should be created at the Central Social Insurance Institution. If the benefits provided under the sickness insurance schemes for salaried employees, public employees, and self-employed persons respectively are different from those under workers' sickness insurance, the rates of contribution for these groups should of course also differ from the workers' contribution rates.

Medical care, besides being provided for the members of the insured persons' families, should also be granted to all pensioners and the members of their families.

If the system of wage classes is maintained, their number should be reduced and the system should be reformed in such a way that the upper limits of the insurable wage will be as uniform as is compatible with the particular social and economic character of the branch of insurance in question.

(d) Those unemployed persons who are entitled to unemployment benefits should also be entitled to full medical care.

(e) With regard to organisation, a concentration in territorial institutions is recommended (district insurance institutions), with special sections for miners' insurance and for salaried employees' insurance, while a special section for the insurance of public employees could be created at the Central Institution.

(f) The organisation of medical care and of co-operation with the public health administration should be based on a plan proposed by a special committee, consisting of doctors, insured persons, and insurance institutions; if preference is given to the system under which the doctor becomes the employee of the insurance institution, the doctors should be given favourable conditions of insurance against sickness, invalidity, old age, and death. The importance of the "family doctor" system should be borne in mind.

### *Pension Insurance*

(a) In workers' pension insurance pensions should be introduced for older insured persons who have been unemployed for a prolonged period but are not eligible for an invalidity or old-age pension, on the lines of the system in force under the salaried employees' pension insurance scheme.

(b) The allowance for uninsured time, patterned after the age bonus in the workers' pension insurance scheme, should be extended.

(c) The present structure of pensions, which consist of a basic amount and graduated supplements, should be maintained, and emphasis should be placed on the basic amount; the minimum pensions should be higher than those introduced by the Government of the Protectorate, if consistent with the financial equilibrium of the scheme.

(d) For the calculation of pensions for those groups of persons who at present are entitled to higher benefits or to benefits under more favourable conditions, it is recommended to introduce as minimum benefits the benefits of the general pension insurance scheme, coupled with a system of higher supplements, to be granted under more liberal conditions. Such a system of uniform minimum benefits for all groups of employees, with supplements for some groups, would make it possible to concentrate all pension insurance in a single institution; and even if the separate institutions are maintained, it would simplify the transfer, control, and identification of insured persons.

(e) The qualifying periods in pension insurance should be shortened and should be reduced to a minimum; for, when the entire nation is insured, the possibility of insurance fraud is necessarily smaller.

(f) The existing benefit system, which is otherwise suitable, should be extended by compulsory and voluntary benefits for the younger insured. In addition to the dowry benefits granted to insured women which already exist, other lump-sum benefits should be introduced, such as grants to insured men when they marry and lump-sum compensation at the termination of any temporary pensions, such as orphans' pensions and children's allowances. A special service should be organised or extended by the insurance institutions to provide for low-cost vacations, participation in sports, etc., in return for a reasonable surcharge on the contribution and under the supervision of special committees consisting of younger insured persons.

(g) The investment policy of the pension insurance schemes must give even greater consideration to housing needs, by granting loans for the building of individual and collective homes for the insured, and by making possible the settlement of pensioners on the land in rural areas by means of loans, redeemable out of the pension.

(h) Compulsory, periodical medical examinations should be introduced as part of the framework of the pension and sickness insurance schemes.

### *Workmen's Compensation*

In regard to workmen's compensation, we should consider:

(a) The possibility of incorporating it into the general invalidity, old-age and survivors' insurance scheme, whereby the workmen's compensation contributions could be used to increase the benefits of every kind. In case of an accident, the qualifying period would of course be considered as completed and the benefits might be higher than the normal pension.

(b) If workmen's compensation is maintained as an independent scheme, it should be extended to every single undertaking, brought into line with the general pension insurance scheme, and connected organically with sickness insurance as well as with the general pension insurance scheme; the present complicated classification of undertakings and of benefits in cases of partial disablement should be simplified as much as possible.

### *Children's Allowances*

Use can be made of the organisation of territorial institutions (district insurance institutions) as pay offices for the proposed grants to large families, consisting of allowances for each child



except the first, the first two, etc. This scheme could be financed either directly by the State, or with the participation of employers and employees, depending on the financial situation. It should be put into force only after the completion of thorough administrative and financial preparations.

### *State Participation*

The present State participation in pension insurance should be maintained, and a larger part of the basic pension amounts should be borne by the State. The State should also participate in the insurance of the nation's health, that is, it should share in financing medical care, maternity care, unemployment insurance, and children's allowances, in view of the reduction in public assistance costs that results from a national insurance system.

### *Autonomy of Insurance Institutions*

The autonomy of the social insurance institutions and the participation of impartial experts in their administration should be maintained. Both these features of social insurance in Czechoslovakia have proved extremely valuable.

## PLAN FOR THE EXECUTION OF THE PROGRAMME

(1) The immediate enactment of a Bill containing regulations concerning the transitional period would be necessary, in order to maintain the continuity of the benefit and contribution service of social insurance.

(2) Two committees should be appointed as soon as possible:

(a) A committee, consisting of representatives of insured persons, employers, and insurance carriers and experts, should work out a final programme for the reconstruction of social insurance. The committee, using this Programme as a guide, would work out a detailed plan of reconstruction within a period of a few months; a time limit would have to be set in advance. This detailed programme would form the basis for the final draft of a uniform Act, dealing with the insurance of the entire population. A time limit of about two years, which could not be extended, should be set for the completion of this task; such a period would be required for the collection of statistical data and other material and for the preparation of the organisation and administration of medical care for the entire population.

(b) A special committee should be appointed to work out

a plan for the organisation of medical care within the framework of a nation-wide scheme of health insurance; it would consist of representatives of the medical profession and of the insurance institutions (insured persons and employers). A time limit should be set, within which the committee would have to submit its plan and which must not be exceeded. The plan to be prepared by this committee should also provide for collaboration with the public health authorities and institutions, which are independent from social insurance; for the form in which the insurance carriers should participate in the costs of national health care, in particular, of medical research work; and for the training of young doctors for social insurance work, including periodical refresher courses.

(3) During this transitional period, before a final, general and uniform Insurance Act covering the entire population is put into effect, both committees should indicate those important and most urgent changes which will be required for the unification of the various laws at present in operation in Czechoslovakia; all the advantages existing under these laws, however, should be maintained.

(4) During the preparatory period it would be an advantage if the social insurance system were used to the full as a means of averting inflation, which at that time, especially, will be a great menace. It could assist the national economy during this transitional period by diverting part of accumulated savings and of the earnings of full employment through the collection of additional contributions from employers and employees alike, as will be needed for the financing and the increase of all kinds of pensions and annuities as well as for the introduction of new benefits; the sums so accumulated will make long-term investments possible (as will be needed especially for the organisation of the national medical service), thus helping to consolidate a state of full employment, and will at the same time provide the insurance institutions with such funds as they will require later on, when less favourable conditions may again prevail.

(5) With regard to the form of the amended legislation, a uniform definition of all terms which the various branches of social insurance have in common should be adopted. The wording of the Act itself, the administrative regulations, and the rules of the institutions should be as clear and simple as possible.

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