

LIMITATIONS AND VALUE OF UNEMPLOYMENT INSURANCE

As recently as 1931, numerous articles were appearing in this country in which the British unemployment insurance system was derisively referred to as a dole and England's economic difficulties were pointed to as a warning that this country must never embark on any similar policy. Now that our direct relief expenditures are more than five times as great as the amounts which the British government is expending for unemployment insurance and relief, an equally large number of articles are attributing England's alleged rapid progress toward economic recovery, in large measure, to its unemployment insurance system.

This remarkable change in opinion probably derives far more from the seriousness of our problems than from an intelligent analysis of unemployment insurance and its consequences. Though long, and still, a staunch believer in the value of unemployment insurance, I must protest against expecting too much from this social device. Unemployment insurance has definite values, but also, like all other man-made institutions, distinct limitations.

To deal with this subject honestly and realistically, it is well to begin with some of the limitations. Unemployment insurance will not solve the problem of the business cycle. It is not a cure for depressions. Unemployment insurance may, as apparently it has in England, help in a measure to sustain consumer purchasing power during a period of depression. It cannot prevent the depression.

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Unemployment insurance will not give jobs to the millions of wage-earners now unemployed, nor will it make relief unnecessary. It is conceivable that the majority of those now on relief might be covered by an unemployment insurance system and given extended benefits from the outset but such extended benefits would have to come from the public treasury and would still be essentially relief payments, although under a new name.

Unemployment insurance will not directly benefit any group in society other than the wage-earners and salaried employees. This excludes the 20% of our gainful workers who are farmers, merchants, professional men and other self-employed persons. Among the employees, moreover, there are many who cannot easily be included in any unemployment insurance system. This holds true for nearly all of the more than three million wage-earners employed in agriculture, forestry and fishing; for the great majority of the four million five hundred thousand people who are employed in domestic and personal service; and also, for the two million three hundred thousand "executive and professional" salaried employees. Furthermore, any unemployment insurance system must almost certainly have numerical exclusions, in that it pertains only to employers with a specified number of employees--three, five or ten-- whatever number may be chosen. In England, despite its relatively higher degree of industrialization, nearly seven million persons gainfully employed are excluded from the unemployment insurance act, as compared with the little more than twelve million who come under the provisions of the law. It is probable that in this country

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not more than half of the fifty million gainfully occupied persons could be covered by any unemployment insurance system.

Unemployment insurance, moreover, is not well suited to many groups of industrial workers who can legally be brought under its provisions. British experience has proven that the inclusion under the act of part-time workers and of short-time and casual employees creates serious problems. These groups are probably the source of a majority of the cases arising under the unemployment insurance acts and the benefits payable to them constitute a heavy drain on the funds. It may be that such workers should, nevertheless, be provided for under the unemployment insurance system. However, some more suitable device, possibly a dismissal wage, is worthy of consideration as a means of furnishing a degree of economic security to these intermittently or irregularly employed wage-earners.

With all these exclusions there remain for consideration-- the largest group in our total population-- the steadily employed industrial workers and the majority of the clerical employees. In our concern for the 20% or 25% of the wage-earners who are unemployed, there is danger of neglecting the 75% to 80% who are employed. Real progress is made not by depressing all to the lowest prevailing level, but rather by raising the submerged to higher standards. No one denies that those who are at present unemployed need help very badly; but it is equally true that the steadily employed, those who held their jobs throughout the depression or were the first to be re-employed, are in need of a greater degree of security than they now have.

The employed and the unemployed are not, of course, entirely

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distinct groups. There is constant interchange between them. Even in the worst stage of the depression some of the unemployed were able to secure work and in very prosperous times some of the steadiest workers would lose their jobs and suffer comparatively long periods of idleness before they were re-employed. From such rather meager data as is available, it appears that from 20% to 25% of the unemployed in this country have been out of work less than six months. In England this percentage is considerably higher; 55% of all of the registered unemployed in January, 1934 had been out of work less than three months, 67% less than six months.

While there is constant interchange between the employed and the unemployed, it is unfortunately true, that there are many among the unemployed who, at least for the present, cannot be classified with the great mass of the steady workers. A third or more of all of the unemployed have not had a real job for more than over two years. The best of these are now "soft" and have lost much of their former skill. A great many are young men who have never had a job. Many others never worked steadily even in boom times. To call even this latter class "unemployables" is an unjustified stigma; during the World War even the inmates of poorhouses found employment. But under prevailing conditions, the problem of restoring many of the unemployed to self-support is one of rehabilitation quite as much as of employment. Those who have long been unemployed require public assistance not only for their immediate needs but to enable them to recover their former status.

The much larger group of the employed (including in this

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group those who have no jobs but who have excellent work records and have retained their skill) likewise need greater economic security but along quite different lines. Unquestionably the best cure for unemployment is employment, at least for workers of this class. This largest group among the wage-earners would be benefitted more by a restoration of private employment to 1929 levels than by any other measure. Until we are back to this level, our major objective must continue to be increased production and economic recovery; and until private employment takes up the slack, we must have large emergency work and employment programs. Economic policies which tend to stabilize employment at a high level and which insure automatic expansion of public employment when private employment slackens are of more fundamental importance for economic security than any device which merely provides a means of support when unemployment occurs.

President Roosevelt, in his radio address of September 30th, very properly stated that we must not gauge our economy on the assumption of a large permanent army of unemployed. We cannot permanently have one group who are employed supporting another large group who are unemployed. Our economic system cannot endure unless it can be so organized that there exists only a small residuum of unemployed wage-earners.

As far as can now be foreseen, however, there always will be such a residuum. There was unemployment even during the great war; no country has ever been without it. In the years immediately preceding the depression, unemployment among industrial workers in this

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country averaged close to 10% of the total. So long as we have seasonal industries there is certain to be some loss of time in the off-seasons. Changes in technology and in market demand, as well as numerous other factors, inevitably cause dislocations which result in much unemployment for many of the best workers. Nor have we found a cure for the most outstanding of all causes of unemployment--cyclical depressions. We may hope that, out of our present experience, we will develop machinery and policies which will render serious depressions less likely in the future; but it would be folly to assume that this is the last depression we will ever have.

Many workers suffer no unemployment whatsoever for long periods of time. Of all persons who, in December, 1932, had been insured under the British unemployment insurance system for at least eight years preceding, 2% had never drawn a shilling in benefits during this entire period. Yet any wage-earner runs the risk of losing his employment through no fault of his own. Few people, indeed, a quarter of a century ago expected that either the railroad or the coal industries would be on the decline by this time. No one can be certain which of the great industries will be the next to suffer a similar decline. Even while an industry flourishes there are always certain companies, or plants in certain localities, which go under. Only a minority of all plants operate with even reasonable steadiness.

Even in an economic system intelligently ordered to provide maximum employment, there is bound to be some unemployment. While not every worker suffers unemployment, there are always some workers who are unemployed. Any worker, however steady his habits,

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may, at any time, lose his job for any one of hundreds of causes. It is at least highly probable that in the future, as in the past, unemployment will continue to be the most serious hazard which threatens the economic security of the broad mass of wage-earners.

Unemployment insurance alone cannot meet this hazard for any group of workers. True, unemployment insurance, as distinguished from a "dole", is of limited duration, with benefits in definite proportion to contributions or length of employment. It is premised on contract, not on need. Unemployment insurance cannot solve the problem of the old worker who has lost his job and is unable to secure other work. In normal times, in industries which are declining, and in periods of depression in substantially all industries, many men with the best work records who become unemployed are certain to exhaust their contractual benefits. In England there are at this time more insured workers who are receiving "transitional" (uncovenanted) benefits than "standard" benefits. In Germany, eight times as many able-bodied workers are in receipt of "exergency" benefits or poor relief as are receiving "regular" unemployment insurance benefits. Unemployment insurance does not eliminate the necessity for relief or emergency employment. It affords limited protection only and it must often be supplemented. But unemployment insurance is for the regularly employed steady industrial workers a valuable first line of defense. Unemployment may not be an insurable risk in the sense that death, old age and accidents are definitely insurable risks. It is impossible definitely to forecast what the rate of unemployment will be in any industry and still less the hazard to any employee not merely of losing his employment, but also of being unable to find another job. It is possible, however, to create

reserves which can be drawn on when unemployment occurs.

At any given time our entire population must be largely supported from current production. It is impossible to store in periods of prosperity more than a very limited quantity of consumption goods to satisfy wants during periods of depression. What is possible, through the device of reserves, is to give to workers, who are currently not producing because unemployed, a legal title to a definite share in the current production. Reserves accumulated while employees are working to be paid out to them when they are unemployed are essentially savings, serving much the same purpose as other savings. In this depression, as in former depressions, individual savings have proven the salvation of many a worker who has lost his job. It is probable that in the aggregate, savings have furnished a larger part of the support of the unemployed and their families than the great expenditures for public relief. Even now, after five years of depression, only half of the unemployed are on relief. At this point the objection will be raised that what is needed, from a social as distinguished from an individual point of view, is spending by the wage-earners rather than saving. All savings necessarily represent a decrease in current consumption. Depressions result from insufficient mass purchasing power and this difficulty, it is argued, will be aggravated by the accumulation of unemployment reserves, particularly if the workers are required to contribute.

Granting a considerable element of truth in the mass purchasing power theory of the cause of depressions, this argument overlooks the fact that unemployment reserves may represent, not additional savings, but rather directed savings. Successful industries are always

piling up great reserves for all kinds of purposes. The regularly employed better class of wage-earners save vast sums in periods of prosperity. Even during this depression, large amounts are being saved by those wage-earners who are employed. True, the recent Brookings Institution study, "Our Capacity to Consume", indicates that in 1929 the total net savings of families in the lowest income group were negative -- the total amount spent exceeding the current income. Even among people in this group who, in any event, are largely outside of the unemployment picture, there are many who regularly save a part of their income through industrial insurance and other means.

A compulsory unemployment insurance system, with contributions from all insured employees, will undoubtedly represent additional savings for some of the insured workers. But for many it is likely to represent, in the main, merely one form of savings as compared with others which they regularly and voluntarily build up. It may even be that the net effect of unemployment insurance will be to reduce the total savings of wage-earners. Workers save primarily because of the uncertainty of the future. In giving wage-earners a degree and a sense of economic security they do not now possess, unemployment insurance may well operate to reduce the net total savings rather than to increase them. Similarly, the employer's contribution to unemployment insurance funds may, at least in part, come from monies which would otherwise be "saved" for other purposes.

During the period of the 20's, industry in this country enjoyed a great boom, while industry in England, if not depressed, (in the sense in which we have used this term since 1929) was distinctly

dull. England had unemployment insurance; we did not. In our period of prosperity, savings increased apace. Billions of dollars of workers' savings went into the purchase of homes, insurance, bank deposits or mortgages, bonds and even common stock equities. These savings did not prove altogether worthless when the depression came, but the realization upon them certainly fell far short of 100%. Total savings in England were far smaller, even allowing for the much smaller total production. As it actually worked out, unemployment insurance in England did not lead to the piling up of any large reserves. The contributions collected went almost immediately into current consumption. They operated to keep large numbers of the unemployed somewhat above the mere subsistence level of relief and thereby tended toward increased consumer purchasing power.

Professor Alvin H. Hansen of the University of Minnesota has recently estimated that if a nation-wide unemployment insurance system had been in operation in this country throughout the seven prosperous years from 1923 to 1929, with 4% contributions, a four week's waiting period, and a \$15 per week maximum benefit, the actual reserve accumulated by 1929 would have amounted to a little less than four billion dollars. This is a very substantial amount, but not a large percentage of the total savings during this period. How much of this four billion dollars would have represented additional savings and how much merely directed savings is debatable.

In any event, the net effect upon total savings would have been slight. Had unemployment insurance been in operation during the prosperous 20's, it is doubtful whether it would have had any great effect either on mass purchasing power or on general business conditions.

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It would, on the other hand, have been very beneficial to many workers during seasonal lay-offs and still more to the workers in declining industries. Coal miners, even in the boom period, experienced prolonged unemployment. It is at the onset of the depression, however, that the chief value of the unemployment reserves would have been demonstrated. Four billion dollars of reserves converted into unemployment compensation payments would have unquestionably had a pronounced effect toward sustained purchasing power in the period of decline. Whether, as a result, our present situation would have been better, no one can positively say; but, as a minimum, workers' savings would have lasted just that much longer.

The foregoing description of what might have resulted, had we had unemployment insurance in the 20's, assumes the investment of unemployment reserves in such a way as actually to be available when needed and capable of liquidation, when the depression set in, without increasing deflationary tendencies. This is a vital point in the consideration of any unemployment insurance system. Unemployment reserves which are so invested as to be no more liquid, in a crisis, than savings put into real estate or no more secure than savings invested in securities, are of no real help in meeting a depression. But it is certainly possible to avoid investing unemployment reserves in this manner. This is a point which President Roosevelt has thoroughly grasped. In speaking of unemployment insurance today, he has been specific only upon two points: he favors a nation-wide (although not necessarily a nationally administered) unemployment insurance system and he has made it very clear that he wants all reserves to be within control of the

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same agency which is responsible for the credit policies of the country.

Reserves as large as those which might have been built up in the 20's, while relatively unimportant as compared with the total volume of savings, bulk large in their possible effects upon the monetary situation. The sudden uncontrolled liquidation of several billion dollars of reserves might well offset all attempts of the national government to maintain the credit structure. Handled as President Roosevelt suggests, however, any such possibility is guarded against as completely as is humanly possible. Barring unintelligent handling of the funds by the controlling board, these reserves can be made a valuable stimulus to expansion, when expansion is in the public interest and can be used to check inflation, when such a policy becomes desirable. In times of depression, the funds can be liquidated (through purchase of the securities held by the Treasury or the reserve banks) in such a way, that not only will every dollar of the funds be available, but so that deflationary tendencies will be counteracted and the purchasing power of the wage-earner sustained. If this can be done--and there is no reason why it cannot be done--unemployment insurance becomes equally as important to the general public as it is to unemployed wage-earners themselves. Although it is not a solution of the problem of the business cycle, unemployment insurance can be made a factor of considerable value in maintaining economic stability. Intelligently handled, it will benefit the merchant, the professional man and the farmer, as well as the wage-earner.

What are the effects of unemployment insurance upon the employers? Initially, at least, it will probably increase costs. In

this connection it should be noted, however, that even without a formal unemployment insurance system, most employers make some payments to their employees which amount to a haphazard unemployment compensation. Old employees are retained for long periods after their services are not really needed. In this depression many large firms and some small ones have been paying a dismissal wage of some sort to employees they have been forced to discharge. The total costs of such haphazard types of unemployment compensation may well approximate the cost to employers of a genuine system of unemployment insurance, with fixed conditions and regularized benefits. Unemployed wage-earners and their families must be maintained by someone. The costs of their maintenance, if not derived from industry, can come only from their savings or those of their relatives and friends; or from private or public relief. The latter has become a tremendous burden which must ultimately be paid through taxation; and it is industry which will have to bear a large part of these taxes.

Unemployment insurance, if developed along the right lines, may actually mean reduced costs in the long run. Such a result is to be expected if it encourages the regularization of industry. Unemployment insurance in England has had little, if any, effect in this direction and prior to the correction of the so-called "anomalies" in 1931, actually operated to subsidize irregularity in some industries. But this is not a necessary result of unemployment insurance. Where the individual employer has to pay all or a substantial part of the benefits to employees whom he discharges, a strong incentive is created to eliminate all avoidable turn-over.

Employers cannot possibly eliminate all irregularity in employment, nor even the major part of irregularity, but they can do something, as evidenced by the greatly varying rates of turn-over among different plants in the same industry.

Unemployment insurance should not be considered a cure-all. There is quite as much danger in over-stating its values as in refusing to consider its merits open-mindedly. It will directly benefit perhaps half of the population of the country. It does not afford complete or unlimited protection, even for those who come under its provisions. It is, however, of great value, particularly to steady, regularly employed industrial workers who are unemployed for short periods because of seasonal lay-offs or any of the other numerous minor industrial disturbances. It can be of service to them, also, in the early stages of a depression. It is of value to the general public because it serves as a first line of defense for the largest group in our entire industrial population. Correctly handled, it can be made to operate toward stability and sustained purchasing power.

Unemployment insurance does not eliminate the need for other measures for economic security and it in no sense conflicts with them. Increased industrial production is, at this time, more vital than any other need; and all measures for economic security must be timed so as not to impede recovery. Emergency employment programs will always be necessary when there is much unemployment, whether we have unemployment insurance or not. Old age pensions and mothers' pensions serve entirely different groups in the population. Unemployment insurance on a national scale will stimulate rather than retard the

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enactment of those additional measures which are necessary to give the individual a reasonable degree of protection against the many hazards in our modern economy.

At this stage our entire population--or at least a large part of it--has reached a point of emotional exhaustion where it is looking for a panacea--a simple formula--which will solve all of its present problems. The problems confronting us, however, are too complex to be solved by any one remedy. A great variety of measures are necessary to meet the complex unemployment and relief situation and to give our people an adequate degree of economic security. Unemployment insurance is only one of the many steps necessary to this end, but one which is urgent and most valuable. Failure to act now on this essential step toward more complete economic security would be inexcusable. The consequences would very likely be legislation much more costly to industry and far less sound in principle.

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