

Industrial Relations and Social Security

Canadian Unemployment Insurance in the Light of Foreign Experience

By P. WAELBROECK

BY adopting the Unemployment Insurance Act of August 7, 1940, Canada lined up with the countries which had considered it necessary, in increasing numbers during the last twenty years, to introduce a compulsory system of State provision for the unemployed.

At first sight it may seem surprising that a country should introduce a reform of this kind and undertake the financial obligations involved, at a time when the prosecution of the war requires it to exploit all its resources and when the openings for employment created by the war have removed the problem of unemployment from the field of immediate and pressing concern. But the Canadian Government and people understood that it was necessary to look to the future. The memory of the last post-war period is alive in the minds of all the workers. They know that after the feverish activity of to-day, which is directed wholly towards meeting the requirements of the struggle, the end of hostilities will bring about a radical change of industrial structure; and although it is to be hoped that this time the Governments will take steps to alleviate the effects of this change on the employment market, it is inevitable that the worker who is invited to-day to make every effort for the national

defence, and consequently often to change his employment and even his occupation, will not respond to the appeal with the same fervour if he does not possess some guarantee that he will be protected later against the unemployment to which such changes expose. As the Minister of Labour stated in the House of Commons on July 16 last: "The surest foundation on which to base democratic Government is a happy and contented people. Nothing militates more against happiness and contentment than fear. By this measure fear will be removed to some extent from 4,600,000 of the Canadian people . . . This done, it will be recorded of the present generation that at a time when we were bending every effort and endeavour to overcome the enemy at our gate we were not unconscious of our duty and our obligation to promote the welfare and happiness of our own people."

In support of the reform, these lofty social considerations were backed by altogether practical considerations of economic policy. For some twenty years, and especially since the great depression of 1929 to 1932, there has been much talk of the methods of diminishing economic fluctuations, and it has been generally agreed that unemployment insurance, by moderating the purchasing power of the masses in boom periods and maintaining it at a certain level in unemployment periods, has a useful stabilising influence. At the present time the fundamental economic problem which every country at war has to face is that of financing the war, and this problem is connected with the problem of prices. Disequilibrium between the purchasing power of the population, as stimulated by economic activity, and the production of consumers' goods, as restricted for the benefit of armaments production, must be prevented in order that there shall not be a spiral rise of wages and prices which would

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undermine the foundations of the financial structure of the country. The solution is to divert purchasing power from private consumption into channels promoting national defence. To this solution unemployment insurance makes a useful contribution, since it withdraws from private consumption the money paid into the insurance funds. As was stated before the Committee of the House of Commons by the Economic Adviser to the Dominion Department of Finance, owing to unemployment insurance, "about four million dollars would become available each month for investment in Government securities, money which would otherwise have to be drawn by taxes or loans." The purchasing power set aside to-day in this way is by no means lost to the insured population; it will be restored to them later in the form of benefits, and will help after the war to break the force of any effects of unemployment on consumption. Lastly, from the point of view of the actual working of the unemployment insurance system, the present time is particularly propitious for introducing the system, since the increasing activity on the employment market provides a favourable basis for the initial period of operation of the scheme by making it possible to accumulate sufficient reserves before the claims for benefit have assumed considerable or even only normal dimensions.

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Although war conditions made the adoption of the Canadian Unemployment Insurance Act particularly significant, the Act itself has not been influenced at all by these conditions. It is by no means an emergency measure, but has been conceived as a lasting factor in the social organisation of the country. The hostilities have no doubt had the result of hastening its adoption, but the scheme had been under consideration for several years, and it is in the light of the permanent needs of the country that its main features were fixed. Without entering into detail as to its provisions, it may be indicated briefly how the Canadian system compares, in fundamental respects, with similar systems adopted in other

countries and with the principles laid down in the International Labour Convention of 1934.

The first distinctive feature of the Canadian Act is that it introduces a single national system of unemployment insurance, notwithstanding the federal Constitution of the country. In this respect it is a departure from the precedents set by other federal States which have introduced unemployment insurance, such as Switzerland and the United States, where the federal authority has confined itself to stimulating the introduction of separate insurance schemes in conformity with certain prescribed standards. Experience has shown that, however active such federal intervention may be, this method is unable to prevent differences, which are sometimes substantial, between the benefits to which insured persons are entitled in different parts of the country, the result being a dangerous insecurity in the rights of the insured and an obstacle to the mobility of labour. It has also shown how much time is needed to bring insurance systems which are set up separately into line with each other, and to remove divergencies and inequalities once they have been created.

The Canadian Government has aimed at averting these difficulties and complexities at the outset by introducing at once a single insurance system, applicable uniformly throughout the country. It was for this reason that in 1935 it caused the Dominion Parliament to adopt a first Act introducing a national unemployment insurance system, and that after the Act was declared unconstitutional by the Judicial Committee of the Privy Council in 1937, it decided to invite each of the Provinces to consent to an amendment of the Constitution which would give the Dominion Parliament the necessary authority to legislate on unemployment insurance, in preference to encouraging the introduction of separate systems by the Provinces. The procedure threatened to be long. On the eve of the outbreak of war the consent of three Provinces was still lacking.

There can be no doubt that for the reasons already indicated the circumstances of the war helped to overcome the final resistance and to give the federal authorities the powers they needed. The method chosen has perhaps taken some time to carry out, but by enabling Canada to organise an unemployment insurance system from the outset on a national scale it will prove of lasting advantage.

Not all the workers of the country are included in the scope of the Act of August 7, 1940. It is estimated that the number who will be covered by insurance will be 2,100,000. The exceptions for which the Act provides are to be found in one or more of other unemployment insurance systems and are covered by the provisions of the International Convention of 1934. They may be divided into three main groups. In the first place, there are the workers for whom unemployment is not a risk calling for special measures, either because they enjoy security of employment—the typical case is that of public officials—or because their earnings are high enough for them to be able to cope with the effects of any unemployment themselves. At the other end of the scale there are the workers for whom unemployment is such a serious risk that it is not considered possible to provide against it by the same measures as those applicable to the unemployment of other workers; this is the case for casual or seasonal workers. Lastly, there are the workers whose employment is of such a nature that it is considered not to lend itself to the supervision without which an insurance system cannot work. This is the reason why home workers and domestic servants, for example, are often excluded from unemployment insurance schemes, and it is sometimes put forward to justify the exclusion of agricultural workers.

The fact is, however, that these various groups are not excluded in the same way by all unemployment insurance laws; from which it may be concluded that the obstacles to their inclusion are

not as absolute as is sometimes supposed. Undoubtedly the special circumstances of each country must be carefully considered. Undoubtedly, too, the insurance of a particular group against unemployment may call for special measures; in Great Britain, for example, the unemployment insurance of agricultural workers was effected in 1936 by the introduction of a special scheme. And again it has undoubtedly been considered preferable as a rule to simplify the initial application of unemployment insurance by limiting it at first to those groups where the difficulties of administration and supervision would be smallest. It is therefore not surprising that the Canadian legislation allows for substantial exceptions to begin with. But the Act itself contemplates the gradual extension of the scope of insurance. The Unemployment Insurance Commission, which is responsible for the administration of the Act, may make regulations to include or to exclude limited groups of workers in certain employments if experience under the Act indicates that this is advisable. Moreover, it may recommend the establishment of supplementary insurance schemes to cover workers now in excluded employments. Special regulations may be made for casual and seasonal workers, number of whom is, for climatic reasons, particularly large in Canada. Thus the way has been left clear for widening the scope of the insurance system once the difficulties inherent in any new institution have been overcome.

Like every other unemployment insurance Act, the Canadian Act contains a set of provisions defining the conditions on which benefit may be claimed and the reasons for which the claim is forfeited. Without dwelling in detail on these rules, which vary from country to country, and for which the International Labour Conference decided in 1934 that the Convention should not contain precise regulations but that only certain recommendations should be adopted, it will be sufficient to mention that the Canadian Act does not make the right to benefit

subject to a means test, thus complying with the insurance principle as defined, in contradistinction to the relief principle, in the 1934 Convention.

For the purpose of fixing the benefit period, the Canadian Act goes further than other similar legislation in its attempt to take into account both the benefits already paid to the insured person and his periods of employment during the preceding years. A worker who becomes unemployed is entitled to one day's benefit for every five days' contributions paid by him in the five years preceding his benefit claim, less one day's benefit for every three days' benefits received by him during the previous three years. The object of taking a longer period than the benefit year into account is to level out fluctuations which would otherwise occur in the period of benefit. The system also means that workers who have not suffered much unemployment in the preceding years are secured a comparatively long benefit period; a worker who becomes unemployed after having been employed continuously during five years can count on a full year of benefit. On the other hand, it must be observed that for workers who are frequently exposed to unemployment, and whose need of protection is therefore particularly great, there is a risk that the benefit period may be rather short.

As regards the amount of benefit, a choice had to be made between the two systems that are to be found in other countries. The first, which is in operation in Great Britain, is that of benefit at a flat rate irrespective of the insured person's earnings. It has the undoubted advantage of simplicity, but the drawback of not taking the insured person's previous standard of life into account. If the worker previously earned high wages, the benefit he receives is not sufficient to prevent a serious curtailing of his resources. For low-paid workers, on the other hand, the flat rate always raises a problem of over-insurance. Hence the general tendency to reject the flat rate system and to grade benefits according to the unemployed worker's previous

wage. The first (invalidated) Canadian Act of 1935 had adopted the flat rate system, but in 1940 it was decided to change to the graded system. On the other hand, the example of those American laws which make the benefit exactly proportionate to the wages actually earned during a specified period was not followed. To this method, which calls for a detailed system of individual accounting, the Canadian Government preferred the wage class system which several countries have adopted as a compromise. Here the insured persons' earnings are grouped in wage classes and the rate of benefit is graded according to these classes.

The wage classes used for fixing benefit rates also serve to define contributions. In the Canadian system these are paid by both employers and workers, as is usual in most foreign systems, though not in the majority of the special laws in the United States, under which the employers alone contribute to the financing of the insurance scheme. An interesting and original feature of the Canadian system is that the grading of contributions according to wage classes is fixed differently for employers and for workers, so that the lower paid workers contribute at a lower rate than their employers, the reverse being the case for the higher paid workers. The object of this method, which is clearly inspired by social considerations, is to make the burden of insurance as light as possible for the workers who are least able to bear it.

As regards the contribution of the State to the financing of the insurance scheme, the Canadian system has, so to speak, compromised between the British and the American systems. Whereas the former provides for the payment by the public authorities of a contribution equal to the employer's or worker's contribution, so that one-third of the total burden is met by the State, in the United States the Federal Government merely grants an annual appropriation to meet the administrative expenses of the insurance fund in each State and all but one of the special laws make no provision for a contribution from the public author-

ities. The Canadian Act provides that the Dominion Government shall add to the employer's and worker's contributions a sum equal to one-fifth of the combined total. In addition it bears the entire cost of administration, with the result that the total share of the Government is about twenty-three per cent of the cost as compared with the British thirty-three and a third per cent.

A last fundamental feature of the Canadian system which in the present circumstances calls for special attention is the democratic nature of its administration. The National Unemployment Insurance Commission which is responsible for the administration of the Act consists of three members, two of whom are appointed after consultation with the employers' organisations and the workers' organisations respectively. The Commission is assisted by an Advisory Committee of four to six members, who must include at least one representative of employers' organisations and one representative of workers' organisations. Similarly, the members of the courts of referees set up to deal with insurance claims are chosen from panels of representatives of employers and insured workers. Thus the principle of "the participation of representatives of the contributors in the administration of insurance schemes" which was recommended by the International Labour Conference in 1934 is very widely observed. In fact, as was stated by an expert in the Dominion Department of Labour, "Practically the whole of the administration . . . will be in the hands of representatives of employer and employee, who pay by far the larger proportion of the fund . . . Because you have employer and employee sitting in on the administration . . . we are going to get a fairly sound and efficient administration."

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Although this comparison of the Canadian unemployment insurance system with the systems of other countries is a mere sketch, it cannot be concluded without at least a reference to two related problems.

No insurance system is sufficient by itself to protect the workers against the consequences of unemployment. It has been seen that certain classes of workers are usually excluded from the scope of such systems, and that a maximum limit is always set to the benefit period. In the Canadian system, the excluded groups will be comparatively numerous during the initial period of application and the benefit period is comparatively short for workers who are exposed to frequent or prolonged periods of unemployment. Most countries which have introduced unemployment insurance systems have supplemented the protection so given to the worker by assistance systems, which are planned and administered in close co-ordination with the insurance system. The Recommendation adopted by the International Labour Conference in 1934 expressly provides that "in countries in which compulsory or voluntary unemployment insurance is in operation, a complementary assistance scheme should be maintained to cover persons who have exhausted their right to benefit and in certain cases those who have not yet acquired the right to benefit; this scheme should be on a different basis from the ordinary arrangements for the relief of destitution." For some time the need of such a scheme has been stressed in Canada; and it is to be hoped that, in agreement with one of the recommendations made in the Sirois Report, the Dominion will be given the necessary powers to introduce a national assistance scheme which, when co-ordinated with the insurance scheme already in operation, will give the workers full protection against the consequences of involuntary unemployment.

Further, it is impossible to imagine that an insurance scheme will be efficiently applied if there is no collaboration and co-ordination with a national employment service, able to reduce the cost of insurance by seeing that employers in search of labour and workers in search of jobs are brought into touch with each other as rapidly as possible and by checking the involuntary character of the unem-

ployment of persons applying for benefit. This necessity was fully realised in Canada, and one part of the Unemployment Insurance Act is devoted to regulations for reorganising the placing system on a national basis. This is unquestionably the part of the Act which calls most urgently for application to-day, not only because the condition is one that must be satisfied before any insurance scheme can work properly, but because the war raises difficult problems of labour supply which can hardly be solved in the absence of a well equipped and co-ordinated service, able to take the initiative and carry out the supervision necessitated by that development or regulation of placing operations and vocational training which is needed in consequence of the expansion of national defence industries. An efficient employment service, in day-to-day contact with economic facts and enjoying the trust of employers and workers, will also render inestimable service after the war, especially for the readjustment of the employment market to peace-time conditions.

In conclusion, a last observation is called for. Reference has been made above to the arguments in favour of introducing unemployment insurance at the present moment. Certain critics reject these arguments. They attack the actuarial bases of the Unemployment Insurance Act. Some of them go so far as to assert that the introduction of this system is inopportune to-day because unemployment will disappear before the end of the war and after the war the crises will be such that the reserves which have been accumulated, will be insufficient to prevent a financial collapse of the system. As regards the immediate future, it may be replied that the war creates unemployment as well as openings for employment, and the British example shows that, in spite of a highly developed organisation of the employment market, workers who lose their employment in non-essential industries need to be insured against the unemployment to which they are exposed before they are re-absorbed by essential industries. As to

what will happen after the war, a discussion of the actuarial problem is out of place, for the reply to these criticisms lies elsewhere. If after the war the economic system is left to itself, if nothing is done to help it to find out what its new structure ought to be and to make the necessary adjustments, then it may safely be predicted that unemployment will assume catastrophic proportions, upsetting all actuarial calculations and reducing the available reserves to insignificance. But if, on the contrary, social progress, that is to say, the improvement of the material, moral, and intellectual conditions of the population, is considered as important a matter in peace as the victory of arms in war, if the transformation of the economic system to the service of this end is prepared as carefully and its reorganisation pursued as energetically as is the case to-day for the adjustment of industry to national defence needs, there is every reason to hope that unemployment will be kept within such limits that unemployment insurance, co-ordinated with a reasonable unemployment assistance scheme and supplemented by an active and experienced employment service, will be able to fulfil its purpose adequately.

Wartime Wage Policy

With commodity prices and profits already controlled on a wide scale the government of Canada has now taken action to control wages, the other factor in the inflationary spiral. The Order in Council (P.C. 7440) issued on December 16 is an attempt to maintain basic wage standards but to limit increases to a necessary adjustment to changes in the cost of living. To attempt to set wages arbitrarily would involve administrative difficulties and deprive organized labor of the fruits of collective bargaining. So, the assumption is made that wage rates already in existence are fair and reasonable, and should be used as a measuring rod.

The standard chosen is the general level which prevailed during the period

1926-29, or any higher level established since that time. This standard is to be regarded as the general level in existence at that time and exceptions are made for cases where it can be clearly shown that a wage was either abnormally high or low. In these cases a Board of Conciliation may decide on a rate that it considers fair and reasonable. If the 1926-29 wage is higher than present levels the Board may prevent its restoration and limit wage increases in this case to 5 per cent per year. The Order also provides that no reduction should be made in wages in effect at the date of issue and that provincial minimum wage standards shall be regarded only as minimums.

While this basic wage rate is not to be changed, provision is made to protect the workers against rising costs of living. The measurement used is the new cost of living index prepared by the Dominion Bureau of Statistics, with any regional adjustments that may be required. When this index shows a rise of at least 5 per cent since August, 1939, the workers are entitled to a cost of living bonus. This bonus shall be adjusted not more frequently than quarterly and shall be increased only if the rise in cost of living since the last adjustment has been 5 per cent or more. With the fact in mind that the burden imposed by rising prices varies inversely with income the bonus was made a flat amount per hour or week, uniform for all workers.

This legislation is aimed only at protecting a basic standard of living and of course leaves a wide range of matters to be dealt with by employers and employees. There are, however, several general stipulations made. The most important is that any suspension of working agreements regarding hours, working conditions, overtime, etc., shall be regarded as temporary, applying only for the duration of the emergency. Any such suspensions or departures from trade practices must be recorded with the Registrar of the Industrial Disputes Investigation Act. These records are designed to facilitate the restoration of the conditions after the war.

The Order in Council is designed as a guide for the Boards of Conciliation set up under the Industrial Disputes Investigation Act. It applies, therefore, only to industries coming within the scope of the Act. Those included are:

1. Industries engaged in work affecting munitions of war, supplies, or defence projects.
2. Industries employing ten or more persons and providing transportation, communication or public utility services.
3. All industries in which the parties to a dispute agree to ask for a settlement under the Act.

The definition of "munitions of war," "supplies" and "defence projects" is a very inclusive one and if this wage policy is adopted in all such industries it may well be considered the policy governing the industry of Canada as a whole.

Comments on Mining in Nova Scotia

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in the province. If the war continues and the other sources become limited, some activity in Nova Scotia is to be expected. The province has been collecting data and making surveys and examinations of the possible resources so that when the demand for any mineral product comes, the location and geological facts which are known will be available. Those in the province responsible for the natural resources are in close touch with the Dominion authorities who deal with the supply of raw materials.

Nova Scotia has been fairly carefully prospected but not by any means completely. Within the year a deposit of barytes has been proven and there are excellent chances of finding other mineral deposits. The old geological survey sheets should be studied. Everything that one sees in the fields and woods should be looked at critically. If it is unusual, the finder should try to determine its nature.

Keen observation on the part of all, with honest interpretation on the part of the professional man, will place the mining industry of any province on a sound footing.