

The Meaning of Unemployment Insurance

By L. RICHTER

WHENEVER measures for improving the lot of the unemployed are discussed in Canada, unemployment insurance is the first to be mentioned. Indeed, Canada would have enjoyed a comprehensive system of unemployment insurance since 1935 if Mr. Bennett's Employment and Social Insurance Act had not been declared *ultra vires* by the Privy Council in 1937. It is also well known that the present government has made repeated, though so far unsuccessful, attempts to overcome the constitutional difficulties through negotiations with the provinces. Unemployment insurance therefore is on our doorsteps and we are well advised to make ourselves familiar with its meaning.

There is nothing mysterious about unemployment insurance if we examine it closely. It is an application of the old saying that you must save in good times if you want to have a reserve in times of need, but saving is on a mutual and also on a compulsory basis. The amounts saved by the workers, increased by contributions of employers and government, are pooled. From the fund thus accumulated benefits are paid to those members of the group who become unemployed. Naturally this fund cannot pay more in benefits than it has received in contributions. In a genuine insurance scheme whether private or public, the fund must be self supporting and collection and distribution of money must be based on strict actuarial principles. These principles are, however, in the case of unemployment insurance, not so easily found as for instance in life insurance. Mortality rates can be estimated more readily than future unemployment. Proper safeguards have therefore to be taken to protect the insurance

fund and this is done in three ways: by a careful selection of the groups eligible for insurance, by a fixed proportion between contributions and benefits and by a limitation of benefit periods.

All these safeguards were contained in Mr. Bennett's Act of 1935. Industries of a seasonal character such as agriculture, fishing and water transportation, industries which are of considerable importance in the Maritimes, had to remain outside the insurance scheme. They would too easily have invited abuse. There is, for instance, the problem of the farmer's son who helps on the farm during the summer and for whom there is not enough work in winter time. Naturally legislation would not allow him to draw benefits during the slack period. But experience in Europe has shown that it is possible to get around such provisions. Some European acts did allow unemployment benefits for agricultural labourers who did not work on their parents' farms. The result was that cunning farmers in the spring exchanged their children so that they might qualify for benefits in the fall. England has recently introduced a special insurance scheme for agriculture with contributions and benefits lower than in the general scheme and with special regulations adapted to the peculiar needs of agriculture. It has worked very well and seems to point to a way out of the difficulties.

As seasonal occupations are excluded from the scheme so are workers with unfavourable employment records not entitled to benefits. In order to be eligible for benefits a worker must have been employed for at least forty weeks in the two years preceding his application and must have paid contributions during that period. This device eliminates another group of bad risks.

But probably the most important safeguard is the limitation of benefit periods.

EDITOR'S NOTE: The above article is part of an address given by Professor L. Richter of Dalhousie University at the Annual Convention of the Union of Nova Scotia Municipalities at Bridgewater, August 29th.

Benefits are only payable for a certain number of days corresponding to the number of contributions made even although the insured person might not have been able to find a job during this period. It would be a great mistake to believe that it is the task of unemployment insurance to provide the insured with the necessities of life while he is unemployed. According to the 1935 Act the average worker would have been assisted for no longer than thirteen weeks.

If we try to find a short formula for all these regulations, we may say that unemployment insurance is a device intended to assist the normal worker with a good employment record over a limited period of enforced idleness, or, as Sir William Beveridge once put it, to tide over those persons who can expect to be re-employed in their old industry after a short spell of unemployment. If an insurance scheme undertakes to do more, if it disregards the safeguards necessary for its stability, if it increases benefits and extends benefit periods irrespective of the number of contributions paid previously, then a financial catastrophe is unavoidable, as happened in England in 1931. The Canadian legislature has been aware of this danger and has in its 1935 Act embodied all the safety devices discussed here, following the example of the British reform legislation of 1934 which drastically reorganized the finances of the British Insurance Fund.

What effects then will an insurance scheme as we have described it have on the unemployment problem as it exists at present in Canada? To give an answer we must differentiate between recipients of unemployment relief assisted by the municipalities and other unemployed persons. For an examination of this question we shall use the statistics published by the Department of Labour for September 15, 1938, as they are given for that date in greater detail than for later periods. The situation moreover has not changed very considerably.

At that date 132,000 heads of families and individual cases received relief from

Canadian municipalities—including their dependents, 604,666 persons. The municipalities expect that a large proportion of these persons will be taken care of by unemployment insurance. How far is this expectation justified? Of these 132,000 cases, 22,000 were partially employable and 19,000 unemployable. Since beneficiaries of unemployment insurance must be fully fit for work, it may be anticipated that only a small fraction of these persons will qualify for benefits under an insurance scheme.

The remaining 91,000 cases will only be eligible as far as they have been employed for forty weeks in the two years preceding their application for insurance benefits and as far as they have not already been assisted more than three months. Available statistics furnish us with full information as to the effects of the latter requirement. For the Dominion as a whole 70,428 cases, or 78 per cent, would be out, as they have been on relief 3 months or longer, leaving only 22 per cent of present relief recipients as candidates for insurance benefits. The percentage is even lower in Quebec, with only 15 per cent owing to extended chronic unemployment in Montreal, while for Nova Scotia the figures are more favourable—namely 38 per cent. But even from these small groups of people assisted for less than three months, only those would be eligible for insurance benefits who can satisfy the other statutory requirements, especially forty weeks employment in the two previous years. Statistics in that respect are naturally lacking for Canada but the British experience showing that half of all applications for insurance benefits have to be turned down, may be helpful in arriving at some estimate. Considering that we have already made allowance for persons who are not fully employable or have exhausted their claims, a reduction of one-quarter may be justified. In that way we arrive at the conclusion that in spite of unemployment insurance 85 per cent of present relief cases would be left on the relief registers of Canadian municipalities.

Let us now examine the effects of insurance on the unemployed who are not on the relief rolls.

If Mr. Bennett's Act had not been declared unconstitutional, at least 1.7 million wage earners would be covered by unemployment insurance on the basis of the 1931 Census.

According to the Bureau of Statistics, unemployment among wage earners was 15.1 per cent in 1938. It may further be assumed that again making use of British experience, 50 per cent of the unemployed would have qualified for benefits. Under these assumptions there would have been in Canada 128,000 recipients of insurance benefits in October 1938. Of that number 13,000 to 14,000 would be identical with relief recipients, while the remainder, about 115,000, would have lived upon their own resources if insurance did not exist. It is true that they would get their benefits in return for their previous contributions paid into the insurance fund, but employers and the Dominion would also have to make considerable payments as is the case in Great Britain. However, in contrast to that country a much smaller part of the total number of unemployed would be taken care of by the insurance fund owing to a

higher percentage of long term unemployment in Canada.

Let us then sum up. It must be clearly recognized that introduction of unemployment insurance will not be a solution of the present relief problem. It will no doubt be of considerable benefit for certain groups of industrial workers, especially those with favourable employment records. It will help them to keep up their standard of living during periods of short unemployment. It will preserve their purchasing power during that time and at the same time help to prevent too sudden a decline of prices. It will preserve the self respect of the unemployed by giving them a statutory right to benefits and not subjecting them to the degradation of a means test. But the persons enjoying these advantages will not be identical with those who at present and for a good many years to come are the rank and file of the people on relief. The sums paid into the insurance fund will not reduce the outlay for relief to any appreciable extent. The difficulties of the workers replaced by the machine, the problem of the young men and women who have never been gainfully employed, the tragedy of the older man who is not acceptable to the employer: they will be the same as they are at present.

Handicrafts in New Brunswick

By S. E. HAYES

LATE in 1937 the Department of Education of the Province of New Brunswick inaugurated a program of extension service and adult education under the Dominion-Provincial Youth Training Scheme. Its purpose was to give practical training to young men and women between the ages of 16 and 30, who were unemployed and necessitous.

The program decided upon for young

women of rural New Brunswick embraced training in the field of handicrafts— weaving, clothing and related crafts and art education—the theory of design and color. This last subject was considered very important since the value of handwork depends not only upon its durability and technical value but upon its esthetic qualities as well. Today, fashions decree that the well-dressed person be clothed according to type, design and color suitable to the individual. The art training provides this requirement.

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