CABINET.

UNEMPLOYMENT INSURANCE BILL.

MEMORANDUM BY THE MINISTER OF LABOUR.

1. As my colleagues are aware, it was indicated in the King's Speech at the beginning of this session that the Government would introduce an Unemployment Insurance Bill. This Bill was intended to amend the system of unemployment insurance on the lines recommended by Lord Blanesburgh's Committee. The Committee presented a unanimous report on the 31st January, 1927, and a Bill based on its recommendations has been drafted.

2. The Draft Bill, with the exception of the clause relating to contributions, has been considered by the Home Affairs Committee and received general approval, though one or two minor points are outstanding. The question of contributions has been considered by the Standing Committee on Expenditure, which, however, did not take a decision beyond recording their view that there should be no increase of the Exchequer contribution above the existing figure of 6d.; the general question was left for further discussion between the Chancellor of the Exchequer and myself.

3. The Chancellor and I have been unable to come to an agreement, and, with the Chancellor's concurrence, I now ask the Cabinet for a decision on the question of the Exchequer contribution.

4. Under the existing law the weekly contributions for men—I confine myself to men's contributions for the sake of simplicity—are 8d. from the employer, 7d. from the employed and 6d. from the Exchequer. At the end of the "deficiency period," i.e., when the debt of the Unemployment Fund is paid off, the Exchequer contribution is to be 3/7ths of the combined contributions of employers and employed, and the maximum contributions are to be 6d. from the employer, 6d. from the employed, and 5 1/7d. from the Exchequer.

5. The Blanesburgh Report adopts the principle of "equal thirds," i.e., equal contributions from the three parties, employer, employed and the Exchequer, and contemplates an ultimate contribution of 5d. from each. The Chancellor and I had an interview with Lord Blanesburgh to ascertain from him what importance he attaches to this proposal. Lord Blanesburgh made it quite clear that it was an integral and essential part of the Committee's recommendations and that, in other words, the Government could not claim to be carrying out the Report if they did not adopt this proposal for the permanent scheme under the Bill.

6. The present Exchequer contribution of 6d. is the result of a heavy cut made in the Economy Act of last year, on the basis of an estimate of future unemployment which was completely falsified, principally owing to the coal dispute. The result was a great increase in the debt of the Unemployment Fund (from £7,138,000 on the 30th April, 1926, to £24,010,000 on the 20th May, 1927). I am not pressing for any extra contribution from the Treasury to meet the present deficit of the Fund. However good the claim that I might make on other grounds, I recognise the stress of the financial situation, and accept the recommendation of the Standing Committee on Expenditure that there should be no increase in the present Exchequer contribution. The basis of contributions, however, under the permanent scheme proposed by the Blanesburgh Committee is an entirely separate matter. Owing to the transitional period it will not affect the Exchequer at all one way or the other during the lifetime of the present Parliament. I do, therefore, press that, in order
to get rid of the present system of extended benefit and to secure the other reforms recommended in the Blanesburgh Report, we should, while making no increase in the Exchequer contribution, accept the principle of equal thirds as the permanent system in the Bill.

7. It may be said that a Bill containing all the other Blanesburgh proposals could be introduced and carried and the omission of “equal thirds” depended on the usual ground of public economy. I do not think that this is practicable. A Bill carrying out the Blanesburgh proposals will no doubt be opposed, but once it is carried it will be accepted, I believe, as a practical settlement for a good many years to come. A Bill omitting any of the essential proposals—and it is clear that “equal thirds” is one of these—will release all those critics who might otherwise have been disposed to accept the Blanesburgh compromise, and, so far from effecting a settlement, will merely serve to keep the Unemployment Insurance system in the arena of party politics. Lord Blanesburgh quite independently came to the same conclusion, as a result of his enquiries: That the principle of “equal thirds” formed a platform on which moderate Labour opinion would be glad to make a stand and which employers would accept, and was the only one which possessed a likelihood of permanence.

8. If instead of adopting the Blanesburgh scheme we go on with the existing system of extended benefit, the Exchequer contribution is likely to remain at 6d. (or round about £12,250,000 annually) for an indefinite number of years, but some day or other, when employers and employed come down to 6d. each, the Chancellor will come down to 5s. 1d. and thus save £1,750,000 per annum. Under the Blanesburgh proposals there will be substantial reductions in expenditure as soon as the scheme comes fully into force, and, as I should expect, employers and employed would at no distant date come down to 6d. each, while the Chancellor still remained at that figure; although the Exchequer would have gained nothing directly, the relief to industry by the reduced contributions of employers and employed is surely worth a good deal, even to the Treasury itself. Further than this, the Blanesburgh Committee, basing themselves on the Government Actuary’s Report, expect that before very long a contribution of 5d. all round will be sufficient, and the Chancellor will then have gained a clear 1d. or over £2 million per annum.

9. I gather, however, that one of the main difficulties which the Chancellor fears is the possible reaction on the Exchequer contribution to the Health Insurance Scheme. That contribution also was reduced by the Economy Act and is now fixed at a proportion approximating to 1/6th of the amount of benefit paid and administrative expenses, other than certain central administrative expenditure which is charged wholly to the Exchequer.

10. I appreciate the difficulties which the Minister of Health has had to face in dealing with the Approved Societies, and I sympathize with him, as I have had similar troubles in tightening-up the existing administration of Unemployment Benefit. The danger, however, of the vested interests which have been allowed to grow up in the Approved Societies was recognised by many thinking people during the conflict over the Economy proposals. It would be a bad precedent if the influence exerted by the Approved Societies in one field of social insurance were allowed to deflect the policy which might otherwise be approved by the Government in quite a different field. The Societies were fought and defeated at the time of the Economy Bill, and I do not believe that they will gain any more support than they would have in any case merely because the grant to Unemployment Insurance has been altered; indeed, the fact that the Exchequer grant to Unemployment Insurance has not been and will not be increased seems to be a complete answer.

11. On the merits I think a clear case can be made out for a higher contribution to Unemployment Insurance. There is first the practical ground that the Health Insurance Scheme is not only fully solvent, but has built up large surpluses, which were estimated by the Government Actuary to amount to about 65 millions at December 1925. The Unemployment Insurance scheme is over 24 millions in debt, largely on account of assistance to unemployed persons who would otherwise have been a heavy burden on public funds. Moreover, unlike the sickness risk which for practical purposes varies within narrow limits, the range of the unemployment risk as between industries and individuals is very wide, and as all are compelled to pay the same premium, there is obviously a much stronger case for a larger equalising grant from the Exchequer in the case of Unemployment Insurance.

12. For these reasons, I hope we shall not be deterred from adopting the Blanesburgh proposals and deciding to secure in this Parliament what I believe is the very great public advantage of passing those proposals into law.
13. There remains the question of the introduction of the Bill. I am being continually pressed in the House to say whether the Government propose to introduce a Bill to carry out the Blanesburgh Report and, if so, when. A definite decision is absolutely necessary; it is impossible to go on any longer giving dilatory answers. Moreover, a decision is necessary in order to enable preliminary administrative arrangements to be made. I should have liked to have got the Bill passed before the Recess, but if a new Session is to begin in the autumn, I am prepared to assent to its being deferred till then on the definite understanding that time for the Second Reading will be given immediately the Session begins. It is, however, imperative to make some public announcement in the very near future.

14. I would ask the Cabinet to agree therefore—

(1.) That we should adopt the Blanesburgh proposals as a whole, including the ultimate equal contribution of 5d. from each of the three parties—employers, employed and Exchequer;

(2.) That I should announce that a Bill on the basis of the Blanesburgh Report will be introduced at the beginning of the new Session next autumn and passed into law as soon as possible, or, alternatively, if the present Session is to be continued in the autumn, that the Bill will be introduced immediately and will be passed into law this Session.

A. S.-M.

Ministry of Labour, May 25, 1927.