CABINET.

UNEMPLOYMENT INSURANCE.

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER.

THE Memorandum of the Minister of Labour sets out the present position in regard to the Unemployment Insurance Scheme. While I cannot agree with his suggestion that the increase of the debt of the Fund from £7 millions to £24 millions during the past year is the result of the Economy Act of last year, I note that he makes no claim to an immediate increase of the State contribution on this ground, and I need not therefore go into this matter.

There is practically no question at issue between the Minister and myself in respect of the period until the debt of the Fund is once again down to the figure at which it stood before the Coal Strike and the average rate of unemployment for the preceding twelve months is not more than 6 per cent. (~700,000 on present totals). We agree that the contributions should be kept as at present while the country is getting back to normality in trade and employment and until the debt of the fund has been largely wiped off. Under an Act passed by the Labour Government (with an adjustment owing to the Widows, &c. Scheme) the State contribution to Unemployment Insurance would then become three-sevenths of the aggregate contributions of employers and employed. The Ministry of Labour, following the Blanesburgh report, propose instead of this that the State contribution should be equal to that of each of the other two parties, i.e., one-third of the whole; the Treasury, seeking to re-establish the principle of the Act of 1920, reaffirmed in the Act of 1923, ask that the State share should then be reduced by easy stages to one-fifth of the whole.

An average unemployment of 6 per cent., which the Blanesburgh Committee regarded as a reasonable forecast, will require for the benefits they recommend a total weekly contribution (for men) of 15d. Under the three alternatives this would be distributed as follows:

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The question is whether, at the future date we are considering, for the sake of giving the employers and workers each a reduction of 1d. in contribution, the State should accept a permanent burden higher by £4 millions a year.

£4 millions a year is a saving not lightly to be thrown away. The more I examine the National Balance Sheet the more I am becoming convinced that apart from possible savings in the interest on the debt due to the operation of the Sinking Fund and to successful conversions, and apart from any reductions in the Fighting Forces which may result from disarmament agreements, the possibilities of economy on any considerable scale are well-nigh exhausted. I cannot at the moment name any item on which I can hope for a saving of £4 millions a year, or even of half that amount, from any decision which it is in our power to take. In so far as it is still open to us to reduce national commitments we must look in the main to reducing the State assistance to those schemes for the success of which it is no longer essential.
We enunciated this policy when floating the new scheme for Widows' and Old Age Pensions, and last year we made a definite application of it to the Health and Unemployment Insurance Schemes, though, as regards the Unemployment Scheme, the application was only of temporary duration.

It is not merely a question now of whether we shall go forward and make a permanent revision of our grant to the Unemployment Insurance Scheme. If we accept the proposals of the Blanesburgh Report the danger is that we shall be driven back on the steps we have already taken in regard to Health Insurance at a cost of an extra £3 millions a year. The Minister of Health will bear me out in saying that this is not a negligible risk to be lightly dismissed by the arguments in the Minister of Labour's memorandum. The political power of the approved Societies, with their ramifications extending to every village and their Agents calling at most of the houses of the working classes, is immense, as more than one Government have found out to their cost. It is true that we succeeded in carrying the Economy Act of last year against their opposition, but in the first place we had behind us a tremendous drive for economy, and secondly we gave that opposition no time to gather its forces before getting the clauses in question through Committee. In fact it would almost seem that we took the Approved Societies by surprise in the dramatic suddenness with which the proposals of the Royal Commission for giving wide extensions of benefit were followed by those of the Government taking away the surplus funds which would have made those benefits possible. But the Societies have not abated their opposition since the Economy Bill reached the Statute Book. The industrial upheaval of the past year with its great loss of contributions owing to unemployment and increased expenditure on sickness has greatly impaired the financial position of many of the Societies, and they have hailed the Blanesburgh Report as affording an opportunity for getting back what they have lost.

No doubt a good case can be made out on paper for discrimination between the treatment meted out by the State to the Health and Unemployment Schemes, but in a matter of this kind affecting the general population we have to consider the argument as it would be presented and pressed home to the man in the street. It would be pointed out that the State is now going to bear 1/3rd of the total cost of a scheme which will give a married man with three children 30s. a week for periods of unemployment up to 74 weeks out of every two years, whereas, owing to the reduction of the State proportion in the case of Health Insurance to 1/7th, that same man when sick is only entitled to from 16s. to 20s. a week, according to the Society to which he belongs, for a maximum period of 6 months, and thereafter to 7s. 6d. a week.

Against the forcefulness of this line of argument I feel sure that the considerations urged by the Minister of Labour would be quite ineffectual; nor should we get much credit from a withdrawal in the case of Health Insurance. This would be hailed as a signal defeat for the Government, and our party would have little cause to bless us for exposing them to the attacks of the past year all to no purpose.

In the face of these weighty considerations one may legitimately examine somewhat critically the arguments adduced by the Minister of Labour in favour of accepting the Blanesburgh recommendations en bloc, including the State contribution of 1/3rd. The main argument for this concession is, of course, that it is intended to form part of a general settlement of this vexed question which shall lift it out of the party arena. Had we any reason to believe that the Labour Party have abandoned their ideal of a wholly non-contributory scheme for the relief of Unemployment, there might be something to be said on this ground; but the proceedings of the Conference which gave with difficulty a half-hearted endorsement to the action of the Labour Members of the Blanesburgh Committee included a restatement of this ideal and an intimation that the Party considered themselves free to propose amendments in regard to the recommendations of the Blanesburgh Report. In a matter of this kind, bearing so closely on one of the first articles of the Labour faith, it is, in my view, too much to hope for an agreed settlement, and our endeavour should be to settle the matter on the lines which we consider to be in the interests of the country—well knowing that should the Labour Party hereafter come into power the main check on any reversal of our decisions will be not the existence of any agreed settlement, but the budgetary difficulties of finding the money to carry out all their desires at the same time.

No doubt there are real advantages in the stiffening-up proposals of the Blanesburgh Report. But we must not pay too high a price for securing them. The lack of Parliamentary time will certainly delay the passage of the Bill until next
year. We shall not be very far off an election then. The Bill will certainly not be popular with the Labour Party. The fact that there is to be no immediate increase in the Exchequer contribution will alone be sufficient to convert their lukewarm acquiescence in the Blanesburgh Report into active hostility to the Government measure. Already they are talking about the Unemployment Insurance Bill as a companion to the Trades Disputes Bill as an attack upon the working classes. We ought not to expose a new large target. Certainly it is not worth while incurring all the labour and facing all the unpopularity at the risk of a compromise in the relations of the State with the Friendly Societies, as well as placing a new and heavy mortgage upon future British finance.

There really is no hurry. We have legislated twice already this Parliament on Unemployment Insurance, and I believe our wisest course this year will be to renew the existing Act for the present through the medium of the Expiring Laws Continuance Bill.

W. S. C.

Treasury Chambers, May 31, 1927.