The Unemployment Insurance Scheme is in a serious financial position, and I regard it as one of my first duties to put it on a sound footing in this respect.

The annual revenue of the Unemployment Fund is now about £7,000,000 less than it was in 1924. Then it could make both ends meet with a live register as high as 1,200,000; now it can carry a live register of no more than 1,000,000 without incurring a deficit. Then the debt was under £5,000,000; now it is £36,600,000. For every 100,000 by which the annual live register exceeds 1,000,000 the Fund increases its debt by about £4,150,000 a year or on the average £80,000 a week.

The limit of borrowing powers is £40,000,000. This limit is nearly reached.

Two things have to be faced:

(1) At the very least, something must be done in the Summer Session to provide more money in order to enable the Fund to carry on till the winter. As things are it is possible that the borrowing power may be exhausted before Parliament meets in October or November, and I cannot advise my colleagues to run this risk.

(2) Merely to provide enough money to carry on temporarily is no solution. In six months' or twelve months' time the problem would have to be faced again, and probably in a worse form than before. In the past the unpleasant necessity of facing facts has been evaded by assuming, with or without
apparent justification, that the live register would be below whatever the revenue was sufficient to cover and that therefore all would be well. These assumptions have been uniformly falsified and the state of the Fund has gone from bad to worse. Optimistic forecasts are valuable in their proper place, but they have been poor friends to the Unemployment Insurance Scheme.

It is clear to me that we must base the finance of the Scheme, not on any forecasts of the future, but on the realised experience of the past few years and lay our plans accordingly. If, happily, things turn out better than we have budgeted for, the worst that can happen is that the debt will be paid off rather more quickly and a reduction of contributions all round made all the sooner.

I am strongly opposed to any further increase of the borrowing power, whether by itself or as a supplement to other measures. The borrowing power is already high enough and we must put a stop to the indefensible plan of living on over-drafts. Otherwise, we shall never get ourselves to face the position as it should be faced.

What has to be done, therefore, is to increase the revenue of the Fund, and my first proposal is :-

(1) To adopt the principle of "equal-thirds", i.e. to make the Exchequer contribution equal to one-half of the combined contributions of employers and employed. At present the weekly contributions (for men) are :- employer 8d. employed 7d., Exchequer 6d.

I need not labour this proposal, which applies a principle unanimously recommended by the Blanesburgh Committee, and I hope my colleagues will be willing to endorse it.
I should propose that the increase in the Exchequer contribution should date from 1st April last. It would give an increased annual revenue of about £3,500,000 per annum and would enable the scheme to cover an average live register of about 1,090,000 instead of 1,000,000.

While this would be an important, and indeed essential, part of what is needed, it is obviously not enough by itself. My next proposal is therefore:

(ii) to relieve the Unemployment Insurance Scheme of the charge now falling on it in respect of persons who do not possess the minimum qualification of 30 contributions in the past two years. There is no real justification for continuing to make this charge on the Unemployment Fund. It is unfair to the insured workmen and their employers that they should have to pay towards it as insurance contributors; and it is unfair and demoralising to the unemployed workman who is drawing benefit by virtue of a contribution qualification that he should be lumped in with others who are drawing what is really a "dole".

The charge on the Unemployment Fund in this connection is at present in the neighbourhood of £6,000,000 per annum in benefit, apart from administrative expenses. It is reasonable to expect that the amount would gradually become less, but it is hardly possible to make any close estimate.

If the Unemployment Fund were relieved of this charge (in addition to getting the benefit of the "equal-thirds" arrangement) the annual live register which could be carried from the date the relief is afforded would be the equivalent of a present figure of rather more than 1,200,000. Looking to past experience, this would not give any great security that the Unemployment Insurance Scheme would be able to pay its way, much less to reduce its debt, and some further provision would therefore be advisable.
As regards the possibility of bringing this proposal into operation at once, I am bound to point out that it impinges on the Poor Law problem of the relief of the able-bodied unemployed, and raises important questions which will need examination before we can decide on our course.

I therefore ask the Cabinet to direct the Departments concerned (the Treasury, the Ministry of Health, Scottish Office and the Ministry of Labour) to proceed with the examination as quickly as possible with a view to legislation in the autumn.

Meantime I shall not receive any relief from this source and I have to face the fact that with the first proposal alone ("equal-thirds") the borrowing powers of the Fund will quite possibly be exhausted by the end of the year, necessitating a further emergency Bill in the autumn.

This could only be avoided by providing more revenue immediately in some other form, since I exclude an increase of borrowing powers. And this revenue would have to come from the Exchequer. I could not propose an increase in the contributions of employers and employed, since the need for more revenue arises from two causes, viz. the reduction in the Exchequer contribution by the Economy Act, and the improper addition to expenditure owing to payment of benefit to persons not possessing contribution qualifications.

On the other hand I am afraid that if more revenue, over and above the "equal-thirds" arrangement, is provided now it would be taken as an indication that the Government expect a very high level of unemployment over the whole winter. After discussion with the Chancellor of the Exchequer I have come to the conclusion, though reluctantly, that for the moment I must be content with the extra revenue arising from the "equal thirds" arrangement.
My colleagues should realise that this is no more than a stop-gap measure and is in no sense a permanent solution. I shall have to review the position later on in the autumn and the raising of fresh money may then prove to be inevitable, even for the purpose of enabling the Fund to pay its way, quite apart from repaying its debt.

To summarise, I recommend, as regards immediate action:

(a) That the Exchequer contribution should be increased on the "equal-thirds" basis from 6d. to 7½d. as from 1st April, 1929, i.e. by £3,500,000 per annum.

(b) That immediate interdepartmental consideration should be given to the question of relieving the Unemployment Insurance scheme of the charge in respect of persons not possessing the 3C contribution qualification and the provision to be made for them, with a view to legislation in the autumn.

As to legislation, a Bill providing further money must be passed during the Summer Session. It would be quite short but would of course require a Financial Resolution.

(Intd) M. G. B.

Ministry of Labour.

1st July, 1929.