1. The Cabinet decided on 14th August that it was undesirable to commit the Government to the introduction in the Autumn session of a Bill dealing with Unemployment Insurance, but came to no other conclusion as to the future policy of the Government in this connection. It is, however, not possible to defer much longer the definition of at least the broad lines of policy to be adopted because the whole position will be fundamentally altered when the present temporary scheme of donation for civilian workers expires at the end of next November. Definite action will then have to be taken, and if the evils of hasty improvisation are to be avoided the broad lines of policy ought to be settled as the interval of two months is none too long for working them out in detail.

2. The governing factor in the present situation is that the unemployment now existing is provided for by the scheme of Out-of-Work Donation to ex-service men and civilian workers respectively. These schemes are temporary; that for civilian workers comes finally to an end on November 24th next; that for ex-service men covers only one year after individual demobilisation, and will therefore come to an end for great numbers of men before the end of this year.

3. The possibility of allowing these schemes to expire without putting something in their place needs only to be examined to be dismissed. There are at present over 500,000 persons drawing donation, of whom 350,000 are ex-service men. This is the best time of the year for employment, and whatever progress may be made in the revival of trade during the course of the present year, the only reasonable assumption to make is that during the coming winter the numbers of the unemployed will be larger, and they may be much larger, than they are at present. The only existing alternatives to Out-of-Work Donation are the unemployment benefit of 7s a week, and Trade Union benefits, both of which cover only a small proportion of the working population, or Poor Law Relief. In face of the precedent of the donation scheme, I think we must start from the assumption that to allow the donation scheme to expire and to put nothing in its place is impossible.

4. If this assumption be admitted there are really only two alternatives open. One is to continue the payment of donation in some form indefinitely. The other is to take measures at once with a view to substituting for it some scheme of State aided contributory insurance against unemployment. I assume that the first alternative cannot be seriously contemplated, and it is in order that it may be possible to avoid it that I wish to press for an immediate decision on certain broad points of policy which will enable steps to be taken at once with a view to the institution of a contributory scheme.
5. Judging from the attitude assumed by the Trade Unions towards this question at the National Industrial Conference, I feel sure that they will not willingly acquiesce in a contributory scheme so long as they have any hopes of getting a non-contributory scheme. On the other hand, once these hopes are removed, I anticipate that I can secure a sufficient measure of agreement among the interests concerned to enable the Government to pass a Bill on a contributory basis. I therefore ask in the first place for a decision of the Cabinet in this sense.

6. Given this decision, and the Cabinet’s provisional approval of the measure as sketched below, I shall proceed to consult the industrial organisations concerned in the hope of having a draft Bill ready by the end of the recess. Any delay at this stage will mean the postponement of the Bill till next year, and a corresponding prolongation of the period during which provision for unemployment must be made by way of donation.

7. The broad lines of policy which I recommend for adoption are based upon the report of an inter-departmental Committee, which included a representative of the Treasury. They are as follows:

(a) There should be general provision for payments during unemployment, the funds being provided from contributions paid by employers, employed and the State.

(b) Any well-organised industry, which is able and willing to do so, will be allowed to set up a scheme for itself, subject to due approval, under which it will raise its own funds and administer them in accordance with its special needs.

(c) Voluntary associations in other industries (e.g. trade unions) may also be allowed under proper conditions to administer in accordance with special schemes the funds derived from their membership; these associations must be formed on an occupational basis and must not be carried on directly or indirectly for profit.

(d) Apart from the industries referred to in (b) the contributions of employers and employed will be raised by means of contributions affixed to contribution cards as in the case of the Health Insurance scheme; this method may also be applied if desired to any industry under (b).

(e) The weekly rate of benefit to be paid to insured workpeople other than those coming under special schemes (para. (b) and (c)) will be 15s for men and 12s. 6d for women; the rates under the special schemes must be on the whole at least as favourable to the workpeople.

(f) In order to meet the case of individual workpeople who do not suffer from unemployment, such workpeople if they reach the age of 65 will be entitled to receive a refund of not less than the amount of the contributions which they have paid together with interest (less any benefit received).
6. Two other points of policy have to be decided and I submit for consideration alternative proposals with regard to each:

(1) Should the scheme apply to the whole of the employed population (i.e., be practically coterminous with the Health Scheme), or should Agriculture and Domestic Service be excluded?

The arguments on both sides are set out in the attached extract (Appendix A) from the report of the Departmental Committee. My view is that on the whole the balance of advantage lies in launching the scheme on the basis that it is to be universal and allowing Agriculture and Domestic Service to make out a good case for exclusion, if they are able to do so.

(2) What should be the rate of the State contribution to the funds of the scheme?

Broadly speaking, the choice lies between making the State contribution one third or one fourth of the total revenue. The arguments on each side are set out in the attached extract (Appendix B) from the report of the Departmental Committee. The estimated annual cost to the Exchequer, which varies according to whether Agriculture and Domestic Service are or are not included, is shown in the following table, which also gives the weekly contributions from employers and employed and from the State respectively, on which the estimates are based, together with corresponding figures for the existing scheme of unemployment insurance:

<table>
<thead>
<tr>
<th>Weekly contribution from Employers &amp; State Employed jointly</th>
<th>Ration of State contribution to total State revenue</th>
<th>Estimated annual amount of State contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Agriculture and Domestic Service included</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) men 6d, women 5d</td>
<td>1</td>
<td>£5,970,000</td>
</tr>
<tr>
<td>(b) men 2½d, women 3d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) do do</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) men 2½d, women 3d</td>
<td>1</td>
<td>£3,980,000</td>
</tr>
<tr>
<td>(iii) do excluded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) men 3d, women 2½d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) men 2½d, women 3d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) do do</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) men 7d, women 2½d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) men 2½d, women 3d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing Scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>men 5d, women 8d</td>
<td>1</td>
<td>£1,007,541 x</td>
</tr>
</tbody>
</table>

x Year 1917-1918.
9. Scheme (i), (ii) and (iii) are based on weekly contributions from employers and employed of 6d for men and 5d for women; scheme (iv) requires 7d for men and 6d for women. If therefore my proposal that Agriculture and Domestic Service should be included in the first instance is adopted, the contributions from employers and employed to be originally proposed will be 6d, and 5d. If agriculture and Domestic Service are subsequently excluded it will not then be practicable to raise the contributions from employers and employed in other industries to 7d and 6d, and the State contribution therefore if originally fixed at one-fourth would have to be raised to one-third.

10. Having regard to the precedent of the non-contributory donation and the propaganda in favour of non-contributory provision for unemployment, I am not sanguine that a State contribution of less than one-third will be ultimately possible. I should be prepared, however, to begin negotiations with the industrial organisations on the basis of a State contribution of one-fourth (Agriculture and Domestic Service being included), on the understanding that if Agriculture and Domestic Service are excluded the State contribution will be raised to one-third; this would mean a comparatively small increase in the estimated actual amount of the annual State contribution, viz., from £3,980,000 to £4,200,000.

11. Ireland. The above proposals relate to Great Britain. With regard to Ireland I propose that the scheme should apply compulsorily only to the trades already covered by the Unemployment Insurance Acts, and that provision should be made for its extension to other trades by administrative order.

R.S. HORNE.

5th September 1919.
The arguments for excluding these groups may be stated as follows:

(1) They are exposed to a very low risk of unemployment. Owing to special circumstances and lack of organisation they are not in a position to take advantage of the provisions for segregation, and in so far as they remain in the Central Fund they and their employers will have to pay a contribution greatly in excess of the sum drawn out in benefits, unless and until they qualify for a refund at age 65. (see paragraph 12).

(ii) Their inclusion affects interests strongly represented in Parliament, and much Parliamentary opposition may be expected if these groups are not excluded.

(iii) The problem of dealing with isolated workers like agricultural labourers and domestic servants present special difficulties.

The arguments against exclusion are:

(a) If any groups are excluded however well justified exclusion may be in itself there must obviously be a danger of pressure from other groups with a low risk of unemployment for exclusion, not merely in the sense of segregation but in the sense of complete exemption from the liability to make provision for unemployment. Miners and seamen and bank clerks might very well urge that the exemption extended to agricultural labourers and domestic servants ought also to be extended to them. In this way general provision against unemployment would break down from the outset.

(b) The exclusion of agriculture and domestic service would make it necessary to find and interpret a workable definition of what is covered by these terms, and this would be a task of great difficulty.

(c) In view of the fact that these groups are now entitled to Out-of-Work donation their exclusion from insurance may provoke opposition.

(d) whilst the risk of unemployment in these groups is admittedly low, there is still some risk, and there is no guarantee that this risk may not be increased in future by unforeseen changes. So far as the risk is less than normal full advantage can be taken of it by the formation of voluntary associations, while individuals who experience exceptionally little unemployment will obtain refunds on reaching the age of 65.

(e) The exclusion of the three million persons employed in these groups who are exposed to relatively low risk would react unfavourably on the financial basis of the scheme.
view of the fact that the decision on this point turns mainly on political considerations, we have confined ourselves to submitting the alternative arguments and do not make any recommendations.

15. Rate of State Contribution. The rate of the State contribution to the existing Unemployment Insurance scheme one third of the contributions paid by employers and employed—that is to say, one fourth of the total revenue of the unemployment fund is contributed by the State (apart from interest on balances). Administrative expenses are met out of this fund, subject to a maximum of one tenth of the annual income.

It would not appear possible to reduce this rate of contribution and the question we have considered is whether it ought not to be increased. As regards earlier consideration of proposals for general insurance it may be mentioned that both the Civil War Workers Committee and the Labour Resettlement Committee assumed that equal contributions should be paid by employers, employed, and the State, i.e., that the State should pay one third of the whole income and not one fourth as at present.
APPENDIX "B".

State Contribution.

ARGUMENT FOR LIMITING THE STATE CONTRIBUITION TO ONE FOURTH OF THE TOTAL CONTRIBUTION.

16. The arguments against increasing the State contribution above one-fourth of the total may be stated as follows:

(i) The alterations in the distribution of the National Income which have accompanied the war have left the employing and employed classes in industry speaking generally, no worse off and in many cases materially better off than before. Compared with them the remaining classes of Tax Payers are relatively much less prosperous than in 1911. Without any alteration in the rates of the State contribution the wide extension of insurance and increase of benefits now proposed will themselves impose a heavy additional charge upon the Tax Payers. They may fairly demur to being asked in addition to pay for a larger share of the benefits to be enjoyed by relatively more fortunate members of the community.

(ii) Apart from considerations of equity the existing position of the National finances and the vast demands which are being made upon the Tax Payer from all quarters make it a matter of pressing necessity to avoid the placing upon the Exchequer of additional burdens which the resources of taxation may prove unable to meet. The cost of provision against unemployment should in the main be borne by the workers and the employers. Logically there would be a strong case against any increase in the total State subsidy paid to the Unemployment Fund under the existing scheme. The maintenance of the same proportion for the exchequer contributions as prescribed in 1911 will increase the estimate liability of the taxpayer from £1,000,000 a year to £3,200,000 a year, if agricultural labourers and domestic servants are omitted from the scheme, or if they are included, to £4,000,000 a year. In accepting any such large increase the State may be regarded as having been fully as liberal as it can safely afford to be.

(iii) An increase of the existing State proportion would be likely to evoke a demand for a similar increase of the Health Insurance contribution. The answer that large supplementary sums have in fact been added to the grant of two ninths of the cost of health benefits, chiefly by the way of additional remuneration to doctors, may be met by the contention that those grants did not in fact increase the benefits provided for the insured person by Part I of the Act of 1911: they must be regarded rather as part of the cost of the Public Health Service.

In any case it is probable that an alteration of the status quo in favour of Unemployment Insurance would increase the difficulty of resisting demands in respect of the Health Scheme.
(iv) The grant of a rate of State contribution which would enable the benefit to be raised above 15/- a week for men and 12/6 a week for women would certainly produce a demand for the corresponding increase in the rates of sickness benefit under the Health Scheme. A person who is unemployed through sickness requires at least as much a person who is well but out of work.

This would no doubt involve an increase of the State subsidy in that scheme.

(v) Further rates in excess of those abovementioned might prove so attractive as to encourage "malingering" and apart from the other evils thereby involved threaten the solvency of the Scheme.

In the administration of Health Insurance with rates of benefit at 10/- a week for men and 7/6 a week for women, it has not proved easy to guard against these dangers. It may be that for the future rates of 15/- and 12/6 will still be excessive, but if any higher benefits are granted and during the next five or ten years there should be an appreciable fall of prices and wages, it may well be done in view particularly of the experience of Out-of-Work Donation, whether any administrative checks, however stringently devised, would provide adequate safeguards against abuse. The idea embodied in the proposals contained in the Report as regards voluntary association is that benefits in excess of a moderate minimum should be administered by self-governing and self-supporting bodies, and this principle is one which it is very important to maintain.

Arguments against limiting the state contributions to one-fourth of the total contribution.

17. The arguments against maintaining the present rate of the State contribution are:

(a) Unless an attractive scheme with an adequate rate of benefit is put forward on a contributory basis with the State bearing a considerable proportion of the cost, the demand for a non-contributory scheme which is already very strong will become more urgent, and it is obviously desirable to conciliate this opposition if it can be done by a moderate increase in the State contribution.

(b) There is no certainty that it will be politically possible to maintain the proposed rates of benefit of 15/- for men and 12/6 for women.

Taking the allowances for dependents into account the State has provided under the Out-of-Work Donation Scheme practically double this amount as a free gift and it will be difficult to persuade insured workpeople that they ought to accept a much smaller sum when they are themselves contributing a substantial part of the cost.

(c) With regard to the grant for Health Insurance under Part I of the National Insurance Act, 1911, it is true that the expenses to be defrayed out of monies provided by Parliament were originally limited to the cost of
central administration, two ninths of the cost of administration incurred by approved societies and two ninths of the benefit. In point of fact the State share was never kept within this limit; the Government found itself unable to provide the benefits promised, with the funds available, in view inter alia of the demands of the medical profession, and from the outset large supplementary sums have been given to the Health Insurance Commissioners and approximately one-third of the benefits and of the cost of providing them has been found by Parliament. The medical benefit under the Health Insurance scheme has not been and is not now a part of a State medical service, but is one of the benefits for which insured persons are required to pay weekly contributions.

(d) In view of the high levels which have now been reached by wages and cost of living, and the improbability of any substantial reduction of either, it is difficult to suggest that benefit substantially higher than 15/- and 12/6 would, under the conditions of a contributory scheme, involve any real risk of abuse by malingerers. Similarly the argument based on the assumption that unemployment benefit must not exceed the rate of sickness benefit cannot be sustained in view of the fact that the two benefits have always hitherto been unequal.