

INTERNATIONAL LABOUR OFFICE

# SOCIAL SECURITY

A Workers' Education Manual



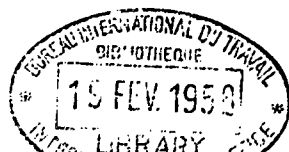
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## PREFACE

It is widely recognised that in addition to vocational training to equip him for his job a worker in the modern world must have access to certain other forms of knowledge. These he needs in order to enable him to participate effectively in the ever-widening field of activities in which labour now has a share of responsibility for the affairs of the community. A worker must, for example, be able to take a useful part in union affairs and collective bargaining, or to serve as a member of a works council, production committee, wage-fixing board or social insurance committee. For these functions, in addition to first-hand knowledge of his own industry, he needs to possess a clear general idea of the social or administrative structure and of the procedures for conducting trade union or public affairs.

In view of the increasing need for such knowledge the I.L.O. initiated a supplementary programme of workers' education activities in 1956. This programme includes the holding of courses and seminars in different parts of the world and the furnishing of aid to existing bodies concerned with workers' education in their own countries or on an international basis.

As part of this programme the International Labour Office is publishing a series of manuals to form the basis of workers' education courses in the subjects with which the I.L.O. is particularly concerned.

The present volume is the second in the series<sup>1</sup>; it deals with the various types of social insurance and allied social services which together make up each country's social security system.

The course describes first the general development of the idea of social protection against contingencies such as sickness, accident, unemployment, etc., and with the question of what sections of society are to be given protection. It then goes on to analyse the different types of benefit and the conditions on which they are provided. Finally it

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<sup>1</sup> The first manual, entitled *Co-operation*, was published by the International Labour Office, Geneva, in 1956 in Arabic, English, French, Hindi, Japanese, Spanish and Urdu.

explains the problems of financing social security schemes, the various methods which can be used for obtaining the necessary resources, and the systems and procedures used in different countries for managing social security, collecting contributions and paying benefits.

The course has been divided into ten lessons. However, the subject-matter is so vast in comparison with the restricted space available in the manual that it cannot be expected that the dividing-lines chosen—or any kind of division, for that matter—will fully meet the practical requirements of all users. Consequently, whether it is used for direct teaching (lectures, adult education classes, etc.) or for teaching by correspondence, the contents will have to be adapted and divided up according to local needs and circumstances. In conjunction with the books listed at the end, the manual may also be used as part of a more thorough and specialised study of the subject. A few questions have been inserted at the end of each lesson for use in recapitulating the material already taught and in provoking interest in further investigation of particular subjects.

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## FIRST LESSON

### SOCIAL SECURITY: A NEW NAME FOR AN OLD ASPIRATION

Individuals and peoples find themselves drawn, at different times, either towards adventure or towards a secure sufficiency. In the present epoch most of mankind appears to be opting for "safety first". The ever-widening and augmenting demand for social security bears witness to this tendency. The average man today is older than at any other time in history, and caution comes with years. Perhaps opportunities for profitable adventure have become so rare that they no longer fire the imagination, and adventure must hereafter be sought outside the economic sphere. However that may be, every worker nowadays wants to be certain not only of his next meal but also of his subsistence for the rest of his life and the subsistence of his dependants as well. This aspiration, though often unvoiced, has always existed, but only recently has it been seen by the masses to be within their reach as it has been reached by the landed gentry. The mechanics of social security consists in counteracting the blind injustice of nature and economic activities by rational, planned justice with a touch of benevolence to temper it.

In this opening lesson we shall ascertain the currently accepted meaning of "social security" from a consideration of the historical circumstances in which the concept developed.

The student will find that this book, and in particular the present lesson, is pervaded by references to the broad currents of historical evolution, and a word of explanation about their development is desirable at this point. National opinion has only gradually become convinced of the merits of the social security idea and convinced of its practicability in an ever-growing sphere; only occasionally has a far-sighted student been able to visualise the shape that social security will assume in a still distant future. Also, a national scheme of social security is a tremendous organisation which it would be almost impossible to administer without prior experience in the handling of smaller, more manageable machinery. Hence each nation tends in its own legislation to go through the phases of development that in some more experienced countries have already been left far behind—although, as the path is

now well marked, the process of development is likely to be faster and, under informed direction, to avoid excursions up blind alleys. Furthermore, even a slight acquaintance with the historical process reveals how, once the decision to reach a specific end has been taken, the means to attain it are really empirical, although they may be rendered more acceptable by the invocation of some plausible principle, preferably an old one. Lastly, a large and complex scheme, when it has been working for some years, opposes an enormous inertia to fundamental change, so that some old-established schemes remain, in the techniques which they use, backward in comparison with certain schemes of recent origin.

### ORIGINS OF SOCIAL SECURITY

For our present purpose it will suffice to locate the origin of the social security movement at the beginning of the early nineteenth century in western Europe. In this region industrialisation had begun and the "proletariat" had made its appearance. Here was a large new class of factory "hands", completely dependent on the regular payment of wages for their subsistence and therefore reduced to privation by a spell of sickness or unemployment. It is true that there existed in north-western Europe poor laws under which destitute persons could obtain relief (subject to loss of civil rights); but, as one might expect, and as was intended, no one would avail himself of relief if he could possibly avoid it. The poor laws, however, had at least the merit that they admitted public liability for the support of the destitute, allocated definite funds for this purpose and were potentially comprehensive in their scope, thereby foreshadowing fundamental principles underlying the social security policy of a hundred years later. But no relief was given until the person in need had exhausted all his resources and had failed to obtain help from his near relatives. It will be understood that poor relief, far from being designed to afford a modicum of social security, was conceived of as a police measure which, by preventing the despair of starvation, would diminish the potential danger of desperate action and the ensuing disturbance to society.

In the period up to about 1880 three methods had been devised and applied in order to protect the urban labouring class from destitution : small savings, employers' liability, and various forms of private insurance.

#### *Savings*

Government-operated savings banks that accept very small deposits have had a success which should not be underrated, for immense numbers of wage earners maintained, and still maintain, accounts in these banks

in very many countries. Their insufficiencies are obvious. The level of wages 50 or 100 years ago and the large families of those days simply left no margin for saving among unskilled workers ; in fact only rare individuals in that class could bring themselves to save. Again, except for one's old age, saving is not by itself effective as a method of achieving social security. Illness, accident, unemployment and death may occur at any age in one's working life, though some of these risks are more likely at the higher ages.

### *Employers' Liability*

The second method is that of placing liability for the maintenance of the worker in sickness, as in health, on the employer in virtue of the quasi-paternal authority of master over servant and the correlative responsibility of the former. Here we have an echo of the feudal system, of the old relationship between the craftsman and his apprentices living in his house. The method is highly seductive to governments which feel that they can solve the problem of social insecurity—or wish to give the impression that they have solved it—without being put to the trouble of setting up special machinery or of spending tax money. It is, as a rule, better than nothing. Sometimes employers feel a moral obligation to exercise paternal solicitude for the general welfare of their workpeople. In central Europe employers used formerly to be required to pay benefits in case of sickness, retirement and death; this system is still followed in parts of Latin America and of the Middle East. Employers' liability is, however, mostly associated with compensation for injury caused by the employment.

In the last quarter of the nineteenth century the industrialised countries of western Europe were seeking a method of compensating the victims, ever more numerous, of factory and railway accidents. Of course, in virtue of a quite natural and generally accepted principle the civil law everywhere made a negligent employer liable to pay damages to his workmen in case of injury, but it was difficult for the workmen to prove the employer's negligence even when it did exist. In these circumstances jurists cast about for a new theory that would facilitate the recovery of damages. Several suggestions were made, each of them tending to create a right to damages regardless of whether proof could be produced of negligence on the part of the employer. The theory which won acceptance was known as the "principle of occupational risk" with its corollary of employers' liability. The employer who sets up a factory creates an agency which, by its very nature, is likely to cause injuries to his workpeople, through no fault of either the employer or the employee ; it is therefore just that the loss sustained by the victim



should be charged to the employer and be included in the cost of production. Upon this theory were founded the laws imposing on employers a liability to pay compensation to their workmen in case of injury accidentally received in the course of employment. The amount of the compensation was regulated by the law itself and was no longer, as were damages, assessed by a court. These workmen's compensation laws, as they were called, greatly improved the accident victim's chance of obtaining a benefit to replace—at least in part—his lost wages, but they still involved him in formal legal procedure for the assertion of his claim, and the procedure might embitter his relations with his employer. Employers' liability for employment injuries recommended itself not only as being morally just but also, and incidentally, as offering an incentive to the employer to take positive measures to prevent accidents.

A general system of social security cannot be provided by the employers' liability method. Public authorities and large private corporations possess the financial strength and administrative capacity to discharge the liability laid upon them and have often taken the initiative by offering benefits to their staffs in the interest of good industrial relations ; they can furnish medical care through their own dispensaries, pay sickness and maternity benefits and accumulate the reserves required to ensure the payment of pensions for long service. But the majority of wage earners do not work in big undertakings. In most of the industrially underdeveloped countries the typical urban worker is employed in a workshop with a staff of perhaps a dozen. It is an observed fact that small employers in many cases find it difficult to obey statutory provisions requiring them to pay benefits to their workmen. If the liability is enforced and happens to be heavy the small employer will become insolvent, his business will be ruined and his workpeople will become unemployed. The fruit of the legislator's good intention will thus be reserved for the employees of large firms, and this is clearly not an acceptable state of affairs.

In order to keep compensation liability within the capacity of the medium-sized firm the amounts prescribed to be paid were kept well below the real needs of the victims in cases of permanent total incapacity and death; in the absence of machinery for serving pensions the compensation was mostly paid in such cases in the form of a lump sum.

Even so, employers' liability can be relatively heavy in respect of an accident involving permanent incapacity or death, or of a person retiring on pension after many years of service, especially when several claims mature together. To relieve the employer of his employment-injury liability insurance companies at an early date began to issue policies

under which the insurer took over from the employer the liability in return for a premium proportional to the risk calculated for the undertaking. The more prudent employers whose businesses were not large enough to allow them to carry easily their own risk took out policies of this kind.

Where insurance companies have taken over employers' liability for workmen's compensation they have all too often—and quite naturally—resisted claims as vigorously as possible or persuaded the claimant to accept merely token payments. Very likely these practices acquired a notoriety that was unfairly detrimental to insurance companies generally, but they have long since impressed governments in most European countries with the desirability of seeking other arrangements for carrying the risk of employment injury.

### *Forms of Private Insurance*

The third and last of the nineteenth-century methods of fending off destitution is private insurance in its various forms. For our immediate purpose we will make a distinction between insurance through mutual-aid societies and insurance through insurance companies.

Mutual-aid societies seem to have grown up spontaneously among urban workers at different times and in places as different as ancient Rome or seventeenth-century Madrid. With the disappearance of mediæval civilisation and its guilds and the appearance of an unorganised mass of unskilled labourers in the towns the need for mutual-aid clubs made itself acutely felt. Their main objects were to help the member in time of sickness with simple medical care and to pay for his funeral in return for a regular periodical contribution. In a word, mutual-aid societies were practising the method of insurance. At first their technique was, as one would expect, primitive in the extreme, and it would often happen that the promised benefits were not forthcoming. Gradually, however, they were brought under government supervision. Their rules had to be submitted for official approval. They were not allowed to insure the payment of benefits such as pensions, which involve accumulation of substantial reserves and require actuarial calculations; and their accounts had to be audited. By thus limiting their responsibilities the government could render it much more likely that the societies could keep their promises.

As soon, however, as a mutual-aid society is managed in a business-like way, it becomes practically indistinguishable from a mutual-insurance company, whose clients are its shareholders. It becomes reluctant to admit individuals who are elderly or not robust. Moreover, persons

whose earnings are small or whose employment is irregular are not always able to pay the requisite contributions or to keep them up.

The trade unions, notably in Great Britain, often acted as mutual-aid societies besides performing their main function of defending the interests of their members as employees. In this role their chief importance was in providing unemployment benefit, a field in which they were the pioneers. A trade union, especially before the introduction of public employment exchanges, was in the best position to know about vacancies in its trade and the personal and technical qualifications of its members. But the demand for benefit varied of course with the fortunes of the trade concerned and not with the general level of employment in industry at large, which is naturally much more stable than the level of employment in one trade and in one locality. Thus, depending as they did solely on their members' contributions, trade unions could afford to pay benefit only for comparatively brief spells and would, in bad times, exhaust their funds altogether.

Seeing that mutual-aid societies run by the workers themselves could not safely undertake old-age or life insurance, a number of European governments in the second half of the nineteenth century created insurance offices under the guarantee of the State, which offered facilities for these branches of insurance to persons of small means; premiums might be paid through the post offices, for example. Except in Japan, however, not much use was made of these facilities because they were not publicised and because the class of the population for which they were intended was either unable or unwilling to profit by them.

In these circumstances an English insurance company, in a spirit of vigorous enterprise, invented a special form of life insurance for the working-class population. An army of agents was employed to visit every household offering for sale policies that would about suffice to cover the funeral expenses of the person concerned and to collect each week the very small premiums required. Widely imitated, this "industrial insurance", as it was called, was immensely successful, first in England, then in the United States, and later in Europe. Many millions of policies were sold; sometimes all the members of a household would have individual life-insurance policies or even more than one each. Indeed, a householder would often take out more policies than he could afford; a time came when he would be unable to keep up the payment of premiums, and the policies would lapse.

The commercial enterprise of life insurance and related branches of insurance has never been able to adapt itself satisfactorily—from the standpoint of the insured person—to the exigencies of social security operations. This is easy to understand. Life insurance is a business of

great dignity, conforming to rigorous legal standards of solvency and resting on trustworthy actuarial calculations, but its purpose in most cases is to make a profit, and only incidentally to promote social security. Even if, as might sometimes occur, an insurance company were so efficiently managed in comparison with a social security scheme that, after taking its profit, it could contract to provide the same protection for a lower premium, one would still hesitate to use it for social security operations. Life-insurance companies compete with one another for the favour of the customer, and each tries to offer him as good a bargain as it safely can. The best bargain will be obtained by the "best risk", whose age, health and job render him least likely to claim a benefit. Indeed, insurance companies, whether of a profit-making or mutual-aid character, try to keep clear of bad risks and to compose their clientele exclusively of select lives. Obviously social security cannot be organised along these lines. Insurance companies, however, have a very important role to play in supplementing the protection afforded by social security schemes, the benefits of which often appear meagre to the more prosperous sections of the population. Recourse is had to their services today especially for the purpose of ensuring additional pensions—a technically delicate function that they are eminently suited to perform. Indeed, in the last few decades insurance companies have taken over from employers pension schemes previously run by the latter, putting them on a sounder footing, and have sold, in the western world, group policies guaranteeing supplementary pensions to the staffs of thousands of medium-sized, or even small, but prosperous, firms.

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We have now reviewed the different methods that were tried up to about 1880 in order to ensure that the working-class family could continue to subsist, during times when wages were interrupted or ceased altogether, without recourse to poor relief. Saving and insurance, whether mutual or commercial in character, broke down always for the same reasons. Poverty and improvidence form an inseparable pair. If a man is very poor he is entirely absorbed in keeping alive from one day to the next: he cannot visualise a distant eventuality and, even if he can, his immediate and certain needs will take precedence over merely possible ones when he is laying out his wages. The error of the nineteenth century was its naïve optimism respecting the effective power of the lower ranks of workers to cover their risks themselves. Nevertheless, saving and insurance through mutual-aid societies were resorted to by a minority—to be numbered, however, in millions—constituted by the skilled wage

earner, whose experience of success in his own class had awakened a hope and expectation of better things to come, for his children if not for himself.

### SOCIAL INSURANCE

Towards the end of the century several countries on the European Continent, convinced that the unskilled labourer would not provide his own social security, decided, however reluctantly, to spend public money on subsidies to voluntary thrift. These ventures have yielded useful results in some countries but have been abandoned in others. In Denmark and Switzerland subsidised mutual aid still exists in the sickness branch, whose benefits, mainly in kind, are extended to a large majority of the population ; again, in Denmark and Sweden the trade unions, heavily subsidised, still administer voluntary unemployment insurance. This variant of the insurance method is attractive in that it involves a genuine partnership between the individual and the State, each having part of the responsibility for the proper working of the scheme. In its simpler forms it fails to attract the unskilled worker, because he either will not or cannot perform his share. But as practised in Denmark, for example, in a population that is relatively well educated and well paid, it succeeds in covering a substantial proportion of the wage-earning population at the cost of very large subsidies that are carefully dosed so as to aid the less fortunate among the insured membership.

Between 1883 and 1889 the Imperial German Government, guided by Bismarck, created the first system of social insurance, which remained almost unique in its field for some 30 years. Why was it that Germany learned so quickly the lesson that neither employers' liability nor mutual-aid societies can solve the problem of social insecurity ? The truth is that Germany was not committed to the ideology of economic liberalism and *laissez-faire* in the same degree as other countries of western Europe but remained influenced by the Prussian tradition of the authoritarian and paternalistic State. As far back as the 1850s several German states had assisted communes to set up sickness funds to which workmen could be compelled to contribute : the principle of compulsory insurance was being applied, but the sole contributor was the insured person. The employer's contribution was introduced into sickness insurance, not in virtue of some general principle but because sickness insurance had, for reasons of convenience, to cover the first three months of incapacity due to industrial accident, and this admittedly was properly a liability of the employer. The system was introduced in three stages: sickness insurance in 1883, employment-injury insurance in 1884 and

invalidity and old-age insurance in 1889, all of them applying compulsorily to wage earners in industry. By thus introducing the system piece by piece, and by assigning the management of sickness insurance to existing mutual-aid funds, that of employment-injury insurance to employers' trade associations, and that of pension insurance to the provinces, the German Government appeased and minimised opposition.

It will be seen that the social insurance method, as invented in Germany, incorporates and sums up the features of each of the earlier methods. Thus the workman's contribution to his mutual-aid fund, the employer's premium to his accident-insurance company and the State's subsidy to voluntary thrift all have their place in the finances of the German system. Moreover, the invalidity pension comprises a basic part which is of a strictly insurance character, and is granted to all who fulfil the qualifying conditions, and a part which is proportional to the insured person's own contribution and can be regarded as savings. Again, each of the parties concerned has a voice in the management of the system, and mutual-aid societies—regimented but still recognisable—play their part. The application of compulsion to employees as a class, or at least to the urban wage earners, skilled and unskilled alike, young and elderly, male and female, vigorous or weakly of body, meant that those groups which had hitherto been likely clients of poor relief were now covered by a social security system that would come to their help in bad times and save them from indigence. Of course, it was only thanks to the introduction of additional sources of revenue, amounting to two or three times the worker's contribution, that it was possible to extend this protection to the lower and weaker strata of the working class.

The example of Germany was soon followed by Austria and, at a distance of 30 or 40 years, by the United Kingdom and the other countries of Europe, the U.S.S.R. and Japan. After the great depression of the 1930s social insurance spread to Latin America and even to the United States and Canada. On the mainland of Asia social insurance has had to await the achievement of national independence.

The invention of social insurance has indeed supplied the essential technique rendering possible the progressive realisation of social security; other approaches or techniques are either derivative or subsidiary, where they are not already obsolescent.

### SOCIAL ASSISTANCE

A second approach to social security was found at the very end of the century by Denmark as part of a systematic programme to enable self-respecting citizens to avoid recourse to poor relief and the consequent

suspension of civil rights. It became repugnant to Danish opinion that old people should be exposed to this indignity after a long working life redounding to the prosperity of the country. Thus it was that a new form of service, which we call "social assistance", was invented: benefits were payable, as of legal right, from public funds in prescribed types of need deemed not to be due to the client's own fault. It found favour chiefly in Scandinavia and the English-speaking world. The first risk to be covered was that of old age, but gradually non-contributory benefits were introduced for invalids, survivors and unemployed persons as well. Finally, in New Zealand a complete social security system was constituted by amalgamating a series of such benefit schemes.

#### FAMILY ALLOWANCES

Soon after the First World War, on the initiative of French and Belgian employers, a new risk was added to those as yet covered by social insurance or social assistance, namely the additional, long-term charge imposed on the family budget by the arrival of a baby. This new risk was incommensurable with those already recognised in that procreation, at least in the more instructed circles of the population, is to some extent voluntary, and it seemed strange at first to associate it with such misfortunes as sickness or unemployment. The truth is that family benefits—provided mainly in the form of weekly allowances for each child—were introduced either as a bonus to encourage the production of children in countries where the birth rate had fallen alarmingly or to ward off a demand for a general rise in wages by confining the rise to families comprising young children, or, again, to make possible the better nurture of children in poor families and so promote equality of opportunity in the young generation. Despite their peculiar nature family allowances have been incorporated as a rule in the social security system because they have to be co-ordinated with other cash benefits and because the machinery already existing is often used for financing and distributing them. The introduction of family allowances, perhaps more than any other innovation, marks the emergence of the social security movement from the principles and structure of the Bismarckian measures into a new phase.

#### THE NATIONAL HEALTH SERVICE

One other important innovation has been added to the arsenal of social security resources in the last couple of decades, namely the national health service, which, in principle at least, offers complete free medical

care for everybody. It could be described as the result of the merging of the medical benefit of sickness insurance with the free (or nearly so) hospital care provided by the public authorities. The first step in this extension consists in the assumption by the public health authorities of responsibility for the organisation of all medical-care services, though these are still available gratuitously only to the insured population and similar groups (the U.S.S.R. and the People's Democracies, Chile). The next step, already taken in New Zealand and the United Kingdom, is to provide complete medical care to the entire population subject, in certain cases only, to minimal charges to prevent abuse.

### SOCIAL SECURITY AND THE I.L.O.

At the beginning of this lesson we undertook to assign a meaning to that expression-to-conjure-with : "social security". We have already given some broad hints. Social security is the result achieved by a comprehensive and successful series of measures for protecting the public (or a large sector of it) from the economic distress that, in the absence of such measures, would be caused by the stoppage of earnings in sickness, unemployment or old age and after death; for making available to that same public medical care as needed; and for subsidising families bringing up young children. This in effect is the definition implicit in the Social Security (Minimum Standards) Convention, 1952, adopted by the International Labour Conference in that year.

How, one may ask, did the International Labour Organisation come to use the expression and to endow it with the meaning we have just indicated? To answer this question we must briefly recall the role of the I.L.O. in creating international standards of social insurance. In the decade 1925-34 the International Labour Conference adopted Conventions regulating workmen's compensation, sickness insurance, pension insurance and unemployment insurance and thus gained doctrinal leadership for the I.L.O. in this field. The International Labour Office exerted its influence to extend the range of the classes of persons protected and the list of contingencies covered and to improve the efficacy of the benefits assured. In 1935 the United States introduced, in its Social Security Act, schemes in the nature of social insurance covering the risks of old age, death and unemployment, and also federal subsidies to non-contributory pension schemes in the different States, that is to say, a combination of social insurance and social assistance. The felicitous expression used in the title of this Act proved popular and was used as the title of the New Zealand Act which assembled in a coherent statute a number of existing and new social assistance benefits



and imposed a special universal income tax to finance them. The New Zealand scheme was promulgated on the eve of the Second World War and did not at once attract much notice abroad. The International Labour Office, however, was deeply impressed by its significance and gave it such publicity as it could. Also, the mention of social security in the Atlantic Charter of 1941 gave a currency to the expression that extended over half the globe. It became indeed a slogan voicing one of the deepest and most widespread aspirations of mankind.

The Office was consulted by Lord Beveridge and its help was generously acknowledged by him. Its idea of social security was derived from the policies that it saw as implicit in the trends of development in social insurance and social assistance—

(a) comprehensive and co-ordinated cover of all the contingencies which, without fault on his part, cause the wage earner temporary or permanent loss of earnings ; medical care and family allowances ;

(b) extension of this protection to all adults in the measure of their need for it and to their dependants ;

(c) assurance of benefits that, though moderate in amount, are sufficient to maintain a socially acceptable standard of living and are granted in virtue of a definite legal right ;

(d) financing by such methods as maintain in the mind of the person protected a fair notion of the cost of the benefits he receives but, at the same time, invoke a wide application of a principle of solidarity as between rich and poor, male and female, the working population and those too young or too old to work, the robust and the delicate.

These policies were embodied in the Recommendations on income security and medical care adopted by the International Labour Conference at its historic Philadelphia Session of 1944, when the States Members of the I.L.O. gathered together to draft and agree upon their post-war programmes in the field of labour and social legislation.

Five years later the Governing Body of the International Labour Office decided that the time was ripe to convert the substance of the Philadelphia Recommendations into Conventions creating precise legal obligations. After a thorough consultation with governments and discussions at two of its annual sessions the Conference adopted the Social Security (Minimum Standards) Convention, 1952, to which we have already alluded. This represents the highest common factors of the policies to which all countries, underdeveloped as well as highly developed—poor, therefore, as well as rich—would commit themselves.

While it is in many respects inferior in its standards to those now attained in the latter countries, it serves as a practicable goal for the former.

In the succeeding lessons we shall examine each of the main features or aspects of social security laws and machinery, with frequent reference to the relevant provisions of the I.L.O. Convention and Recommendations. We shall see that each country has gone about the solution of its social security problems in its own way, finding its own compromise between the ideal and the possible, the theoretical and the practicable and the conflicting economic interests of the parties concerned, but tending, nevertheless, towards the application of the main principles laid down in the international instruments adopted by the I.L.O.

### Questions

1. *Indicate briefly the deficiencies of—*

- (a) *personal savings ;*
- (b) *employers' liability ;*
- (c) *private insurance ;*

*as methods of realising social security.*

2. *Mention the features of Bismarck's social insurance legislation that recall each of the above methods respectively, and the new features that made it a success.*

3. *Indicate the general standards implicit in the instruments on social security adopted by the International Labour Conference as regards—*

- (a) *contingencies to be covered ;*
  - (b) *persons to be protected ;*
  - (c) *benefit level ;*
  - (d) *financing.*
-

## SECOND LESSON

### PERSONS PROTECTED

We learned from the first lesson that at about the end of the nineteenth century Germany invented social insurance and Denmark non-contributory pensions (a species of social assistance). These are the two approaches to social security, the one evolved from private insurance and the other from the poor law. The first is designed to protect the employed class and the second the needy citizenry. In their most modern forms the two approaches merge and each one takes on some of the characteristics of the other. In this lesson we shall consider the principles and practical reasons that have determined what classes of persons are protected by social insurance or have led certain countries to prefer social assistance or universal social security services which cover the population in general without distinction of class.

The Social Security (Minimum Standards) Convention recognises social insurance and social assistance as alternatives. This Convention is intended to be within the reach of underdeveloped countries, and this intention is nowhere more evident than in the clauses defining the minimum scope of each branch of social insurance. These countries experience great difficulty in applying social insurance outside the urban centres; the villages and small towns have only scanty medical facilities, and undertakings with more than a few employees are rare. So the Convention is satisfied if the prescribed standard of benefits is reached for half the employed population. Social assistance, embracing as it potentially does the entire population, and financed as it necessarily is by taxation, is generally beyond the economic capacity of underdeveloped countries.

#### SOCIAL INSURANCE OF EMPLOYEES

Social insurance was conceived as a mechanism for protecting wage earners, i.e. the class of persons who, on account of insecurity of employment, lack of property or savings and the uncertainty of being able to fall back on other members of the family or on neighbours for help, are most exposed to destitution; the most vulnerable of these are the factory hands. On the other side there was a small class of

literate and reasonably well-to-do employers managing large undertakings and capable of carrying out some of the administrative and financial operations of a social insurance scheme.

There has been a steady expansion in the number of categories of employees insured, due to two causes. First, the range of undertakings the workpeople of which are insurable has been extended. Second, the definition of "employee" has become more comprehensive.

### *Scope as Regards Undertakings*

Social insurance, in most countries where it is in force, does not apply to workers in undertakings in every branch of economic activity and of every size. The main reasons for excluding certain classes of undertaking are that it is not practicable politically or administratively to enforce compliance on the employers concerned, or that the employees concerned are already sufficiently protected by special machinery.

Early social insurance planners were influenced by the criteria already in use for defining the scope of the existing workmen's compensation laws. They therefore directed their attention primarily to factories, mines, railways and, more generally, undertakings of substantial size or known to be comparatively dangerous to their workpeople. The "industrial undertaking" was indeed the nucleus of the sphere of economic activities embraced by the first social insurance laws, which might often cover only the contingencies of employment injury, sickness and maternity.

Small undertakings were excluded because it was difficult to enforce compliance on the large numbers of employers concerned, who might oppose the introduction of social insurance by passive resistance. But, of course, a system under which an undertaking's participation in or exclusion from social insurance might depend on an increase in (or reduction of) its labour force by one individual, so that a slight change in its labour force might bring all its workers into or out of the scheme at once, was seen to be a nuisance which would have to be put a stop to as soon as the scheme had established itself administratively and in the mind of the public.

The distinction between industry and commerce is not easy to draw in practice. The criterion of danger is not adequate, since a wide range of commercial undertakings present an accident risk equal to, or greater than, some branches of manufacture. Not only all kinds of transport and dock work, but also the handling of heavy goods in shops, involve risk and so, for example, do butchering and window-cleaning. Thus the dangerous branches of commerce had soon to be brought under

compulsory insurance. Accidents in offices are rare—rarer perhaps than at home—but, once the device of imposing on the employer the liability for accidents is erected into a principle, it forces its way irresistibly into all employments, and with it goes social insurance against other risks.

For all that, there is often considerable hesitation over extending social insurance to cover agriculture, especially in countries where small-holdings predominate. The difficulty of enforcing compliance, already mentioned in connection with industrial undertakings, is aggravated in this case by the conservatism of farmers, by the fact that the same individual is by turns employer and employee, by the uncertain status of family members, by the seasonal character of much of the employment, by the substitution of goods or produce for cash as remuneration, and by the initial lack of medical facilities; all these factors together have discouraged legislator and administrator alike. On the other hand, the permanent staff of a large agricultural undertaking can of course be brought within compulsory insurance neither more nor less easily than the work-people of an isolated factory, and a beginning is made with such undertakings.

Numerous modifications of the law and practice of social insurance as designed for urban wage earners must be resorted to in order to make it work in a peasant community. Arbitrary wage scales may be prescribed for the principal types of labour, and employers' contributions may be based on the probable wage expenditure that the cultivation of their land will require. But the problem of the application of social insurance to small-scale agriculture has by no means been solved in the majority of countries which have successfully insured urban employees in general. The casual employees of smallholders can be, and are, protected only in industrialised countries where social insurance is practically universal for employers and employees alike and in densely settled but prosperous agricultural countries where the State can afford to subsidise voluntary insurance heavily.

The inclusion of domestic servants, at least in urban households, is probably less difficult, because the housewife can usually read and write and so comply with the simplified formalities that can be used for this class; because in a well-policed city every inhabitant can be accounted for; and because the promise of medical benefit can be made good.

The officials and the permanent wage-earning staff of the State and of local and other public authorities are often exempted from the scope of social insurance on the ground that better benefits are already available to them. Employees of this kind can normally be expected to make smaller demands on a common fund than most other groups of workers,

and their exclusion from the common scheme weakens the national solidarity of the gainfully occupied population.

Some branches of publicly owned and privately owned industry are often excluded from the scope of pension insurance because special schemes for these branches had been set up before—in some cases many years before—the general scheme. These special schemes frequently offer relatively generous pensions, and their members prefer not to be merged with the mass of the insured population. But as the industries in question (e.g. coal mines and railways) are not infrequently old and declining and their schemes are loaded with pensioners the general scheme is better off without them.

### *Scope as Regards Employees*

Just as the undertakings first brought within the scope of social insurance were those most accessible to the administrative technique, so also not all the employees in the included undertakings were protected at the outset, but only those who were closely and regularly dependent on the employer and whose remuneration was deemed to leave little margin for saving. The liability of the employer for his employees, which expresses itself as an obligation to pay contributions for their protection, required for its initial recognition a substantial juridical foundation: only later did wider considerations of social and economic expediency become predominant.

In the beginning, therefore, the persons connected with an undertaking were insured only if they worked under the direction and supervision of the employer or his agents, though such workers form the great majority of employees. They contracted to supply their labour, and the employer decided how it was to be utilised. Consequently if the employer ordered the worker to perform a dangerous task he was liable for the accident that might result. The existence of a contract of service was thus the original criterion for determining whether a worker was insurable not only against employment injury but also, by an easy extension, against other contingencies as well. Apprentices, even if they earned no cash remuneration, were as far as possible treated in the same way as wage earners.

But a second factor in the relationship between the employer and his workers has gradually assumed greater importance. The wage earner depends for his living on his employer. It is the employer who settles the prices of the goods he offers for sale, and he can—as far as his competitors and the public will allow—embody his insurance contribution in the price. The employer is the agent on whose obligatoriness

co-operation the classical method of social insurance relies to collect its resources. These considerations lead to the extension of the notion of employee to any person who has bound himself to work regularly for another, such as a commercial traveller, an outworker, a share-farmer, or even a pupil in a technical school.

Evidently, everybody who sells services or goods is dependent for his living on the purchaser but there is a practical, if not a logical, limit to the application of the principle of dependence. The classical system of social insurance requires that the "purchasers" (i.e. the employers) should be a much smaller class, and an economically stronger community, than the class to be protected. A few schemes, however, treat as employees workers who are less numerous than the purchasers of their services, for example charwomen, jobbing gardeners, music teachers and nurses, who visit a succession of private houses. It will be noticed, however, that these employees work regularly in their occupations, even for several employers, and that their earnings are not high. Workers who do not satisfy these two conditions have been, and still are to some extent, liable to be excluded from social insurance, as we shall proceed to explain.

Employment may be casual either from the standpoint of the employer or from that of the employee. In the first case the worker is said to be casually employed if he is hired only for a brief period fixed in advance. No valid reason for the general exclusion of such a period from the worker's insurance record can be advanced; and if exclusion were allowed it could give rise to the unfair practice of hiring individuals for the limited period only with the intention of re-engaging them immediately. Nevertheless, exclusion may be valid enough where the employment is casual also from the standpoint of the employee. Here casual employment means that the worker does not depend mainly for his living on being hired by an employer: he may usually work on his own account or be gainfully occupied only occasionally. The objection to treating employment in these circumstances as insurable is that the contribution is wasted, since the qualifying conditions for benefit will presumably never be fulfilled, while both parties and the insurance institutions are obliged to carry out the formalities of registration. The difficulty evidently resides in determining whether or not the worker has henceforth the intention of earning his living as an employee: if so he must be insured. Perhaps the best solution is to insist that employment shall not be excluded as casual unless the worker has requested and received an official exemption from insurance.

Before the Second World War it was an accepted, but not universal, practice to exclude from the scope of compulsory insurance persons

earning remuneration in excess of a prescribed monthly or annual rate; at the present time there are still a dozen countries in which this limitation is applied in one or more branches. The exclusion of higher-paid employees is a relic of the time when social insurance was regarded as a measure specifically for the protection of the lower classes and when clerical workers usually earned more than manual workers and deemed themselves to possess a higher social status. Sometimes there is no wage limit for manual workers, but only for salaried employees, and in some regions of Europe and America the clerical and supervisory workers are insured by distinct institutions or have the privilege, like civil servants, of continuing to draw full salary during sickness. In earlier times it was supposed that lower-middle-class clerical workers could afford to make private arrangements for protection against the contingencies covered by social insurance: they were expected to take out policies with life-insurance companies and (the medical associations have been insistent on this point) to save up against the cost of possible illness and pay directly the expenses of medical care. This assumption, if ever it was justified, has ceased to be so as the result of the social and economic changes consequent upon the Second World War. Moreover, the remuneration limit unduly complicated the administration of the insurance system since individuals might have wages above and below the limit in consecutive months. It is being swept away in the name of the social solidarity that social security is coming to represent. On the other hand, there are almost everywhere limits for contributions and benefit amounts, as we shall see when we come to consider them.

The fact that the employer and employee are related by blood or marriage should not in principle affect the insurability of the employee, for an employee, in this as in other cases, presumably receives wages on the continuity of which he relies for his subsistence. However, social insurance has hesitated to treat as insurable the employment of one near relative by another. An initial difficulty presents itself in those cases—the most frequent—where the family undertaking is a smallholding and the remuneration is paid wholly or mainly in kind, so that little cash is available for the payment of contributions. Collusion between employer and employee to defraud the insurance institution, not frequent in other situations, becomes a substantial danger where members of the same family are concerned. A person reported sick or unemployed continues to work; an invalid needing more contributions in order to qualify for benefit is still carried on the payroll; where the scheme makes the benefit proportional to a recent wage the latter may be suddenly increased, etc. Each of these openings for fraud ought to be closed if near kinsmen are to be accepted as insured persons. Special adaptations of the scheme



are possible for this purpose, but they are apt to entail extra administrative work. However, the technical problems are less serious where it is a matter of pension insurance, and certain pension schemes for independent workers apply to family members working in association with the head of the family in his undertaking.

### SOCIAL INSURANCE OF NON-EMPLOYEES

The extension of social insurance to classes of the population other than employees is mainly a development which has taken place since the Second World War. This can be done, broadly speaking, by extending the scope of the scheme either to all persons working on their own account or to cover adult citizens in general.

The problem of providing social security for these classes resides, not only in the absence of an employer's contribution, but also in the fact that only a relatively narrow range of benefits can be provided for them. The economic loss in case of temporary incapacity is hard, though not impossible, to evaluate. On the other hand, individuals in these classes who do not have substantial private means need protection in case of expensive illness and in the three contingencies covered by pension insurance. In this connection it is coming to be understood that the housewife is an unpaid producer of national wealth and that when she is ill or becomes an invalid it is only fair and in the national interest that she be cared for and indemnified according to some valuation of her services.

The opportunity of remaining voluntarily in an insurance scheme which had been entered compulsorily but to which the person concerned has ceased to be subject has always been offered by general schemes of pension insurance, at least in Europe. For it would be intolerable that, after contributing for a number of years, such a person should lose the rights he was acquiring by reason of an increase of salary, entering non-insurable employment or taking up an independent occupation. Although such voluntary insurance involves payment of the employer's as well as the employee's contribution, it is subsidised by the State to the same extent as the compulsory insurance; and, especially if the subsidy is generous, a fair number of the individuals for whom it is intended have taken advantage of it.

A few countries have allowed independent workers of small means to insure themselves voluntarily against sickness (principally for medical care) and old age under state-subsidised schemes. Besides the preliminary income test there is usually a health examination, and a maximum age is fixed for admission; these are reasonable precautions. Where the state subsidy is very large, so that no private insurance

scheme could offer anything comparable, this type of voluntary insurance has succeeded in attracting many members—perhaps the majority—of the class to which it is offered. Inevitably, however, there remain numerous improvident individuals who eventually become a charge on private or public charity.

It may be noted that unless the independent worker has to pay his contributions under a system where legally enforceable demand notes are sent periodically by the insurance institution there is little practical difference between compulsory and voluntary insurance: if the incentive provided by the state subsidy is not sufficient, non-payment can hardly be prevented.

Since the Second World War several European countries and the United States, inspired perhaps by the Philadelphia Recommendations, have introduced compulsory pension insurance for independent workers. Under these schemes the state subsidy has to be large or the contribution is forcibly collected together with income tax; in some cases both conditions are fulfilled.

The Netherlands in 1956 followed the examples of Finland (1937), the United Kingdom and Switzerland (1946) in making pension insurance compulsory for all adult citizens.

#### PROTECTION OF DEPENDANTS THROUGH BREADWINNER'S INSURANCE

In the case of death by employment injury social insurance has always protected the surviving dependants of an insured person; here the influence of the civil law is apparent. But the present century had well begun before survivors of workers dying from other causes became pensionable, and another long interval elapsed before the dependants of a living worker were granted benefits in virtue of his insurance. These benefits comprised at first only medical and maternity care, but later (especially after the Second World War) many schemes of family allowances were established.

This time-lag may be explained by the force of the tradition that every man is entirely responsible for his family. Employers could not be easily convinced that they ought to contribute towards these responsibilities. The introduction of benefits for dependants marks a revolution, not always perceived at the time, in the notion of social insurance and in the justification of the employer's participation therein. The remoteness of the employer's interest in the welfare of dependants no longer excused him from contributing, since his payment was beginning to be regarded as a convenient tax the yield from which could be used for promoting the general welfare of the working class.

For the purpose of medical benefit the range of the dependants protected always includes the wife (if not insured) and the young children; but in a few countries it extends to almost every relation who is not insured and is living in the home of the insured breadwinner—a provision that is not only generous but also specifically recognises the function of social insurance as an organ of public health policy.

The recipients of social insurance pensions in an ever-growing number of countries are receiving medical benefit in their own right. Hence, as social insurance comes to embrace the economically active population generally it is only a matter of time before the only dependants for whom medical benefit in virtue of their breadwinner's insurance must be provided will be the housewife and children too young to work.

A wide variation is found also in the range of dependants protected in case of the breadwinner's death; but here, perhaps because the benefit has to be shared, the statutory provisions are usually more precisely worded and specify the order of priority of the various categories of dependants and relatives. As a rule employment-injury insurance recognises a wider range of relatives than general survivors' insurance, no doubt because of the influence of the civil law; for that reason employment-injury insurance has always been more generous, which it could the more easily be in that it has vastly fewer beneficiaries.

Whether the benefit takes the form of medical care or a pension, the definition of "child" is usually very wide; it includes not only the children and step-children of the insured person but also illegitimate children of his wife and adopted children and, if they are in fact dependent on him, young brothers, sisters and grandchildren. The age limit is never lower than the legal school-leaving age, and is often higher where the child continues his formal education. It may be waived altogether if the child is an invalid, with the result that when his parents are dead and his brothers and sisters are grown up such a child will inherit the maximum orphan's pension possible under his parent's insurance, which will go far to provide for his subsistence; in this way a serious gap in the protection afforded by social insurance is practically filled.

Except for the wife, adult relatives are generally required to have been not only dependent in fact on the insured person, but to be also aged or invalids; these persons cease to be dependants when social insurance becomes comprehensive.

Schemes of family allowances which protect only the dependants of breadwinners belonging to a class in respect of which specific contributions are payable may be considered to be social insurance schemes. The great majority of them grant allowances only for dependent children in the insured person's home. A small and decreasing number of schemes

protect only the second (or third) and subsequent children. On the other hand, there are a few which pay an allowance for the mother not engaged in remunerative work and, lastly, a few which pay allowances for all the dependent relatives in the household.

Family-allowance schemes financed by contributions, and not from taxation, are almost all confined to employees. Only in one or two countries have schemes been set up on this basis for independent workers, and even so it has proved impracticable to extract from these workers contributions sufficient to finance allowances on a useful scale.

Family-allowance schemes are co-ordinated with other branches of social insurance in order to secure the continued payment of the allowance during periods when the breadwinner ceases, temporarily or permanently, to be gainfully occupied, and on that account is receiving benefit for unemployment, sickness or invalidity. Where the allowance is continued after the parents' death it may, if high enough, render orphans' pensions unnecessary.

#### SOCIAL ASSISTANCE (INCLUDING UNIVERSAL SOCIAL SECURITY SERVICES)

Social assistance is an alternative method of providing social security. It evolved from the poor law as the result of the specialisation of services for different categories of needy citizens. Its heyday was the first quarter of the present century. It was the method preferred in certain comparatively rich countries which were reluctant to accept large-scale state intervention and were apprehensive of the bulky and complex machinery required for the operation of social insurance: their governments could not yet see their way clearly through the technical problems of social insurance administration and may have feared to commit themselves to the irreversible situation which would have been brought about by the creation of such machinery and of benefit rights acquired through contributions. In countries where independent workers form a large fraction of the active population social insurance as designed for employees could not be more than a partial solution of the problem of social insecurity. Furthermore, the largest and gravest sector of poverty in the Western world was the needy aged population, and for this sector the classical method of social insurance afforded no immediate remedy. For these reasons a certain number of wealthy countries chose the social assistance approach.

Poor relief is traditionally a local responsibility, and therefore its recipients must be confined to the residents of the locality. The social assistance schemes with which these lessons are concerned are services

financed and administered, wholly or in part, by the national government. Thus every single member of the population of the country concerned is a potential beneficiary of the scheme. Social assistance springs from the sentiment of national solidarity, but the equity of it is reinforced nowadays by the fact and the awareness that part of all earnings and other income finds its way into the public treasury, so all residents somehow contribute to the cost of social assistance.

The Social Security (Minimum Standards) Convention lays down that where the prescribed benefits are provided by a social assistance scheme that scheme must protect all residents, subject to a means test imposed when the benefit is claimed and while it is being paid; it allows special conditions to be prescribed where the claimant is a foreigner.

Social assistance with its means test is, however, growing out of date, and no new schemes of this kind have been introduced in recent years. The discouragement of thrift which the means test involves is a fatal defect. Wage earners (in Western countries at least) are usually paid enough for them to be liable to income tax, and the technique of collecting that tax from them has been perfected. Hence all the new schemes intended for the population at large take the form either of national pension insurance, to which we have referred above, or of universal services available gratuitously to all residents, such as national health services and family allowance schemes.

### Questions

1. *Enumerate the difficulties that hinder the inclusion of agricultural workers in the scope of social insurance schemes.*
  2. *Mention some abuses that are to be expected where the employee is a member of the employer's family.*
  3. *What is the fundamental difficulty to be overcome if independent workers are to be brought into social insurance ?*
  4. *What characteristics distinguish social assistance from poor-relief on the one hand and from social insurance on the other ?*
  5. *In what directions are social assistance schemes evolving, and what circumstances render this evolution possible ?*
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## THIRD LESSON

### BENEFITS

#### GENERAL

The benefits of social security schemes form the subject of this and the next four lessons. They embody, indeed, the purpose of such schemes, and the provisions concerning them usually constitute the most detailed chapter in the rules of a scheme. For it is necessary to define the contingencies for which the benefit is intended, the conditions which the claimant must have fulfilled in order to obtain the benefit and continue to receive it, and the form, amount and duration of the benefit.

Under primitive poor-relief schemes the fundamental attitude towards applicants was: are you in vital need, and are you incapable of satisfying it? If so, here is your subsistence; and here, if you are sick, is your medical care. The functions of social security schemes can still be described in the most general terms as the provision of subsistence and medical care. But for each main cause of need the social security system provides a benefit which is specially designed to cover that contingency, very often through an agency set up for that specific purpose.

The specialisation of social security organisation by branches, each covering one contingency or a group of closely related contingencies, is to be explained by the historical process with which we are becoming familiar. We have seen that mutual-benefit societies were able to provide their members with medical care and short-term cash benefits, insurance companies could take over employers' liability for workmen's compensation, and trade unions could furnish benefit during unemployment (if not prolonged), but only large public institutions could make themselves responsible for pensions. Co-ordination of all the different kinds of agencies in countries where they have been operating for a generation or more has progressed with difficulty, and the final step of unification is a recent and a rare achievement. In fact, the desirability of unification is sometimes open to question.

The specialisation of benefits is, or rather should be, an advantage to the beneficiary as well as being rational and economical. But specialisation is accompanied by greater precision in definitions and so by a

certain rigidity, which is a corollary of the principle that social security benefits should be granted in virtue of a legally enforceable right.

The Social Security (Minimum Standards) Convention distinguishes nine benefits, enumerating them in an order which has little significance. The branches into which they are commonly grouped for organisational purposes are the following:

- family allowances;
- medical, sickness and maternity benefits;
- invalidity, old age and survivors' pensions;
- employment-injury benefits;
- unemployment benefit.

As this course is concerned with the social security organisation that the student is likely to find in his own country, and not with some ideal construction, we shall adhere to this arrangement. Nevertheless, a preliminary discussion of the general characteristics of social security benefits and their mutual relations will be interesting.

We can see at once that all the contingencies in question are alike in that they render the worker's earned income insufficient to meet certain proper claims upon it. Also, all of them except unemployment are of a biological nature: disease or injury; childbirth and the addition of a child to the family; old age, which is somehow correlated with senile decay; and death.

Most of these happenings result in the cessation of earnings. This is a temporary result where curable illness, maternity and unemployment are concerned and permanent in most cases of incurable disease, rare cases of injury, and in old age and death. Certain functional infirmities and mutilations, and likewise partial unemployment, cause only a reduction of earnings. Many illnesses are not incapacitating, but all normally involve expenditure on treatment. Lastly, there are contingencies in which the breadwinner has to bear a financial burden in respect of his dependants (medical expenses, funeral expenses and, above all, general maintenance).

A social security system cannot (or should not) pay more than one benefit at a time in respect of cessation of earnings. If, for example, an unemployed person becomes incapable of work he incurs no additional loss warranting payment of an additional benefit.<sup>1</sup> On the other hand, where a contingency has already led to a reduction of earnings a fresh contingency may produce a further reduction: for example, a partially incapacitated person may become unfit for even the minor employment

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<sup>1</sup> Where the second benefit (e.g. for incapacity in this example) is at a higher rate than the benefit previously paid it may be substituted for the first one.

which he was able to perform, and in such a case the payment of additional benefit is called for. There will also be cases where a person whose earnings have ceased or been reduced incurs liabilities pertaining to medical care for himself and his dependants; or another child may be born into the family; or he may die, and his funeral must be paid for and his survivors provided for.

Cessation or reduction of earnings can, of course, occur only to gainfully occupied persons. Medical and funeral expenses, on the other hand, are charges that may be incurred for any person, and any adult may find himself legally responsible for maintaining a dependant.

The technique of social insurance was first developed for the protection of employees, and social insurance for independent workers has been an afterthought and something of a makeshift. Employment-injury insurance and unemployment insurance were of course designed for employees only. But several countries have enabled, and even obliged, small employers and independent workers to take out insurance against injury in the course of their work; in Denmark such insurance is subsidised by the State.

In contradistinction to social insurance, social assistance is intended for the population at large, with the further difference that the effect of cessation or reduction of earnings on the total income of the claimant has often to be ascertained in each case individually before benefit is awarded.

Except for funerals (where no expenses arise in the case of a pauper's burial) and employment injuries and maternity (where the employer may be made liable for compensatory payments) the same contingencies can be and are covered equally well by social insurance or social assistance. There are six contingencies for which social assistance has sometimes been preferred even when important schemes of social insurance are already operating in the country concerned, namely need for medical care; invalidity, old age and the death of a breadwinner; family responsibilities; and prolonged unemployment.

Social assistance in each of these contingencies except the last is tending to drop the means test and so to develop into a universal social security service. But only two countries have ventured to use social assistance to cover short-term incapacity for work and short-term unemployment, which are contingencies where the danger of abuse of benefit is difficult to control.

The qualifying conditions for the right to benefit are, first, that the contingency has occurred and, with it, a cessation or reduction of earnings, or a need to incur certain expenses; and, second, that the claimant possesses the particular status prescribed by the scheme of social insurance or assistance concerned.



As regards the second condition, some schemes merely require a claimant to be engaged in employment within the scope of the scheme when the contingency occurs. In a large number of cases, however, it is not enough to be an "insured person", since more often than not a scheme does not confer protection on a person merely because he is "insured": it is further required that he shall have been engaged in an "insurable employment" for a minimum period varying in length with the type of benefit, and that a corresponding minimum number of contributions shall have been paid on his account. It will be readily understood that the duration of the qualifying period is likely to depend on the probability of persons arranging to enter employment simply because they have reason to fear, or already know, that a contingency giving rise to benefit is about to happen to them—in other words, when they are "bad risks". The more valuable the benefit in view the greater this probability is. But in a country where social insurance is almost universal most of the bad risks are already insured and the problem loses much of its significance.

Under social assistance schemes the conditions relating to status are somewhat different from those imposed by social insurance schemes. As a rule, in order to obtain a social assistance benefit the claimant must show that he is a national, or at least a regular resident, of the country under whose law he claims; if he is claiming a pension he will probably have to prove that he has resided in the country for at least a prescribed number of years.

The occurrence of the contingency and the fulfilment of the qualifying conditions having been ascertained, the form and amount of the appropriate benefit are then determined. In the case of medical care the medical officers of the scheme must perforce be given discretion as regards the nature and duration of the care to be rendered, within the limits that the scheme specifies.

The rates of cash benefits payable under a social insurance scheme are usually proportional to the rate of the claimant's former earnings as averaged over a shorter or longer period—though they may sometimes be fixed on a subsistence basis. In a social assistance scheme the cash benefits are intended always to correspond to the cost of subsistence, and in some cases private income in excess of a prescribed level is deducted from the benefit.

In framing the Social Security (Minimum Standards) Convention the International Labour Conference gave equal recognition to benefits proportionate to wages and to benefits based on the cost of subsistence. It went to considerable lengths to establish fair and reasonable rules for ascertaining and comparing the economic significance of benefit levels

in different countries. Since benefits cannot in any case be higher than the income drawn by the claimant while at work, since wage rates are in their purchasing power roughly proportional to a country's effective wealth, and since, lastly, the Convention was concerned more with the social security effort of member countries in relation to their abilities than with the absolute content of their benefits, it was decided to use a typical wage for the country in question as the standard of comparison (parameter) for the rates of benefit current in that country. Where a scheme is intended to secure a subsistence wage the parameter is the wage of a typical unskilled male worker. Where the benefit is proportional to the individual's wage the Convention specifies that it must attain a certain minimum percentage in the case of a skilled male manual worker. This was because schemes where benefits are a prescribed percentage of the individual's previous wage always fix a maximum for that wage, and that maximum is sometimes so low as hardly to exceed that of an unskilled worker, while the minimum benefit, if prescribed at all, may be well below the subsistence level. Precise methods are laid down in the Convention for defining typical unskilled and skilled workers. This is the first international labour Convention in which statistics rather than juridical phrases have been used for the purpose of defining standards of social security benefits.

The medical benefits display less variety from scheme to scheme than do the cash benefits, since the definition of the former is usually worded in rather general terms; these terms, of course, allow a fairly elastic interpretation according to the character of the medical facilities available in the country concerned. The quality of medical care, which is an essential criterion of the benefit, eludes almost inevitably any attempt at definition. Neither the completeness of the training of the medical attendant nor the elaborateness of his equipment are absolute guides to the adequacy of the treatment. The medical attendant may be a nurse or dresser, or he may be a doctor of medicine; the hospital may be a shed in a jungle clearing or a chromium-plated skyscraper; yet the treatment in either circumstances may be equally effective to deal with the illnesses which are commonest in the region.

It is in their cash benefit provisions that social security schemes exhibit their greatest diversity. For these provisions are mostly couched in terms of amount and duration which are necessarily arithmetical, and every lawmaker has had his own idea of what is the proper quantity, namely that which is at once sufficient and yet not conducive to abuse, or is simply what the contributors can be expected to finance. Scientific evaluations are largely lacking in all that pertains to the determination of benefit conditions and rates.

There are limits, however, to the exercise of the legislator's discretion; a benefit for lost earnings will rarely be less than a quarter of a labourer's wage or more than 90 per cent. of the individual's wage, and a table showing the frequency distribution of the percentages under all the different schemes would show a concentration around 50 per cent. of one or other of these parameters. Also, although the distinction between the wage-proportionate benefit and the subsistence benefit appears to be fundamental, the two notions are often partially applied in conjunction: for example, the benefit may consist of two elements, one varying with the individual's wage, and the other varying with the number of his dependants. Again, it is usual to fix minimum rates and an almost universal practice to fix maximum rates.

A possible way of explaining the difference in benefit rates from one scheme—or one national system—to another is by assuming a difference of aim as regards the function of social security benefits; are people expected to rely for protection entirely on the benefits of the compulsory scheme, or are they expected to supplement them by savings or private insurance? In countries where state socialism prevails it is natural that social insurance should aim at sufficiency, at least where hard-working and loyal employees are concerned, while in countries where private capitalism predominates one would expect that social security benefits would constitute only the basis on which the individual, according to his desires and ability, would erect his own structure of protection. In fact this supposition is borne out only in a few English-speaking and Northern European countries. In other countries, where private capitalism predominates, we find that, as regards the mass of wage earners, the social security schemes (all of them of the insurance type) tend to render supplementary forms of individual protection less and less necessary. This trend, which evidently weakens the sense of personal responsibility, has been accelerated by the experience of severe inflation and catastrophic loss of savings: only state-guaranteed schemes could undertake to give anything like adequate compensation for the fall in the value of money.

A social security scheme which does not adapt its benefits to changes in the value of money is evidently not fulfilling its original purpose. Since the Second World War, and with the dissemination of the ideas of J. M. Keynes, most governments have not favoured any reduction in the nominal value of wages (or, if a new currency has been introduced, in their real value). The aim, however imperfectly attained, has been that wages should rise in proportion to productivity. In practice nominal wages show a tendency to outstrip productivity, and inflation results in a greater or smaller degree. Especially during the first few years follow-

ing the Second World War inflation has grown in some countries too rapidly for governments to be able to control it, and the currency has lost from half to nine-tenths—or even more—of its pre-war value. Governments have carried out general revaluations of benefits only to find, a year or so later, that the new scales have already become inadequate. Hence a growing number of social security schemes now incorporate permanent provisions for the adjustment of benefits to the general level of wages or prices.

Already in 1944 the Income Security Recommendation had foreseen this problem, and the Social Security (Minimum Standards) Convention confirmed the principle then put forward, namely that the rates of benefit should be reviewed following substantial changes in the general level of earnings where the latter result from substantial changes in the cost of living.

In the case of short-term benefits calculated on the claimant's recent wages no great problem arises unless inflation is catastrophically rapid. But the position is different where pensions are concerned. These may suffer doubly, first from the fact that they are calculated on a depreciated basic wage according to the average remuneration received over a number of years, and secondly from the depreciation of the pension itself. Schemes which pay benefits purporting to secure subsistence must, of course, adjust their entire benefit schedule; such an adjustment is technically fairly simple in their case.

Owing to an absence of co-ordination between the various social security schemes comprised in a national system, discrepancies often appear in the rates of benefit payable in contingencies which, though different, appear to create the same needs. Intelligible explanations can sometimes be found, but frequently the differences seem to be accidental. For example, if the cessation of earnings is expected to be temporary it may be argued either that the person can draw upon his savings, so that a relatively low benefit will suffice, or, on the contrary, that he cannot reduce suddenly his usual expenditure, so that a relatively high benefit is indicated; and the converse of these arguments is applied as regards benefits for permanent cessation of earnings. Either line of argument is perhaps tenable, but doubts are inevitably awakened when examples of both are found in the legislation of the same country.

The work of the International Labour Conference has helped governments to fix the level of their minimum benefits, especially through the influence of the Social Security (Minimum Standards) Convention. That definite figures could be embodied in that Convention is evidence of a growing consensus of opinion in the different countries about what represents a tolerable benefit in a given contingency. It should be noted,

however, that what occurred in the Conference is the same process as occurs in a national parliament: compromises between opposing interests, rather than scientific considerations, determine the result.

### FAMILY ALLOWANCES

Wage rates do not take account directly of the size of the family to be supported on the wage, though rough and practical notions of a standard of living, the average size of a family and the income needed to support the family's standard are undoubtedly, if obscurely, present in the minds of employees and employers when wages are being settled. The regular wage of an adult male is surely sufficient at least for the basic subsistence of himself and, very likely, of his wife also, in every country according to a standard regarded there as tolerable. But the inelasticity of wages with respect to family size is the prime cause of undernourishment and other hardship among the families of able-bodied workers.

It is, however, a commonplace that large families and poverty go hand in hand. This was for long considered the natural order of things, and governments, especially during the rapid growth of population in the nineteenth century, feared that they might weaken parental responsibility for the family if they subsidised persons who produced more children than they could support. But this attitude was reversed when, in parts of Europe, the sense of parental responsibility became so strong that the countries were menaced by an actual decrease of population. Meanwhile, in the first quarter of the present century the social reform movement was gathering speed, and increasing attention was paid to the welfare of the younger generation; free education began to be supplemented by subsidised meals and medical care for schoolchildren. In the fiscal sphere abatements in taxable income were introduced in respect of children. Other minor advantages for families (especially for large ones) have since been introduced here and there. But all are dwarfed by the family-allowance schemes which, at first, confined to France and Belgium until the end of the Second World War, are now universal in Europe, and are spreading, if slowly, in other continents.

Just before the end of the Second World War the International Labour Conference commended to its member States a family welfare programme in the following terms:

Society should normally co-operate with parents through general measures of assistance designed to secure the well-being of dependent children.

(1) Public subsidies in kind or in cash or in both should be established in order to assure the healthy nurture of children, help to maintain large families, and complete the provision made for children through social insurance.

(2) Where the purpose in view is to assure the healthy nurture of children, subsidies should take the form of such advantages as free or below-cost infants' food and school meals and below-cost dwellings for families with several children.

(3) Where the purpose in view is to help to maintain large families or to complete the provision made for children by subsidies in kind and through social insurance, subsidies should take the form of children's allowances.

(4) Such allowances should be payable, irrespective of the parents' income, according to a prescribed scale, which should represent a substantial contribution to the cost of maintaining a child, should allow for the higher cost of maintaining older children, and should, as a minimum, be granted to all children for whom no provision is made through social insurance.

(5) Society as a whole should accept responsibility for the maintenance of dependent children in so far as parental responsibility for maintaining them cannot be enforced.<sup>1</sup>

In the above text can be discerned a preference for benefits in kind where the end in view is the healthy nurture of children, while family allowances appear essentially as an instrument of demographic policy. The course of child welfare policies since the Second World War, however, has not confirmed this appraisal of the special role of family allowances, which have, on the contrary, become the basic instrument of such policies. Family allowances constitute a radical measure for diminishing the difference in the standard of living between homes with young children and those without. Doubtless one of their original purposes was to combat the downward trend in the birth rate, but their share in the reversal of that trend which has occurred in the last decade has not been conclusively ascertained. Today it seems rather that their main object is to promote equality of opportunity in life among children. This must certainly be the intention where, as in outlying territories of the French Union, family allowances have been introduced in populations that are already growing at a very rapid rate.

Family allowances have become a part of every branch of social security as complements to its basic cash benefits. It is proper that they should be the first type of benefit to be described in this course of lessons, for in planning a social security system for Britain that should genuinely cover subsistence needs Beveridge found that family allowances were indispensable. Any rationally constructed benefit schedule must include them, and they must also be paid as an adjunct to earnings, otherwise a man with a large family qualifying for benefit might be entitled to a sum exceeding his income while at work.

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<sup>1</sup> *Income Security Recommendation, 1944, Annex (Guiding Principles Accompanied by Suggestions for Application), Part II (Social Assistance), paragraph 28.*

Like most new developments in social security, family-allowance schemes have evolved as two independent species, one inspired by the social insurance idea, the other by the social assistance idea.

Just after the First World War, when a general demand for higher wages was building up, a group of patriotic French industrialists decided to grant the increase in the form of allowances proportional to the number of children dependent on the employee. In order to prevent discrimination at the time of hiring against men with large families the employers organised equalisation funds as a financial mechanism for ensuring that the charge per employee of each employer was equal. This device, repeated for each branch of economic activity, or extended to the field of employment as a whole, is evidently an application of the insurance principle. We could, indeed, speak of "family-allowance insurance", since an equalisation fund closely resembles an employers' mutual fund for covering employment-injury liability.

Under schemes based on the insurance principle the right to benefit is conditional on the claimant being an employee in an industry within the scope of the scheme. By confining the right to persons actually employed these schemes minimise the danger that, where the allowance is rather generous, irresponsible parents may procreate a large family in order to live in idleness on the allowances. So, just as in sickness insurance, a minimum regularity of employment is insisted upon (e.g. 18 days a month), the full allowance being payable if this minimum is attained; alternatively, the allowance may be payable at so much per day of employment. The right derived from employment is maintained in case of sickness, unemployment, disablement so severe as to render resumption of regular employment unlikely, or old age; where there are no orphans' pensions the allowance is also continued after the death of the breadwinner (under some schemes at an increased rate). In a few countries schemes have been set up for independent workers as well, and here almost the same comprehensiveness has been attained as under the universal schemes which we shall now describe.

Family-allowance schemes of the social assistance type originated in 1926 in New Zealand, which was already a pioneer of the social security movement. At first the allowances were confined to low-income families, but after some years the means test was abolished. Most English-speaking countries (with the notable exception of the United States) and the Nordic countries have imitated the New Zealand plan. Financed as they are by taxation, these allowances are not only available to all parents irrespective of economic status but are also less likely to depress wages than those which are paid by employers. As the rates are comparatively low, the temptation to parents of large families to

subsist on their children's allowances seems to be correspondingly small; in any case the governments concerned have not been led by experience to introduce any special check against such an abuse, and find their general powers to oblige parents to look after their children properly sufficient. In place of the condition that the parent must be an employee (or, in appropriate cases, an independent worker) these schemes simply require him to have established residence in the country, for example by having lived there continuously for 12 months immediately before claiming the allowance; to this condition one or two schemes add the condition of nationality.

The recipient of the allowance under most universal schemes is the mother, since she is the parent more likely to spend the money for the child's benefit. In any event the allowance is only paid to the person (or private charitable institution) who has the care of the child at the time. Where every child in the population is protected the actual relationship of the child to the recipient is, of course, a matter of little importance: the essential condition is that the child should in fact be dependent on the recipient and in the latter's care.

The arrangements for paying family allowances under insurance schemes are rather different. If the paying agent is the employer it is more convenient for the allowance to be paid to the parent who is the employee—in most cases the father; but if the paying agent is an equalisation fund it can choose between the parents (in practice the mother seems to be preferred). These schemes usually attach more importance than universal schemes to the connection between the recipient and the child, since they might otherwise find themselves paying allowances for children of parents outside the scheme: the existence of a legally recognised relationship affords a useful check. The range of relationships accepted may, however, be very wide: children of the employee or his wife, children formally adopted, orphan grandchildren, orphan brothers and sisters.

Most schemes provide that the allowance shall at least be paid until the child reaches the age of 16 and shall be continued during apprenticeship or continuance of formal education after that age; this extension bears witness to the intention to promote equality of opportunity. Several insurance schemes continue payment for girls who stay at home to help to look after younger children, and some waive all limits in the case of disabled children.

The great majority of schemes of both types now grant allowances in respect of all the children in the family who are within the relevant age limit; but there are schemes which pay only for the second or even the third child, thereby reducing very greatly their expenditure.



A notable improvement in the effectiveness of family allowances has been introduced in a few insurance schemes, which pay a special allowance when a mother abstains from employment in order to look after her children properly.

The rates of family allowances do not vary with the wage of the recipient: either they are the same for every child or they increase per child according to the number of children. The former is the rule followed by all but one of the universal schemes and by several of the insurance schemes. Progressive rates used in four schemes (the rate for the first child who qualifies for benefit being represented by 1) are shown in table I :

TABLE I. SPECIMEN PROGRESSIVE RATES OF FAMILY ALLOWANCES

| Child             | Rate |      |     |      |
|-------------------|------|------|-----|------|
|                   | 1    | 1    | 0   | 1    |
| First . . . . .   | 1    | 1    | 0   | 1    |
| Second . . . . .  | 1.1  | 1    | 1   | 1.25 |
| Third. . . . .    | 1.1  | 1.25 | 1.5 | 1.5  |
| Fourth . . . . .  | 1.4  | 1.7  | 1.5 | 1.8  |
| Fifth . . . . .   | 1.4  | 2.2  | 1.5 | 2.1  |
| Sixth . . . . .   | 1.4  | 2.2  | 1.5 | 2.3  |
| Seventh . . . . . | 1.4  | 2.2  | 1.5 | 2.6  |
| Eighth . . . . .  | 1.4  | 2.2  | 1.5 | 2.9  |
| Ninth . . . . .   | 1.4  | 2.2  | 1.5 | 2.9  |

A progressive rate evidently encourages large families, but it also takes account of the fact that the larger the family the greater the need for the allowance to approach the cost for full maintenance.

One universal scheme recognises that the cost of feeding, clothing, and even housing a child rises with its age: as the child's age goes up from 5 to 13 years (and thereafter in appropriate cases) the rate increases gradually from 1 to 1.6.

Since the allowances are not proportional to wages, but are specified amounts of money, it is not possible to make direct international comparisons of their value. However, when working on the preliminary draft of the Social Security (Minimum Standards) Convention the International Labour Office was able to calculate, for countries which publish detailed statistics of wages, the ratio which the family allowance bears to the wage of a typical unskilled worker. It found, for 1950, that the allowance for the first child varied from 3.3 per cent. to 11 per

cent. of that wage. If the allowance for the homekeeping mother is included the rates under three schemes which grant such an allowance for the mother were found to be the following percentages of the standard wages (in the case of a family of four children):

TABLE II. EXAMPLES OF PROGRESSIVE FAMILY ALLOWANCES EXPRESSED AS PERCENTAGES OF WAGES

| Child            | Belgium | Poland | France |
|------------------|---------|--------|--------|
| First . . . . .  | 11.7    | 20.7   | 15.5   |
| Second . . . . . | 10.3    | 13.9   | 31.0   |
| Third . . . . .  | 13.5    | 16.1   | 31.0   |
| Fourth . . . . . | 16.1    | 16.1   | 23.3   |
| Total . . . .    | 51.6    | 66.8   | 100.8  |

These allowances, which are exceptionally high, must offer a substantial encouragement to parents who are fond of children.

The International Labour Conference, in deciding on a minimum standard of family benefits, was faced with a delicate problem. It had to bear in mind particularly the low economic capacity of under-developed countries, which are characterised by high birth rates and a high proportion of illiteracy. For such countries a universal scheme is out of the question, while an insurance scheme can scarcely be applied outside urban areas. In these circumstances it appeared to the Conference that benefits in kind, such as food and housing, might be quite as appropriate in some countries as family allowances, and that the fairest way of formulating a minimum standard was to fix a minimum level of national expenditure on family benefits, whether in kind or in cash. The Conference decided on a minimum of 3 per cent. of an unskilled worker's wage per child in the population where the scheme covers half or less of the employed population, or 1.5 per cent. of the same where the scheme extends to the whole population.

### Questions

1. *Classify the contingencies that are covered by social security schemes according as their effects are—*

- (a) *temporary* ;
- (b) *permanent* ;



## FOURTH LESSON

### **BENEFITS** (*continued*)

#### SICKNESS AND MATERNITY INSURANCE

On both historical and logical grounds sickness insurance may be considered as the primary branch of social insurance. In its simplest form it is easy to organise in any locality where a few hundred persons can be grouped together in a society and the services of a medical man can be engaged. Illness enters into everyone's experience, and the apprehension of it is felt at all ages. Care of health in youth and middle life delays the onset of invalidity, the symptoms of old age, and death itself. A person who falls sick is threatened with two stages of unemployment, at first because he cannot work, and later because he will have lost his job.

A typical sickness-insurance scheme provides medical (including obstetrical) benefit to insured persons and their dependants by means of contracts with private medical practitioners and with publicly subsidised hospitals; it pays cash benefits to the insured person during sickness and during maternity leave and a funeral benefit on the death of the insured person or—though this is rare—of a dependant. But in the U.S.S.R. and the People's Democracies, in New Zealand, the United Kingdom and Chile the responsibility for providing medical benefit is assumed by the public health administration, which for this purpose is co-ordinated with an insurance or assistance scheme supplying the cash benefits.

#### *Medical Benefit*

A description of medical benefit cannot in practice be given without at the same time describing the organisation of the medical-care service. Indeed, the most delicate and perplexing problems in the whole field of social security are surely those that arise in connection with medical care. They are essentially human problems and, as such, incapable of permanent solution. The fundamental difficulty is a matter of money, of course, but it is complicated by the individualistic tradition of the medical profession, at least in the Western world. Unceasing tension subsists between the representatives of the insured population and those

of the practitioners. Nevertheless compromises are always reached, and, with the adjustments that are effected from time to time, there has been gradual progress towards more rational policies.

The contingency in which medical benefit is granted is simply the need for it: the person protected does not feel well. Preventive medicine is, as a rule, the responsibility of the public health authorities, but these may make arrangements for measures of immunisation to be carried out by medical-care services, while all doctors are required to report certain infectious diseases to the authorities.

Nearly all sickness-insurance schemes require the applicant for medical benefit to have to his credit a minimum number of contributions in the course of the year (or some shorter period) preceding the beginning of the treatment. A variety of formulas for the qualifying period are in use, for example 60 hours' employment in the last three months; one contribution month in the last four months; or six contribution months in the last 12 months. There seems to be no clear principle governing the length of the qualifying period, but evidently the desire is everywhere to make medical benefit very easily accessible to the insured person and his dependants in view of its importance as a public health measure. Faced with such a variety of practices the Social Security (Minimum Standards) Convention had to approve any "such qualifying period as may be considered necessary to preclude abuse".

Public medical-care services, of course, impose no qualifying period. A few insurance systems also require no qualifying period and grant benefit to any person who is actually in insurable employment when the illness is diagnosed. If strictly interpreted this would mean, however, that a person could not claim the benefit if the contingency occurred immediately after he left his job; these schemes therefore provide for a "free insurance period". Thus persons who have been in insurable employment for 26 weeks in the last 12 months before becoming unemployed are treated, for the first three weeks of unemployment, as though they were still employed, and so are entitled to medical benefit—and, for that matter, sickness benefit—for any condition that begins in that period.

As long as the doctor's function was mainly consolatory, and cure was wrought, as often as not, by nature, the cash benefit was quite as important as medical benefit. But the importance of the latter benefit has become heavily preponderant, notably in the last 30 years, as more effective remedies have been discovered and placed at the disposal of the practitioner. So it is that sickness insurance has come to be essentially an agency for supplying medical care, the cash benefit being a mere auxiliary in the curative process.

The ideal medical service towards which all member countries of the International Labour Organisation should strive was delineated in great detail in the Medical Care Recommendation. But in the eight years that intervened before the adoption of the Social Security (Minimum Standards) Convention only a small minority of countries had come near to that ideal, and, since in the Convention especial consideration is given to the capacity of the poorer countries, its provisions are simpler and the standards less high than those of the Recommendation. Most countries which possess sickness-insurance schemes reach the required standard as regards the benefit itself, but in extra-European countries the schemes often fail to protect a sufficient proportion of the population.

Every medical-care service provides (though in different degrees of availability, specialisation and liberality) the following types of care:

- (a) general practitioner care, including visits to the home;
- (b) diagnostic facilities;
- (c) care by medical specialists and surgeons;
- (d) pharmaceutical supplies;
- (e) obstetrical care by midwives and doctors;
- (f) nursing and maintenance in hospital; and
- (g) dental care.

To these may be added such items as: various forms of physical therapy, dentures, artificial limbs, convalescent care, home nursing and ambulance service.

A medical-care service that approaches completeness is costly. Although there are natural limits to the demand for the attention of doctors and for medicine to consume, these limits leave room for tremendous extravagance. Therefore every medical-care service must endeavour to achieve a maximum of economy, i.e. a maximum of efficacy in return for a given outlay. To interpret this notion properly in relation to medical care we should seek a criterion for determining the outlay. We cannot here attempt the economic analysis—necessarily theoretical and schematic—which might yield the rule for obtaining the optimum figure; but at all events it is highly probable that an increasing outlay results in increasing returns of efficacy up to some point and thereafter in decreasing returns. We can perhaps affirm that “a maximum of economy” in the present context means reducing the average frequency and duration of incapacity to a minimum by a policy which aims at preventing disease and prolonging active life. It is safe to say that no scientific evaluation of the economy of one service in comparison with

another has ever been made; but this has been done for particular methods of treatment, and it would surely be profitable to extend the scope of such investigations. At the present time we have to content ourselves with more or less substantiated intuitions about the economy of the different policies followed in the organisation of medical-care services.

The medical man will be irritated by the budgetary aspects of economy and will regard efficacy as his main concern. Efficacy evidently depends on the simultaneous fulfilment of several conditions: not only must the physician be ready to do his duty, but the patient, the attendants and external circumstances must conduce to the cure. First of all, then, it requires a skilful and conscientious practitioner in whom the patient has confidence. Skill and conscientiousness can be secured by the education of native ability, by the inculcation of a sense of social responsibility in the medical student and by the payment of remuneration which most doctors will judge to be not unfair (no more can be expected of human nature). Medicine, like other scientific techniques nowadays, is in constant evolution, and the doctor ought to have opportunities to keep abreast of advances; this will not be possible unless his remuneration allows him to take time off for it and facilities for post-graduate study are furnished.

The conditions that are necessary to establish confidence are not so easy to define. In some countries patients as well as doctors are said to set great store by the rigid observance of the secrecy enjoined by the Hippocratic oath; as long as the diagnosis is communicated to the medical supervisor of the insurance institution this secrecy does not seem to give rise to too much administrative inconvenience. Again, it is widely held, especially in countries where wage earners have experience of medicine as practised privately, that to have confidence in his medical attendant the patient must be able to choose him and to change to another if he is dissatisfied. It is, however, unusual for a patient to wish to choose his own specialist or surgeon, whose merits he is unlikely to be able to judge. In countries where the mass of the insured population could never afford to employ a doctor it seems that there is no marked desire to choose one's general practitioner. But there is another aspect to this question of free choice; it is held that clients, through the exercise of their power of choice, can reward the preferred attendant by enlarging his practice and so render effective the normal process of economic competition. In this context, however, competition is not always salutary, since the patient too often gives his preference to a doctor who is complaisant rather than conscientious.

The efficacy of treatment depends, not only on personal factors, but also on the material facilities at the practitioner's disposal: correct

treatment, including the prescription of rest, is impossible without correct diagnosis, and a conscientious doctor would like to avail himself to the full of the elaborate diagnostic techniques that exist today. The general practitioner has then to decide on the treatment to be applied, and whether his patient should be referred to a specialist or sent to hospital. His decision, if he is to give due weight to economic considerations, is delicate indeed. A wide range of new, and often costly, pharmaceutical preparations are brought to his attention by the manufacturers; how shall he choose between them? The decision whether to order the patient to stop work or not, whether or not to prescribe some form of physical therapy, whether to transfer the patient to a specialist or to hospital or to retain him in his sole care—all these are matters of the greatest consequence for the finances of the medical-care service.

Sickness-insurance schemes are commonly managed by laymen. They approach the question of economy from a different angle; their gaze is apt to be fixed on the avoidance of expenditure, and they are inclined to be sceptical about the efficacy of remedies that are certainly expensive in the short run but may perhaps be economical in the long run. Moreover, they will be interested in economising the doctor's time by installing him in a health centre or polyclinic. Medical supervisors are employed to scrutinise, and question the justification for, the different items of care given or ordered by the medical attendant. Supervision restricts the exercise of the doctor's professional judgment, and, unless it is applied with the utmost tact his self-respect will suffer, and his despondency will affect all his work.

The principle of economy thus concerns all phases of the process of supplying medical care, from the training of the student to the selection and conduct of the treatment. But the degree to which it can be applied varies according to the method of organising the service.

There are, broadly speaking, three methods of enabling insured persons to receive medical care, namely—

(a) limited refund by the insurance institution of medical expenses incurred by the insured person;

(b) direct provision of care by a salaried staff in establishments operated by the medical-care service;

(c) direct payment of medical expenses by the insurance institution.

In every scheme one of these methods predominates as regards the care given by general practitioners, but the other methods are often used to some extent in the provision of other types of care.

The "limited refund" method, which is the one normally used in commercial sickness insurance, is applied in social insurance only in a very



few countries. In principle the insurance institution does not interfere at all in the arrangements that the patient makes with the doctor, pharmacist or hospital of his choice. But it must necessarily keep its liabilities within certain limits. It therefore establishes, if possible with the agreement of the medical profession, a scale of fees for each kind of service that a doctor can render, and refunds to the insured person a major fraction (75 to 80 per cent.) of the fee mentioned in the scale. The doctor, aware that his patient can rely on this refund, is inclined to raise his charge according to his estimate of the patient's liability to pay; but a patient living in a district where there is sufficient competition among doctors can sometimes defend himself against this tendency. The refund method safeguards perfectly the traditional relationship between doctor and patient, but it excludes the possibility of creating a rational medical-care organisation. It is a method which bears hardly on the poorer patient, who not only lacks the ready money to pay the bill but must also pay a substantial part of it himself. These severities, however, can be, and sometimes are, mitigated by refunding the whole cost in certain lengthy illnesses.

The second method is the total opposite of the first. All categories of medical personnel are employed on a salaried (often part-time) basis like civil servants by the insurance institution or public health authority which owns the polyclinics in which they work. The staff are recruited—in theory at least—on the basis of their qualifications. Each polyclinic has, according to its size, a staff of specialists, auxiliaries and dispensing chemists; and the hospitals similarly vary in size and the range of specialities they provide. The staff works as a team and, as soon as the diagnosis is made, the patient is entrusted to the proper specialist. Insured persons living at a distance from a polyclinic are served either by travelling dispensaries or by small first-aid posts, and are transported to hospital if necessary. Methods of treatment are controlled by the medical directorate, and a special pharmacopoeia, drawn up with an eye to economy, is used. This highly rational organisation affords little opportunity for free choice of doctor or continuity of care by the same medical attendant, though excellent medical histories can be maintained. On the other hand, the battery of impressive equipment and the hygienic consulting room may inspire more confidence in the patient than the often dingy premises of the private practitioner. This method is exclusively adopted by social insurance in Latin America and by the state medical-care services of Chile, the U.S.S.R. and the People's Democracies. It has its specific disadvantages, namely bureaucracy, which dries up individual responsibility, and loss of the real but intangible quality that resides in the personal relationship with the doctor.

The third method could be described as somewhere between the first and the second—perhaps as a step on the way to the latter. Here the insurance institution pays the doctor, pharmacist and hospital directly, the patient as a rule paying no part of the charges. Economy is sought, not by limiting the payment, but by avoiding wasteful methods of treatment. This is done by means of detailed collective agreements with the professions and establishments concerned. These prohibit the practitioner, for example, from prescribing advertised pharmaceutical preparations for which substitutes can easily be made up; and costly modes of diagnosis and treatment may require the authorisation of the medical supervisor. Practitioners who prescribe extravagantly or are unduly liberal in certifying incapacity for work may be penalised. Choice of doctor is allowed within limits, and in general the restrictions on the free exercise of the practitioner's discretion are not such as would hinder him if he were treating privately a patient of moderate means.

Under the third method alternative systems of remuneration are in use: the fee-for-service system and the capitation-fee system.

The fee-for-service system approximates to that which prevails in private practice. In agreement with the profession, a list of all the services that a doctor can render is compiled and an appropriate fee is assigned to each item. This system presents the advantage that the doctor is remunerated according to the volume and importance of his work and the obvious disadvantage that he may become too prodigal with his attentions.<sup>1</sup> As under the refund method, the insured person can change his doctor at any time, so that a permanent relationship between doctor and patient is not positively encouraged.

The capitation-fee system is simpler and is also applied by agreement with the profession. The general practitioner receives a uniform annual fee for each insured person who has formally chosen him as medical attendant in the eventuality of illness; change of doctor is allowed only periodically or subject to a formality. The doctor's interest clearly lies in keeping his patient well by preventive care and in giving him no more attention than he needs. On the other hand, the general practitioner may be disposed too readily to transfer responsibility for an illness to a specialist or hospital. The capitation fee, of course, is never adopted for the remuneration of specialists, who are paid either on a fee-for-service or salary basis.

All care provided under schemes applying the second or third methods is, as a rule, free of charge to the patient. Nevertheless, some of these

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<sup>1</sup> This disadvantage, however, can be offset by assigning to the medical association a fraction of the yield from insurance contributions and letting the association distribute it according to its own standards of fairness.

schemes require him to pay, for example, a nominal sum on the occasion of a first consultation, or a small share of the cost of a prescription or denture; these slight reminders of the importance of economy seem justifiable where the insured population enjoys a standard of living well above the subsistence level. However, under schemes applying the third method it is not infrequent to oblige the insured person to bear a substantial part of the cost of the care given to his dependants, and this, of course, can only be justified by inadequacy of financial resources.

Most sickness-insurance schemes set some limit on the duration of medical care. The Social Security (Minimum Standards) Convention allows treatment to be discontinued after 26 weeks. Such a limit is still usual as regards hospital care. In the case of care given outside hospital the limit tends to be more elastic: treatment continues as long as the patient remains in insurable employment or receives sickness benefit. Public medical-care services, on the other hand, go on treating the patients without limit of time until he is cured or the infirmity is recognised as permanent.

To conclude this all-too-brief sketch of the different means by which social security agencies provide medical care, let us refer once more to the Medical Care Recommendation, 1944. That extremely detailed text envisages a series of methods appropriate to the successive stages in the development of medical-care services for the masses, but it certainly looks forward to the final establishment of public services for the care of the population generally. Such services would preferably be staffed by a salaried personnel and be organised according to the second of the three methods described above but taking over from the third method the policy of limited choice of doctor and the institution of the family doctor. It is interesting to note in this connection that in Chile, where the second method has been applied fairly strictly for some 30 years, provision has recently been made for a limited choice of doctor.

### *Sickness Benefit*

The contingency in which sickness benefit is payable can be defined in practical terms as suspension of earnings owing to some disease or injury which cannot be cured without stopping work. When certifying that the patient must abstain from work the doctor must of course consider the patient's condition and the prognosis in relation to the demands made on him by his occupation: an ailment which incapacitates a miner might not incapacitate a clerk. The assumption is that the treatment will be limited in duration and that the patient will sooner or later resume his occupation.

But in some cases the doctor is sure from the outset that his patient will never recover entirely or that the case will have a fatal termination. These cases also fall within the definition of sickness, and when they occur sickness benefit will eventually be succeeded by invalidity or survivor's benefit.

The right to sickness benefit is, under almost all schemes, conditional on the completion of a qualifying period, which in the majority of instances is the same as that imposed in connection with medical benefit, but is sometimes more strict, though it does not exceed six contribution months in the 12 months preceding the beginning of the illness. The Social Security (Minimum Standards) Convention gives the same indication for both benefits.

Under most schemes sickness benefit is not payable if the incapacity for work lasts only a few days. The waiting period is now commonly three days, and this is the duration allowed by the Social Security (Minimum Standards) Convention. The reason for imposing a waiting period is, of course, to save expense. Brief indispositions account for something like half of all cases of sickness, and occur on the average once a year for each individual. The cost of processing a claim for benefit is independent of the duration of the sickness, and the ratio of the administrative expenditure to the benefit paid is therefore extremely high when the duration of benefit is very short. Also it is impossible to check the validity of the certificate of incapacity in these cases, and frequent abuse is likely.

No appreciable hardship is caused to the insured person if, say, once a year, he goes without wages for a few days; but suppose he suffers a succession of such short spells of incapacity? The more advanced schemes take care of this possibility: it may be provided, for example, that there shall be no second waiting period in the event of the recurrence of the same disease in a period of 12 months, or if during the 13 weeks preceding the illness in question as many as 12 days have already been lost through sickness or unemployment.

The rate of the sickness benefit may be calculated in any of three ways—

- (a) as a percentage of the previous wage;
- (b) the above plus general family allowances or special supplements for dependants;
- (c) a uniform basic allowance plus general family allowances or special supplements for dependants.

The wage taken as the basis for formulas (a) and (b) is usually a recent one, for instance the average daily amount earned during the

three months before the illness began. There is always a maximum basic wage for the calculation of benefit, and usually the same maximum applies to the wage on which contributions are levied. It follows that the ratio of the benefit to the actual wage is reduced in so far as the latter exceeds the maximum. If the level of nominal wages is rising, as is often the case today, the maximum needs frequent adjustment.

The benefits granted under schemes applying formula (*c*) are not geared by the law itself to any particular wage, but in practice they are intended to represent a fraction of the unskilled worker's wage. They too, therefore, require adjustment when the level of nominal wages rises.

Schemes applying formula (*a*) are rare nowadays in Europe, where most countries have introduced family allowances or at least dependant's supplements to benefits, but form the majority in Latin America. The ratio of benefit to the basic wage under these schemes varies from 50 to 75 per cent., or even 90 per cent.

A similar range of percentages is found in the schemes—mainly European—where formula (*b*) has been preferred. Since family allowances are always fixed at amounts that are independent of wages, the addition of the same allowance to the benefit as to the wage produces for the low-wage earner a total benefit which is higher in proportion to his previous income than it does for a high-wage earner.

The few schemes which apply formula (*c*) operate in countries where the wage differential for skill is small and the unskilled worker's earnings are well above the subsistence level. They include the insurance schemes of the United Kingdom and the assistance schemes of Australia and New Zealand.

The problem of fixing the rate of sickness benefit illustrates the difficulty of designing a fair and rational scale of benefits when there is no experimental knowledge of what would be the behaviour and condition of recipients if different benefit formulas were applied. In this case trustworthy statistics showing the relation between morbidity rates and benefit rates would be instructive, but they are rarely to be found within the experience of a single scheme. It was just for such a reason that in 1944 the International Labour Conference recommended the standardisation of social security statistics, but as yet not much has been accomplished in this highly technical field. However, common sense can help us in the right direction, guided by the principle of economy as defined earlier in this lesson.

Formula (*a*) is evidently not the most efficient way of using the scheme's resources, whatever the rate of benefit. To pay the same amount irrespective of the size of the family to be maintained is justifiable only if—(1) there is an equitable right to equal benefit rates in return

for equal contribution rates, an argument which presupposes that the contribution of the employer cannot be utilised for adapting benefits to the differing circumstances of families; and (2) as is the case in certain countries, there are difficulties in the way of ascertaining the current composition of the family. Formulas (*b*) and (*c*) on the other hand do take account of the needs of the family.

The Social Security (Minimum Standards) Convention judges the adequacy of a benefit schedule by the fraction of the previous income (wages plus any family allowance) payable where the beneficiary has a dependent wife and two children. It supports, therefore, the principle of formulas (*b*) and (*c*), but it is satisfied with a benefit of only 45 per cent. of the previous income. This, it will be agreed, is a very small sum for most wage earners; but there is a twofold explanation for this low figure. First, it has to be remembered that the Convention is concerned with minimum standards, mainly those which the poorer countries can afford. Second, the figure of 45 per cent. relates, under schemes applying formulas (*a*) or (*b*), to the wage of a skilled employee, and does not imply that the same low percentage should be payable to persons with smaller earnings; under schemes applying formula (*c*) the figure relates, it is true, to the wage of an unskilled worker, but these schemes in fact exist only in countries where facilities for, and the habit of, personal thrift are well developed. Even so, we should not allow ourselves to believe that 45 per cent. of a workman's previous income is enough to support him as well as his wife and children. In practice almost all existing schemes pay a higher percentage than this to workers receiving wages below those of the skilled category; the Indian scheme, for example, pays 58 per cent.

Admittedly the benefit should be less than the income the insured person was drawing while at work, since he does not have to pay insurance contributions and is relieved of the cost of fares and meals away from home, which may have amounted to 10 per cent. or more of his wage. After making allowance for this factor, however, the considerations to be weighed in fixing the rate are contradictory. On the one hand there is the pressure that patients exert on their doctor to certify them as sick beyond the date when they are physically fit to return to work. It is safe to assume that many workers are engaged in occupations which are dull or arduous and would like to prolong their absence from work; and if the benefit were very close to the previous income the temptation for a person to exaggerate his symptoms would be very strong. On the other hand the sickness benefit should ideally be equal to the net previous income so that the sick person will be as well nourished as before and free from anxiety about falling into debt.

It is possible to bridge these contradictions by a formula derived from (b). The benefit should be sufficient for the subsistence of the worker and his dependants. It should also reflect the fact that the beneficiary has to meet certain standing economic commitments, such as rent, which vary according to the level of his income and cannot be suddenly reduced in the emergency of sickness; but the benefit should not aim at covering fully this differential charge. The higher the wage, we may suppose, the wider the margin for the personal thrift which the insured person can be expected to exercise and on which he may be called upon to draw to a limited extent in case of sickness or other emergency. It would therefore seem reasonable to pay, as benefit, a percentage of the wage which decreases as the wage increases. Such a scaling of benefit practically necessitates the grouping of insured persons in wage classes; it is very rarely applied in sickness insurance, but this effect is produced by the inclusion of family allowances in wage and benefit, as we have already noted.

The possibility of simulating or exaggerating symptoms is greatest in short illnesses the duration of which exceeds the waiting period but is not long enough to permit careful checking of the diagnosis. In really serious illnesses this possibility is minimised, and in consequence the need to keep the rate of benefit low as a safeguard disappears. It is also in lengthy illnesses that the drain on savings becomes excessive. Therefore where the sickness has lasted for a month or two it appears practicable, as well as desirable, to raise the benefit rate. The sickness-insurance scheme of Czechoslovakia formerly embodied all these refinements: family allowances, rates varying inversely with wages, and increased rates in case of long sickness.

Most schemes reduce the sickness benefit while the patient is being maintained in hospital at the expense of the scheme. Family allowances, of course, are not affected. But, as regards the amount of the basic benefit and persons who are to receive it, there is a surprising diversity of policy: for instance, some schemes pay nothing to the patient and half the benefit to any dependants, while others pay half to the former and half to the latter. The Social Security (Minimum Standards) Convention lays down a precise and rational rule: only the cost of the patient's maintenance (not treatment) may be deducted from the benefit.

Sickness, in the terminology of social security, is a temporary condition that ends in cure, a permanent disability, or death. The main reason why, under insurance schemes but not under assistance schemes, a limit is set to the duration of sickness benefit is that, where the insurance institution is the traditional local or occupational sickness fund, its financial system is unsuited to carry a burden of cases which, lasting

indefinitely, would accumulate year by year. Furthermore, it is felt, if not always specifically argued, that a member of such a fund ought not to draw more than some limited amount out of the common pool of resources. Such limitation of the sickness benefit period is not a catastrophe for the insured person since, if he is still unable to work when he has exhausted his right to sickness benefit, he can obtain an invalidity pension. This is lower than the sickness benefit but is payable indefinitely by an institution financed for the purpose. Such was the traditional solution, and such it remains in the great majority of countries, even where the finances of sickness insurance are centralised.

Half a century ago the maximum duration of sickness benefit per case was only 13 weeks under the original German scheme. Then 26 weeks per case became standard practice for many years. (In a few schemes a less favourable formulation of the rule prescribes "26 weeks in any period of 52 weeks"). This was a convenient interim solution because most illnesses that last so long are likely to continue indefinitely; it is the figure accepted by the Social Security (Minimum Standards) Convention. But social insurance began to take a more constructive view of its functions as medicine grew able to promise recovery from diseases previously regarded as incurable. So in one scheme after another a provision has been introduced enabling the insurance administration to extend medical and sickness benefit beyond 26 weeks where there is a likelihood of cure or improvement. This tendency continues today. However, the prolongation of benefit is still, in most schemes, subject to an arbitrary limit of an additional 26 weeks. The total of one year is often insufficient for the cure of tuberculosis and some other diseases, and so, in the most advanced countries, we now find that the limit for the duration of benefit is set at two or three years. Finally, there are three or four schemes, backed by national financial resources, that have abolished the limit altogether. This evolution is a striking example of the ideological change from social insurance to social security.

Almost all sickness-insurance schemes provide a funeral benefit on the death of a person who was entitled to sickness benefit. The majority of schemes pay one month's basic wage; some prefer a moderate fixed amount. A few schemes grant a funeral benefit for dependants also. In the United Kingdom the whole population is compulsorily insured for funeral benefit.

### *Maternity Benefit*

One of the very first Conventions adopted by the International Labour Conference was the Maternity Protection Convention, 1919. The purposes of this instrument, which was revised in various details in 1952, were to—



(a) enable a female employee to abstain from work during the six weeks preceding the expected date of her confinement;

(b) oblige her to abstain from work during the six weeks following her confinement;

(c) provide her with free attendance by a doctor or certified midwife;

(d) provide her, out of public funds or by means of insurance, with a cash benefit sufficient for the full and healthy maintenance of herself and her child during the said periods of abstention from work ;

(e) prohibit her dismissal during the said periods or a subsequent period of sickness;

(f) enable her to suckle her baby twice a day during working hours.

Most of the I.L.O. member countries which have ratified the Convention provide maternity benefits in cash and in kind by means of insurance, incorporating them in their sickness-insurance schemes. Moreover, maternity benefits are a feature of the sickness-insurance schemes of a number of countries which have not ratified the Convention. Obstetrical care is also provided for the wife of an insured person under several schemes which do not provide medical benefit for dependants generally.

The qualifying period for the right to maternity benefit is, as a rule, stricter than that imposed as a condition for sickness benefit. It is often laid down that the woman must have been registered as an insured person for at least ten months before the expected date of her confinement.

The rate of the maternity benefit is usually the same as that of the sickness benefit but is sometimes higher (perhaps in order to comply with the terms of the Convention requiring it to be sufficient for "full and healthy maintenance"). The revised Maternity Protection Convention calls for a benefit equal to two-thirds of the previous wage, but the Social Security (Minimum Standards) Convention, less ambitious, is satisfied with 45 per cent.

The great majority of countries have deemed it sufficient to pay benefit, in respect of normal pregnancies and confinements, for the 12 weeks prescribed by both the Maternity Protection and the Social Security Conventions. A few schemes, however, allow as long as 14, 18 or even 20 weeks. On the other hand, in several Latin American countries the total periods of maternity benefit are shorter: seven, eight, nine or ten weeks; it may well be that the attitude to childbirth there is more natural than, for instance, in Europe. But, whatever the minimum duration of maternity benefit, a woman who is sick on its expiry will be entitled to sickness benefit.

Both in Europe and Latin America it is common for a nursing benefit to be paid to a mother who feeds her child at the breast: for example, 20 per cent. of her wage for six months. In addition, some schemes grant a small sum for the purchase of a layette. In a few countries (for example, in Czechoslovakia and Hungary) we find a highly desirable improvement, namely the provision of domestic help while the woman is confined to bed.

### Questions

1. *State which of the following methods of providing medical benefit you prefer, giving your reasons :*

(a) *the refund, up to a certain limit, of the medical expenses incurred by the patient who uses any facilities he chooses ; or*

(b) *the rendering of medical care by a salaried staff employed by the insurance fund.*

2. *A high rate of sickness benefit frees the patient from anxiety and allows him to be properly nourished, but it tempts him to prolong his absence from work. How would you regulate the benefit rate in order to obtain a maximum of adequacy with economy ?*

3. *Can you justify limiting the duration of sickness and medical benefits to say, 26 weeks, even in cases where prolongation is likely to result in recovery ?*

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## FIFTH LESSON

### BENEFITS (*continued*)

#### PENSIONS

“Pension” is the generic name of the long-term periodical cash benefits that social security systems pay in case of invalidity, in old age and on the death of the breadwinner. These three contingencies have a common feature, namely the ending of the active life of the person concerned. Whether the method of affording protection is social insurance or social assistance, logic requires that the three kinds of pension should be co-ordinated.

The provident breadwinner desires to have his savings available in any of the events which may deprive him and his dependants of their livelihood. It is therefore fortunate for him that social insurance, like private insurance, finds it mathematically convenient to group old age and death together, covering them as alternative possibilities, i.e. survival beyond a given age or decease before that age. In social insurance planning invalidity has traditionally been treated as premature old age, and the invalidity pension has been the basis for the computation of the old-age and the survivors' pensions. On the other hand, a few recent systems provide the invalidity benefits under the sickness-insurance scheme, considering invalidity to be essentially a prolongation of sickness.

In the context of social assistance there is, of course, no question of the right to a pension's being based on personal savings, and state policy alone settles whether one, two or all three types of pension shall be introduced. Old-age pensions come first because of the large numbers of needy persons concerned and the shame that indigent old age reflects on the community, and because they are comparatively simple to administer. But when invalidity pensions are added the provisions concerning them will certainly be designed to join up smoothly with old-age pension regulations. Widows' pensions will similarly be harmonised with old-age pensions.

The Social Security (Minimum Standards) Convention admits both social insurance and social assistance as methods of realising its standards. Although the three contingencies are treated in separate chapters,

there is a maximum of uniformity in the provisions, so as to facilitate ratification by member countries in which all three are covered by a single scheme.

Consequently, after the contingencies have been defined separately in the next three sections, it will be possible to analyse the rules for granting and computing pensions of all three types together.

### *Invalidity*

Invalidity is nearly always linked to sickness or to old age, but there are, of course, cases of congenital infirmity. It could be described as an incurable, but stabilised, sickness involving permanent incapacity for work, and having therefore economic consequences for the insured person similar to those of advanced old age. Typically, invalidity results from constitutional diseases that are associated with late middle age, such as heart and circulatory ailments, and rheumatism. The disease progresses gradually until the patient can no longer hold an ordinary, regular employment, and, for practical purposes, he becomes unemployable, though, theoretically, he might now and then find some light work that he could do. Under some schemes invalidity is not covered where it begins after the age at which an old-age pension may be claimed.

In connection with this condition the German law of 1900 gave a definition of "invalid" which has been taken over by a large majority of subsequent invalidity schemes, partly because of the prestige of the German legislation, and partly in order to take advantage of German experience in the preparation of actuarial estimates. According to this definition an insured person is an invalid if he can no longer earn, in any employment suited to his strength and ability which can reasonably be assigned to him in view of his training and previous occupation, as much as one-third of what a fit person of similar training usually earns. It is important to note that the wording safeguards the status of the skilled employee, who cannot be denied a pension on the ground that he could earn a regular wage in some unskilled employment, or even that he is earning such a wage. Most individuals afflicted with grave constitutional diseases, however, are not able to do any regular work at all. On the other hand, there are a substantial number of disability cases that result from minor or major mutilations, but invalidity insurance, unlike employment-injury insurance, does not cover cases of permanent incapacity of less than the high degree just mentioned save in a minority of countries (among which the Federal Republic of Germany is now to be numbered) where the following three degrees are recognised: inability

to resume one's former occupation; inability to follow any occupation; the condition of helplessness which demands constant attendance.

The classical definition was formulated before unemployment insurance existed or was even thought of, and invalidity insurance disclaimed liability for unemployment among partially disabled persons resulting from lack of demand for their labour or the hiring practices of employers. In order to remedy this defect the International Labour Conference, in the Income Security Recommendation, proposed that invalidity benefit should be related to the individual's situation in the employment market: if the employment service could not offer a disabled person a regular employment suited to his disability he should be deemed to be an invalid, or, if it is likely that a course of physical and vocational rehabilitation will fit him for an occupation in which employment is plentiful, he should receive a maintenance benefit during the process.

Experience, and therewith improved techniques, in the rehabilitation of war victims and the prevalence of full employment after the Second World War have given a new impetus to the rehabilitation projects conceived after the First World War. In the United Kingdom, for example, a programme corresponding to that recommended by the International Labour Conference was included in the Beveridge Plan. The projects of the latest countries to interest themselves in invalidity insurance—the United States and Switzerland—lay great stress on rehabilitation. The extension of the maximum duration of medical and sickness benefits to which we referred in the previous lesson shows the same insistence on achieving maximum recovery. Also a few governments have ensured employment opportunities for partially disabled persons by requiring employers to reserve a certain proportion of jobs for them. Nevertheless, it must always be remembered that rehabilitation is not applicable to the main body of the clients of invalidity schemes, namely elderly persons afflicted with constitutional diseases.

The Social Security (Minimum Standards) Convention, consonant with its limited objectives, defines invalidity as "inability to engage in any gainful activity, to an extent prescribed, which inability is likely to be permanent or persists after the exhaustion of sickness benefit". This wording implies that invalidity may be something less than total disablement.

### *Old Age*

The contingency which entails the award of an old-age pension is defined in terms that are simple enough: under most schemes all that is stated is the minimum age at which the pension may be claimed ("pensionable age"), and whether the pensioner need retire from his

work. But the pensionable age varies from one scheme to another, and the very differences indicate that the concept of "old age" is not simple.

Two main ideas are always involved. The first is that old age is the kind of invalidity which supervenes inevitably if the person lives long enough. The second is that every person who has worked for many years in the service of an undertaking or industry has earned the reward of a retirement pension. Both ideas find expression in old-age security schemes, where the predominance of one or other helps to explain differences in pensionable age, other qualifying conditions, and the scale of pensions.

All pension schemes fix an age at which pensions are granted whether or not the claimant is still capable of work. It is this that distinguishes old-age security from the security afforded to invalids. The fact that the retirement age is known in advance is not only an advantage to the employee but also to the employer, who needs to know at what age he can decently discharge an old employee. In fixing the pensionable age consideration is of course always given, however vaguely, to the gradual decline of working efficiency and the growing frequency of invalidity which accompany advancing age. Obviously the ability of an elderly person to continue in his job depends as much on the demands made by it as on his physique. Hence a rational policy would relate the pensionable age to the arduousness of the occupation and the number of years served in it. This was recommended by the International Labour Conference in 1933 (Invalidity, Old Age and Survivors' Recommendation) and repeated in 1944 (Income Security Recommendation).

In reality most pension schemes for employees generally, and all universal schemes, ignore the occupational differences in the onset of senile invalidity, mainly perhaps in order to avoid the complications arising in careers comprising a series of occupations. But partial solutions for this problem are often found by establishing special pension schemes for certain occupations that provide a pension at an earlier age than does the principal scheme.

The criterion for fixing the proper pensionable age under a general scheme of pension insurance was comprehensively but succinctly defined in the Income Security Recommendation as follows: "[The prescribed age] should be that at which persons commonly become incapable of efficient work, the incidence of sickness and invalidity becomes heavy, and unemployment, if present, is likely to be permanent."

Naturally, this is not a condition that people look forward to. They do not want to wait until they are worn out and have one foot in the grave: they hope for "a final holiday with pay". Fortunately, however,

the decline of energy which prevents an elderly person from keeping up with the work tempo of modern industry does not connote inability to enjoy the chosen activities of leisure.

Just how soon workers should be entitled to rest from their labours is settled by a compromise in which the above considerations are practically reconciled, along with a series of secondary factors, including the ratio of the aged to other sectors of the population, the expectation of life at a given pensionable age, the general level of employment, and, of course, the magnitude of the financial liability involved and the distribution of this burden.

The existence of a surplus of manpower may affect the choice of the pensionable age, not only for the obvious reason that elderly persons experience difficulty in procuring employment but also for the opposite reason, namely, that the minority of older persons who do succeed in retaining their jobs reduce thereby the opportunities for younger, more efficient men, who very likely have families to support. Hence it was that the International Labour Conference in 1933, which was a time of world-wide depression, recommended the reduction of the pensionable age as a measure for relieving unemployment.

As with all other social security benefits, a balance has to be struck, for financial reasons, between liberality in the definition of the contingency, on the one hand, and liberality in the scale of benefit on the other. Before the pensionable age can be fixed it is necessary to ascertain how much money can be made available to finance pensions on a given scale. In the case of schemes for employees generally and of universal schemes there is a limit, soon reached, to what the contributor or taxpayer is willing to pay currently for the right to enjoy, in his turn, an old-age pension, besides the charges he must bear for all the other social security benefits. As regards special schemes for comparatively small groups of workers, the financial problems are often less compelling. A special scheme may be established for an industry whose workpeople ought, in the interest of the national economy, to be rewarded by the grant of privileges in the matter of pensions, or whose workpeople are represented by a trade union which is in a position to apply strong pressure on the legislature. In either case the essence of the privilege consists in transferring much more of the pension cost to taxpayers or to other workers as consumers than is possible where a scheme for employees generally is concerned.

A survey of the pensionable ages prescribed under pension-insurance schemes for employees generally or for industrial employees, and under social assistance or universal schemes, in 48 countries in 1954, reveals the following distribution:

| Age                         | Number<br>of countries | Age                         | Number<br>of countries |
|-----------------------------|------------------------|-----------------------------|------------------------|
| 70 . . . . .                | 2                      | 60 <sup>1</sup> } . . . . . | 9                      |
| 67 . . . . .                | 2                      | 55 <sup>2</sup> } . . . . . |                        |
| 65 . . . . .                | 15                     | 55 <sup>1</sup> } . . . . . | 2                      |
| 65 <sup>1</sup> } . . . . . | 9                      | 50 <sup>2</sup> } . . . . . |                        |
| 60 <sup>2</sup> } . . . . . | 8                      | 50 . . . . .                | 1                      |
| 60 . . . . .                |                        |                             |                        |

<sup>1</sup> Men.    <sup>2</sup> Women.

It is interesting to find that the process of balancing the various considerations we have mentioned should have produced, in a group of countries differing widely in demographic constitution and in wealth, so dense a concentration at the ages of 60 and 65. This result is perhaps influenced by the fact that several countries with a small aged population happen to be too poor to afford a comparatively low pensionable age. It is indicative of the vagueness of the notion of old age and of the character of parliamentary discussions that all but two of these 48 schemes fix the pensionable age at a multiple of 5. Yet the quantum of five years has substantial financial implications: the same pension may cost the scheme 40-50 per cent. more at 60 than at 65 because of the difference in the numbers of persons surviving beyond those ages. The reason which determined the choice of 67 and 70 happens to be known: the existence of an exceptionally numerous aged population in countries where a social assistance or universal scheme has to protect a large peasant class of limited taxable capacity.

Twenty countries have established a lower age for women than for men (five years less in every case). They thus take account of the well-known fact that elderly women experience great difficulty in obtaining employment in many of the occupations usually followed by women. Despite the greater longevity of women, which aggravates the cost of this advantage, it may be considered a fair provision in that women are less likely to leave dependants to claim survivors' pensions.

This world picture conforms closely to what the Income Security Recommendation advocated, namely a pensionable age of 65 for men and 60 for women. The Social Security (Minimum Standards) Convention is more cautious, as befits an instrument destined to remain in force for decades and adopted at a time of increasing awareness of the future growth of the aged population, more particularly considering that a pensionable age, once fixed, can be raised only with the greatest difficulty. So it admits even an age in excess of 65 if the working ability of aged persons seems to justify it.

We mentioned earlier in this lesson that in theory the pensionable age should to some extent depend on the particular demands made by the insured person's occupation. In the majority of countries this dif-



ferentiation is effected by establishing special schemes of compulsory pension insurance for certain arduous or dangerous industries, or by employers who set up schemes for their workpeople. An occupation both arduous and dangerous is that of the coalminer, for whom several European countries have created special schemes; most of these fix the pensionable age ten years lower than do schemes for employees generally, e.g. 50 as compared with 60, or 55 as compared with 65. Special schemes for seamen and railwaymen, instituted in a number of European and Latin American countries, also provide for a pensionable age lower than the common one. In the U.S.S.R. and most of the People's Democracies, the general scheme of pension insurance classifies occupations into two categories for the purpose of the pensionable age, which is 50 for miners and possibly other workers in unhealthy occupations; and 60 (55 for women) in the general run of occupations. A similar provision has, since the Second World War, been built into the structure of general pension-insurance schemes in a few other countries. The advantages of such an arrangement are considerable (comprehensiveness, adaptability and financial stability) as compared with a complex system of separate special schemes; but it is repugnant to the corporate traditions of ancient industries of distinctive character.

Whether the criterion which predominates in the fixing of the pensionable age is that of presumed invalidity or that of rest earned by long service, the supposition is that the award of a pension will, as a rule, coincide with retirement. Nevertheless, substantial numbers of aged persons continue to work, with or without a pension, after reaching the pensionable age.

In many general schemes of pension insurance—perhaps half the total number—there is no mention of retirement among the qualifying conditions for the old-age pension. There seem to be three reasons for leaving it open for the pensioner to continue his work, drawing his pension and wages together. The first and most important is that, especially before the Second World War, old-age pensions were often insufficient for subsistence, so that it was impossible to insist on retirement. A second reason is that, where the pensionable age is high, only a few pensioners can retain their employment beyond it, and the administrative expense of verifying that none of the others was working would not be worth while. Thirdly, a country may find itself temporarily so short of labour that pensioners must be tempted to return to employment.

The Social Security (Minimum Standards) Convention accepts suspension of the old-age benefit if the pensioner engages in remunerative work, or if his earnings exceed a certain amount. Where the pension scheme is financed mainly from sources other than the insured person's

own contributions, there is clearly a case for withholding the pension from a person who continues to earn a normal wage. Of course this rule must be read in conjunction with the provisions of the Convention which determine the minimum rate of the pension.

Retirement is usually obligatory under a scheme for a particular industry or occupation, since both the employers and the employees desire that room should be made for younger men; but the pension is likely to be fairly generous, and the pensioner is free to find work outside the industry or occupation covered by the scheme. Likewise, several general schemes of pension insurance in Latin America insist on retirement from insurable employment as a condition for the award of a pension, the consequence of this being that no one will remain at work after his earnings fall to the amount of the pension awaiting him. The minority of European general schemes of pension insurance which discourage the employment of pensioners do so by reducing, or even suspending, the pension, if earnings exceed a prescribed level.

In studies prepared for conferences in Europe and America the International Labour Office has argued for flexibility in the pensionable age because of the substantial differences between individuals as regards their ability and desire to remain at work. If a limit is set to the total of pension and earnings the resultant savings may enable the pensionable age to be reduced below the level at which most workers, for physical reasons, must give up work. The pension awarded at that lower age may well be of a very moderate amount, but the pensioner is still allowed to earn a useful wage. Alternatively, an insured person who remains at work and postpones making his claim for the pension may thereby acquire the right to a pension increased in proportion to the delay. Policies on these lines were recommended by Beveridge and have been embodied in several general schemes of pension insurance.

### *Death of Breadwinner*

In the second lesson we touched, but very briefly, on the categories of dependants who are protected by their breadwinner's pension insurance; here we shall look at the definitions of these categories more closely.

Survivors' pensions, under insurance schemes, represent the reversion to his survivors of the invalidity or old-age pension which the deceased either did not live to claim or which he was receiving at the time of his death.

The Social Security (Minimum Standards) Convention provides that pensions shall be payable to widows presumed to be incapable of self-

support and to children under the school-leaving age. It is understood that incapacity for self-support includes not only invalidity and old age but also responsibility for the care of a child. Though many present-day schemes are more favourable to the widow, and almost all are so to the children, the Convention had to take account of the fact that survivors' pensions are usually the last type of pensions to be introduced in under-developed countries. The relevant provisions of the Income Security Recommendation are closer to the average practice in Europe, and comprise subsidiary improvements which are gradually finding their way into legislation. They are worth quoting in full—

(1) Survivors' benefits should be paid: (a) to the widow of an insured man; (b) for the children, stepchildren, adopted children and, subject to their previous registration as dependants, illegitimate children of an insured man or of an insured woman who supported the children; and (c) under conditions to be defined by national laws, to an unmarried woman with whom the deceased cohabited.

(2) Widow's benefit should be paid to a widow who has in her care a child for whom child's benefit is payable, or who, at her husband's death or later, is an invalid or has attained the minimum age at which old-age benefit may be claimed; a widow who does not fulfil one of these conditions should be paid widow's benefit for a minimum period of several months, and thereafter if she is unemployed until suitable employment can be offered to her, after training if necessary.

(3) Child's benefit should be paid for a child who is under the school-leaving age, or who is under the age of 18 and is continuing his general or vocational education.<sup>1</sup>

Countries fall into two groups with respect to their treatment of widows. About half of them grant pensions to widows unconditionally, except that some schemes safeguard themselves from death-bed marriages and the like. This favourable treatment is accorded by a minority of European schemes, and by almost all those of Latin America, where it conforms to a tradition that married women should not go out to work.

In the other group of countries, the age at which a childless widow is entitled to a pension varies from 40 to 65; in other words it is either the normal pensionable age for women or some ten years earlier. Most of the schemes in this group require the widow to have reached the age in question, or to have already been an invalid, at the date of the husband's death. This can be a harsh condition, since a widow who is under the prescribed age may nevertheless be too advanced in years to take up insurable employment and so earn a pension for her old age. Only a few of the schemes afford the permanent protection against invalidity and old age that the Income Security Recommendation stipulates; where

<sup>1</sup> Income Security Recommendation, Annex, Part I, Paragraph 13.

such protection is not provided the widow who is not unconditionally pensionable should be entitled to count as her own her husband's insurance period if she enters insurable employment. Again, a surprisingly small number of countries, in which a high proportion of couples are not legally married, give a concubine of long standing the same pension right as a wife. On the other hand several schemes have taken up Beveridge's proposal of a temporary allowance for young childless widows, which gives them time to find work.

The minimum age up to which a pension is payable unconditionally for a child is, almost everywhere, 16 or 18, a slight majority of countries prescribing the lower figure. In cases where the child's education is continued beyond that age, the pension is prolonged for two, five or even nine years. Almost universal, likewise, is the waiving of the age limit if the child is an invalid.

As regards other relatives, a widower who, being an invalid or of pensionable age, was entirely supported by his wife is very frequently given the same pension as a widow. A small minority of schemes treat orphan brothers and sisters and orphan grandchildren in the same way as the offspring of the insured person or his wife. Finally, a parent who was dependent on the deceased is, in half-a-dozen countries, entitled to a pension if the maximum figure for the total of the survivors' pensions has not already been reached as a result of the awards to the widow and children; this provision finds its justification in countries where pension insurance has a comparatively narrow scope or the scheme did not grant non-contributory pensions to persons already aged at the time of its introduction.

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## SIXTH LESSON

### **BENEFITS** (*continued*)

#### PENSIONS (*conclusion*)

##### *Qualifying Periods*

Qualifying periods are an essential feature of pension schemes; these have to guard themselves against individuals in poor health or approaching the pensionable age who might otherwise procure an early pension by obtaining some, perhaps nominal, employment within the scope of an insurance scheme, or, where an assistance or universal scheme is concerned, by migrating from a country without such a scheme.

Old age, invalidity and death are contingencies which steadily approach or become more likely with each year up to the retirement age. After the ages of 80 and 100 respectively the probability of invalidity and death becomes almost a certainty. Consequently, the nearer a new participant in a pension scheme is to the relevant age, the more nearly should the contribution approximate to the benefit itself. But social insurance contributions do not vary with the individual's age, for practical reasons that are easy to imagine; the contribution is set at a rate which is appropriate for the age composition of the insured population, present and future.

If there was no risk that the scheme would unexpectedly find itself responsible for numerous infirm or elderly individuals, a qualifying period would be unnecessary. However, this risk does exist, especially in the case of an insurance scheme of limited scope. The alternative of fixing contributions generally at such an amount that older persons, after paying a few contributions, can secure the same benefits as persons who have been contributing, for example, ever since they left school, is considered unfair. The imposition of a qualifying period ensures that every pensioner shall have contributed substantially towards the benefit he receives. This is the whole purpose of the qualifying period as regards old-age pensions. As regards invalidity and death, however, the purpose is rather to deter persons for whom these contingencies are imminent from entering insurance.

Whereas invalidity and death can occur at any age, even in youth, old age with consequent retirement can be foreseen by the individual as soon as he starts working; hence for this contingency the qualifying period prescribed is usually much longer than for the first two contingencies: in fact, long enough for the accumulated contributions to finance a small, but nevertheless useful, pension.

The financial plan of a pension-insurance scheme supposes that most people who enter it will pay their contributions with fair regularity until one of the contingencies occurs. Therefore, it is not enough to fulfil a qualifying period of several years: contributions must be kept up or the pension may be refused or reduced.

If payment of contributions is interrupted because the insured person has voluntarily left the scope of the scheme it is equitable to continue his protection for a certain time, especially if he has completed the qualifying period; indeed, in so far as the purpose of the qualifying period was simply the elimination of bad risks, the period of free protection should, *prima facie*, be equal to the qualifying period. Also, that person should be offered the opportunity of remaining in the scheme as a voluntary contributor. But if he does not avail himself of the opportunity, and the period of free protection has expired, then, should he re-enter insurance, it is equitable to require the fulfilment of the qualifying period afresh.

The interruption of payment of contributions, however, is more likely to be caused by sickness or unemployment, and protection should be maintained throughout the duration of these contingencies. But this refinement is practicable only where sickness or unemployment insurance exists and is co-ordinated with pension insurance.

In pension-insurance schemes, where the qualifying period is short, this is counterbalanced by the requirement of greater regularity of contribution payment. Conversely, where the qualifying period is long (for example, 15 years, as is usual where old-age pensions are concerned) the mere completion of the period may be held sufficient to justify the eventual award of a small pension without further payment contributions.

Such, in general terms, is the reasoning behind the system of qualifying periods, as commonly prescribed in pension-insurance schemes. It is natural that this pattern should be reflected in the relevant provisions of the Social Security (Minimum Standards) Convention.

The Convention specifies, as regards insurance schemes of limited scope, two maximum qualifying periods, each comprising a shorter period for entitlement to a small pension of undefined amount, and a longer period for entitlement to a pension conforming to the minimum standard. It is with the shorter periods that we are immediately concerned;

namely: for invalidity and survivors' pensions: five years of contributions or five years of employment; for old-age pensions: 15 years of contributions or 15 years of employment.

As regards assistance or universal schemes, all of which pay pensions on the subsistence level, the Convention specifies a single set of qualifying periods, namely: for invalidity and survivor's pensions: ten years' residence; for old-age pensions: 20 years' residence.

Almost all schemes of pension insurance for employees generally are satisfied with a qualifying period of five years of contributions or employment for invalidity and survivors' pensions, and periods of one to four years are frequent. Since the Second World War a number of countries have introduced, as regards invalidity and survivors' pensions, the device of a qualifying period of employment varying according to the age of the individual at the time of the contingency: for example, three years at age 25 and under, rising to seven years at age 40 and over.

The maximum qualifying period of 15 years allowed by the Convention for old-age pensions under insurance schemes is exceeded in only two or three countries. Periods of four, five or ten years are not exceptional.

An insurance scheme which imposes a qualifying period of 15 years for an old-age pension offers no protection to the generation which is approaching the pensionable age when the scheme comes into force. The Convention therefore enjoins governments to ease the qualifying condition for this generation. Various devices are used for this purpose. One is to graduate the qualifying period according to the individual's age when the scheme came into force, so that it increases from a minimum of two or three years for persons nearing the pensionable age to its normal figure for those who were then middle-aged. In the U.S.S.R. and most of the People's Democracies the qualifying period is reckoned in terms of duration of employment, including employment before the inception of the insurance scheme; where the scope of the scheme is very wide this provision will afford the necessary protection to most of the elderly workers, though proof of employment many years ago may be difficult to adduce.

### *Pension Formulas*

When we were considering sickness benefit we noted that there were two basic types, the one a percentage of the beneficiary's previous wage and the other an allowance deemed adequate for his subsistence; and that the former was sometimes and the latter was always supplemented in order to take account of his dependants. In the structure of pensions

also we find the alternatives of the individual's wage and subsistence as bases, with or without dependants' supplements. But the computation of pensions under insurance schemes always involves an additional factor: the number and rate of the contributions paid. If an insurance or universal scheme of family allowances exists the pensioner will continue to receive these, sometimes at a higher rate than before.

The formula adopted by the great majority of insurance schemes comprises two elements, to which dependants' supplements—usually for children only—may be added; a few schemes, in accord with the Income Security Recommendation, provide also a supplement for invalids who need constant attendance.

First there is a basic sum, the right to which is acquired if the contingency materialises at a time when the qualifying period has been fulfilled. This sum is, in most cases, a percentage of the average wage on which contributions have been paid; often only the wages received during the last five or ten years are taken into account, either for reasons of administrative simplicity or in order to make allowance for the generally rising trend of money wages. The percentage lies between 25 per cent. and 66 per cent. The basic sum may also consist of an invariable amount, but this alternative is much less common.

The second element is the increment, namely a percentage (e.g. 1 per cent. or 2 per cent.) of the average yearly wage, which is added to the basic sum for each year of contribution, or, where the basic sum is large, for each year of contribution beyond the years comprised in the qualifying period.

The pension is computed by the same formula whether the contingency is invalidity or old age, so that an invalidity pension awarded just before the pensionable age will be very nearly the same as the old-age pension would have been. The basic sum, to which increments may be added in respect of the qualifying period, constitutes the minimum pension.

The following is an example of such a pension formula:

A. Invalidity and old-age pensions:

- (i) Basic sum—25 per cent. of basic earnings (*viz.* average earnings in last five years).
- (ii) Increments—1 per cent. of basic earnings for each 50 contribution weeks in excess of the first 150.
- (iii) Supplement of 10 per cent. of total of (i) and (ii) for each child.

Maximum 85 per cent. of basic earnings.



B. Survivors' pensions:

- (i) Widow: 40 per cent. of total of A (i) and (ii).
  - (ii) Each child: 20 per cent. of same.
  - (iii) Each orphan (both parents dead): 30 per cent. of same.
- Maximum: 100 per cent. of same.

The few schemes of old-age insurance which extend to the entire gainfully occupied population establish—fairly enough—an exact proportionality between the amount of the contributions paid and the rate of the pension, in the case of a person entering insurance on leaving school. For example, the pension may be 1 per cent. of the year's wages for each year of contribution, or  $1\frac{1}{3}$  per cent. if the pensioner is a married man. Such an extensive scheme, although applying the insurance principle, can afford generous transitional pensions for members of the working population who were already adults when it came into force, since it can safely spread the cost of supporting the aged over the whole population of persons currently working.

Pensions under assistance or universal schemes are naturally of the subsistence type, being measured in relation to the actual or presumptive needs of the pensioner and his dependants. Husband and wife, of course, are each entitled to such pensions; but the pensioned husband may also be given a supplement for a wife still a few years below the age at which she can claim a pension independently of her husband. The more advanced schemes of this kind have introduced other supplements to meet particular needs, such as the maintenance of the wife of an invalid pensioner and his children, the higher cost of living in urban areas, and the provision of winter fuel.

Under both assistance and universal schemes these supplements are likely to be subject to a means test. On the other hand, if an assistance scheme is to comply with the Social Security (Minimum Standards) Convention, it must exempt from the means test a substantial amount of savings, and in two countries the old-age pension is subject to the test only until a certain age is reached. Thus in reality there are no purely assistance or purely universal schemes, but each type, for some of its benefits, borrows the principle of the other. The trend, however, is towards the uniform basic pension, especially in the case of old-age pensions. The discouragement of thrift which the means test inevitably involves is felt to be a grave objection, all the more because nowadays the cost of social assistance is widely distributed over the active population.

The touchstone by which a pension formula is to be assessed is the amount of the pension actually paid, not in extreme and comparatively rare cases but in the great majority of cases in which the contingency

occurs. Hence the Social Security (Minimum Standards) Convention has attempted to ensure that the pension will, much more often than not, suffice for subsistence, whatever the nature and scope of the scheme. It therefore prescribes the minimum rate of pension that must be awarded (1) for the old-age pension, where the pensioner has a wife of pensionable age, and has fulfilled a qualifying period of 30 years of contribution or employment or (under an assistance or universal scheme) 20 years of residence; (2) the invalidity pension, where the pensioner has a wife and two children, and has fulfilled a qualifying period of 15 years of contribution or employment, or (under an assistance or universal scheme) ten years of residence; and (3) the survivors' pensions, where the survivors comprise the widow and two children and the breadwinner had fulfilled the same qualifying period as for an invalidity pension.

For each of these pensions the Convention requires the pension (taken together with any means in excess of the amount exempted) to be at least 40 per cent. of a standard wage. Where the pension is computed solely or mainly on the individual's basic wage, it must attain 40 per cent. of that wage, for all workers whose wages are equal to or lower than the wage of a skilled manual employee in an industry which is typical of those within the scope of the scheme. Where, on the other hand, the pension is based on the cost of subsistence, the 40 per cent. is calculated on the wage of a typical unskilled employee.

In preparation for the Convention the International Labour Office, in 1951, carried out a careful investigation of the adequacy of the pensions promised, in the situations specified in the Convention, under the principal schemes of a score of countries in different regions of the world. The results are summarised in table III, which shows the number

TABLE III. EXAMPLES OF PENSION RATES AS  
PERCENTAGES OF WAGES, 1951

| Percentage of<br>standard wage | Number of countries where the percentage is reached |     |                     |     |                     |     |
|--------------------------------|---|-----|---------------------|-----|---------------------|-----|
|                                | Old-age pensions                                    |     | Invalidity pensions |     | Survivors' pensions |     |
|                                | (A)   | (B) | (A)                 | (B) | (A)                 | (B) |
| 31 . . . . .                   | —   | 1   | —                   | —   | 4                   | 2   |
| 31-40 . . . . .                | 2   | —   | 2                   | —   | 3                   | 1   |
| 41-50 . . . . .                | 6   | 4   | 6                   | —   | 2                   | 3   |
| 51-60 . . . . .                | 2   | 2   | 2                   | 2   | 1                   | —   |
| 61-70 . . . . .                | 1   | 2   | —                   | —   | —                   | —   |
| 71-80 . . . . .                | —   | 2   | 1                   | 2   | —                   | —   |
| Over 80 . . . . .              | —   | —   | —                   | 1   | —                   | —   |

A: percentage of wage of skilled worker.

B: percentage of wage of unskilled worker.

of countries in which the pensions attained a given percentage of the appropriate standard wage.

In the countries applying the principle of the subsistence benefit (columns (B)) the wage differentials for skill are rather small ; moreover, most of these countries are comparatively wealthy. Consequently, their pensions make the better showing. Whereas the figure of 40 per cent. prescribed in the Convention is perhaps a little too low as regards old-age and invalidity pensions, it seems to be rather high as regards survivors' pensions, but the International Labour Conference took a definite decision to apply the same percentage to the latter. It may be noted that inclusion of a pension for a third child would have brought the survivors' pensions of several schemes up to the minimum standard.

Many pension-insurance schemes give the insured person an option of drawing a reduced pension five years below the normal pensionable age. It is a growing practice, on the other hand, to encourage persons who have reached the pensionable age to continue their insurance and delay their claims, the incentive being an increase of pension by 2, 3, or 4 per cent. of the basic wage for each year or postponement.

Finally, it is encouraging to observe that provision for the regular adjustment of pensions to movements in the cost of living has been embodied in all pension schemes of major importance introduced or reconstructed since the adoption of the Convention.

### **Questions (on Fifth and Sixth Lessons)**

1. *Illustrate with reference to invalidity the desirability of co-ordination between different branches of the social security system.*
  2. *In what circumstances is it justifiable to require old-age pensioners to abstain from gainful work?*
  3. *Which categories of widows do you consider should be pensionable ?*
  4. *What are the purposes of qualifying periods of contribution under pension-insurance schemes of limited scope ? Why should the period be shorter for invalidity and survivors' pensions than for old-age pensions ?*
  5. *Of what parts are pensions usually constructed under pension-insurance schemes of limited scope?*
  6. *Give reasons why a certain flexibility, with a corresponding adjustment of the pension rate, is desirable in the pensionable age.*
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## SEVENTH LESSON

### **BENEFITS** (*concluded*)

#### EMPLOYMENT-INJURY BENEFITS

Protection against employment injury is the oldest branch of social security, and is found today in almost every country in the world. Because of their age employment-injury schemes are solidly established not only as powerful administrative entities but also, and what is more important, as the practical application of a legal principle whereby such protection has come to be regarded as an unquestionable right of the employee as such.

An employment-injury scheme is simply a means of providing special medical and sickness benefits, and special invalidity and survivors' benefits, in contingencies which represent only a small fraction of the total number of cases of sickness, invalidity and death; from a social standpoint these schemes are comparatively unimportant. Nowadays employment-injury schemes, whether in the form of workmen's compensation or as a branch of social insurance, find themselves enveloped and confronted by the main system of social security, which covers contingencies involving the same social needs as employment injuries and distinguished from them only by the fact that the occurrence was not connected with a person's employment. Hence objective students of social security are beginning to question the continued existence of employment-injury schemes and to ask whether they should not be absorbed into that main system.

There are several reasons why these schemes do in fact, and should, continue their separate existence, but it is sufficient to mention here the decisive one: employment-injury benefits are, as a rule, more generous than the corresponding benefits of sickness and pension insurance. They can be higher chiefly because the number of cases requiring benefits is comparatively small, so that it is comparatively easy to finance them. However, the increasing liberalisation of the benefits of the main system, both as regards qualifying conditions and rates, may in the end equalise the two groups of benefits and thus remove the main obstacles to the unification and simplification of social insurance against the physical contingencies. In a few countries this process seems already to be almost

completed, but, generally speaking, employment-injury schemes are setting a high standard—and in some countries it is still rising—beyond the reach of the national schemes of sickness and pension insurance.

The right to employment-injury benefits, whether provided by the employer or by social insurance, is nowhere conditional on the completion of a qualifying period. It is sufficient for the victim to possess at the time of the injury the status of employee in the workplace where it occurred. The safeguards needed in sickness- and pension-insurance schemes to exclude bad risks can be dispensed with if the contingency covered is, in its origin, unaffected by the will of the victim, and the time and place of the occurrence are ascertainable.

### *Definition of Contingency*

The primitive form of protection against employment injuries was that established by a workmen's compensation law, which simply rendered the employer individually liable to pay compensation on a prescribed scale in case of accidental injury incurred by an employee while working under his employer's instructions. Later, certain occupational diseases were treated in the same way as accidents. In order to indicate the twofold nature of the contingency covered the International Labour Office invented the expression "employment injury", which is defined as follows in Paragraph 16 of the Income Security Recommendation: "... traumatic injury, or disease resulting from employment and not brought about deliberately or by the serious and wilful misconduct of the victim, which results in temporary or permanent incapacity or death."

Because, in that early phase, the employer was personally liable for the benefit, he (or, more often, his insurance company) fought hard to resist the wider interpretations of the notion of "accident" that were urged by the claimants' lawyers, and there resulted a prodigious volume of litigation and case law, as well as a spate of legal disquisitions on the subject. But when the contingency came to be covered by social insurance, as it now is in most countries, litigation was reduced to a minimum, though it would probably in any case have diminished in the course of time, if only because every conceivable variety of case would have been encountered and rules found for deciding it. Certainly the story of workmen's compensation offers an object lesson in this respect, as indeed in most respects, of the insufficiency of employers' liability as a substitute for social security.

The accidents that nineteenth-century legislators had in mind were, typically, those that workers in factories, mines and other dangerous

undertakings were incurring in the usual course of their employment. They hired their labour to their employer, who supplied them with tools, and they worked on his premises, in human and material surroundings provided by him. In the circumstances of the time, when safety precautions were hardly thought of, the principle of employers' liability appeared to express an imperative of elementary justice.

Those legislators would surely have viewed as an exaggeration the subsequent extension of the principle, in most countries, to non-manual occupations that are safer than the home, the sports ground and, above all, the street. This trend was determined, if by no other consideration, by the practical difficulty of drawing the line between hazardous employments and others. It is also frequent nowadays to include travelling salesmen in the scope of employment-injury schemes, and a further extension, which is associated with the recent aggravation of street hazards, has brought in accidents on the way to and from work; the spread of compulsory automobile insurance, however, should enable employment-injury schemes to recover a substantial part of their expenditure for accidents of this kind.

It will be seen that the principle of employers' liability has come to be invoked for all accidents which occur in connection with the victim's employment, irrespective of the ability of the employer to prevent them. Furthermore, a German reform of 1926, which grants compensation in case of injuries received in rescue work (surely a most commendable measure) is being imitated in one country after another.

A small but increasing number of countries is giving independent workers the opportunity of entering the scheme of employment-injury insurance. In Switzerland employees have for a long time been insured compulsorily against all accidents, however occasioned, but this is a country in which sickness insurance is voluntary and its cash benefits exceptionally low. In Guatemala, also, the compulsory accident-insurance scheme covers all accidents.

The coverage of occupational diseases came later than that of accidents, partly because such diseases were less frequent, and partly because medical and statistical research had not yet disclosed their occupational origin. The usual plan has been to insert in the law a list of diseases which are, beyond dispute, of occupational origin in any case where the patient has been employed for some time in work involving contact with substances which can cause the disease in question. In 1925 the International Labour Conference was able to agree upon only three diseases as being definitely occupational in character and important enough to deserve compensation: poisoning by lead, poisoning by

mercury and anthrax infection. But the accelerating progress of industrial chemistry brings in its train many new hazards. So, nine years later, it was possible to add seven more diseases, including the effects of radiant energy.<sup>1</sup> Nowadays Great Britain, a pioneer country in the compensation of occupational diseases, lists some forty varieties.

### *Medical Benefit*

The medical benefit provided by employment-injury schemes is, in principle at least, more liberal than that of sickness schemes. This difference is reflected in the standards laid down separately in the Social Security (Minimum Standards) Convention which, where employment injury is concerned, does not permit cost-sharing, requires every type of care that the case necessitates to be provided (including the supply and renewal of prosthetic appliances), and allows no absolute limit to the duration of the care. Except as regards this last point—medical benefit is rarely given for more than a year—most schemes fulfil these conditions.

In countries where employment-injury insurance and sickness insurance (or a national health service) co-exist within the framework of the social security system, it is usual for the former to utilise the medical service of the latter, which is available in every locality; but the employment-injury scheme may assume direct responsibility for selected cases and treat the patients in its own specialised establishments. Where, however, the employer or insurance company is responsible for the supply of medical benefit, arrangements must be made with local medical practitioners and hospitals, and these may prove very costly.

Especially since the Second World War there has been a marked tendency to include among employment-injury benefits provision for medical and vocational rehabilitation. Medical rehabilitation, indeed, is no more than medical treatment completed by specialised convalescent care, comprising occupational therapy and gymnastics. Vocational rehabilitation, on the other hand, is a novelty so far as most countries are concerned, and includes expert vocational guidance, training (with maintenance) for a new occupation, and placement. This policy is one of the happiest features of the present-day social security movement, the prime condition for its success being the persistence of full employment.

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<sup>1</sup> Workmen's Compensation (Occupational Diseases) Convention (Revised), 1934, Article 2.

*Temporary-Incapacity Benefit*

In the terminology of employment-injury schemes "temporary incapacity" corresponds exactly to the "sickness" for which the cash benefit of sickness insurance is payable. Consequently much of what has been said concerning sickness benefit in the fourth lesson<sup>1</sup> applies here also. Indeed, in a number of countries sickness insurance has the same responsibility for the victims of employment injuries as it has for other sick persons, although, where the two branches are separately financed, the employment-injury scheme has to refund to the sickness scheme the latter's expenditure for employment-injury cases in so far as the benefits are paid beyond a certain period (such as six weeks).

A waiting period of a few days is imposed by the great majority of employment-injury schemes; the Social Security (Minimum Standards) Convention fixes a maximum of three days. A number of schemes, which include those of the U.S.S.R. and the People's Democracies, provide for the payment of benefit from the first day of incapacity; this is particularly easy in the countries just mentioned, since the benefit is awarded and paid in the workplace itself.

Temporary-incapacity benefit is, in all save two or three countries, proportional to the wage which the injured employee was receiving, averaged over a short period preceding the accident. A rate of 50,  $66\frac{2}{3}$  or 75 per cent., has been chosen by most of the schemes. In countries where employment injury and sickness are covered by entirely independent schemes the benefit for employment injury is often the higher of the two, e.g.  $66\frac{2}{3}$  per cent. as against 50 per cent. The Social Security (Minimum Standards) Convention specifies 50 per cent. as the minimum, that is 5 per cent. higher than the minimum for sickness benefit. Family allowances, of course, continue to be paid as before the injury.

The maximum duration of temporary-incapacity benefit generally coincides with that of medical benefit: for example, six months or one year. When the medical care terminates, any remaining incapacity is treated as permanent.

*Permanent-Incapacity Benefit*

The permanent-incapacity benefit of employment-injury schemes differs in essential respects from the invalidity benefit of pension schemes. It does not vary with the duration of insurable employment, it is closely adjusted to the presumed degree of incapacity, and is as a rule higher.

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<sup>1</sup> See pp. 46-50.



The most primitive schemes of the "workmen's-compensation" type have retained the lump sum as the normal form of permanent-incapacity benefit, the usual amount, where the incapacity is total, being three years' wages, from which the sums paid by way of temporary-incapacity benefit are deducted. This form, which is that of common-law damages, is preferred where no organisation exists for the payment of pensions and for periodical checks on the continuance of the incapacity.

From a social standpoint the system has very grave drawbacks where incapacity is high: the lump sum is generally too small for the recipient to be able to purchase an annuity, and experience shows that it is often frittered away in a year or so, after which the victim becomes a charge on public charity. On the other hand, where the degree of incapacity is nominal or slight, and the corresponding pension would consequently be a trifling amount, it is convenient for both parties that the pension should be replaced by a lump sum equal to its capital value: this procedure is approved by the Social Security (Minimum Standards) Convention.

However, under the great majority of employment-injury schemes nowadays, the normal form of the permanent-incapacity benefit is a pension proportional to the reduction of earning capacity and to the average earnings of the victim during the year preceding the accident.

In theory the grounds for the award of the pension are broadly the same, whether it is payable under an invalidity scheme or an employment-injury scheme, namely the inability of the victim to earn, in any suitable employment, as much as he did before the contingency occurred. But whereas most invalidity schemes recognise only one degree of reduced earning capacity, employment-injury schemes are supposed to measure the loss (frequently by steps of 1 per cent.) all the way from a minimum of 5, 10 or 15 per cent. up to 100 per cent. In the U.S.S.R. and several of the People's Democracies, however, there are only three degrees, whatever the cause of the incapacity.

In practice an attempt is rarely made to ascertain the actual reduction of earning capacity in the individual case: the imponderable psychological factors and the changing circumstances of the employment market render a true evaluation impossible. Recourse is usually had to tables, of an official or unofficial character, which simply prescribe what degree of incapacity is to attach to each of the main mutilations. Sometimes the degree can be varied a few points by the assessor in order to make allowance for the particular circumstances of the victim. The fact is that the legislator has been trying to accomplish two purposes at once, namely to offer a monetary solace for the physical impairment as such, and simultaneously to compensate for the reduced earnings of the

future; naturally, the result is confusion. The United Kingdom and Finland have, in their recent legislation, distinguished between these two purposes: in both countries the same monetary solace, constituting one part of the pension, is awarded whatever the economic effect of the injury, and a second part is added in order to take account of that effect in the particular case.

The pension in case of permanent total incapacity is, under the majority of schemes,  $66\frac{2}{3}$  or 75 per cent. of the victim's average earnings during the 12 months preceding the accident, but both lower and higher rates are to be found. The full pension is most often about the same as the temporary-incapacity benefit but sometimes differs, in one direction or the other, according to the varying judgment of the legislator. Family allowances, which are intended in principle for employees only, continue to be paid if the degree of incapacity is high enough to render the resumption of employment unlikely.

In 1925 the International Labour Conference included in its Workmen's Compensation (Accidents) Convention a provision requiring the payment of additional compensation to persons who are so severely injured that they need constant attendance. In the following 25 years a score of countries, mostly European, introduced this humane and inexpensive improvement. A few countries, as mentioned earlier, have introduced similar provisions in their invalidity schemes.

### *Survivors' Benefit*

The survivors' benefit under employment-injury schemes takes the same form, and is usually subject to the same maximum amount or rate, as the benefit for permanent total incapacity. Thus there are still a few schemes which award lump sums in case of death, while all the rest pay pensions. In addition to the pension a funeral benefit is almost always granted, a typical amount being one month's wages.

The influence of the civil code, which allows damages to dependants of any degree of relationship, is the probable explanation of the fact that the definition of the survivors who rank for a share of the benefit in cases of death from employment injury is often wider than that which, in the same country, is laid down in pension schemes in cases of death from other causes.

The widow is always entitled to a pension, irrespective of her age, ability to work or responsibility for children, but the widower only if he is an invalid. If the maximum total for the survivors' benefit is not exhausted by the widow's and children's claims, dependent parents are often eligible for small pensions; several schemes admit also grand-

children and brothers and sisters, if they are still too young to work. The age limits for the payment of pensions to children are, as a rule, the same under employment-injury schemes as under pension schemes, e.g. 16 or 18, with prolongation during further education or if the child is an invalid.

Typical rates of pension are 30 per cent. of the basic wage for the widow, 15 per cent. for each child, and 20 per cent. for each orphan, subject to a maximum total of 60 or 75 per cent. The Social Security (Minimum Standards) Convention fixes, for a widow with two children, the same minimum percentage of the basic wage, viz. 40 per cent., whether death was due to employment injury or to other causes.

### UNEMPLOYMENT BENEFIT

Schemes for the provision of benefit for the unemployed, whether of an insurance or assistance character, remained sporadic and tentative until after the First World War, when the United Kingdom instituted a large-scale scheme of compulsory insurance. The technique established by this scheme was to attract, in the course of the next 30 years, a score of imitators among the industrialised countries. The U.S.S.R. and People's Democracies have not found it necessary to introduce unemployment schemes.

Of all branches of social security, that which is responsible for the unemployed is the most difficult to organise and administer with tolerable efficiency. An unemployment scheme cannot be set up until placement machinery is already operating and the placement staff have gained a certain amount of experience. Moreover, it is of little use if the mass of workers are unskilled, and is only workable in a country possessing a developed economy employing labour in which a variety of skills are represented.

The Second World War, unlike the first, was not followed by widespread and prolonged unemployment; on the contrary, a chronic shortage of manpower has existed since then in the greater part of the industrial world. In these circumstances unemployment schemes have had little to do, and no new ones have been created since 1950. The maintenance of a high level of employment has certainly been the policy of every government; but that this policy, in countries whose economy is not entirely state-controlled, should have been so successful was perhaps not foreseen. In so far as this success depends (as it seems to do in a number of countries) upon continual inflation, it cannot be expected to persist indefinitely, and unemployment may therefore reappear in substantial, though probably not catastrophic, volume. In a word, it is too soon to think of unemployment schemes as having outlived their usefulness.

Unemployment schemes call for two types of benefit: unemployment benefit, which is a periodical payment, and the benefits in kind of an employment service, which consist of placement and, where necessary, retraining. It will be seen that the cash benefit corresponds to sickness benefit, while the remedial activities of the employment service are analogous to those of a national health service. Whereas the employment service is available to all persons free of charge, the unemployment benefit is confined, save in a very few countries, to persons with a period of regular employment behind them.

### *Definition of Contingency*

From the social and economic points of view unemployment may be divided into three principal types.

There is, first, the mass unemployment which has appeared from time to time in industrialised countries during the last hundred years. Its most recent recurrence was in the early 1930s, when it was global in its incidence. The chain of causes leading to mass unemployment, and the formulation of policies to counteract them, have preoccupied economists constantly, and the fruits of their studies have been made available to governments, either directly or through the International Labour Organisation and other international agencies, which have focused and reconciled the most authoritative doctrines. Suffice it to say here that the reduction in the aggregate demand for production, which is the immediate cause of mass unemployment, has to be remedied by government action which stimulates capital expenditure sufficiently and places more purchasing power in the hands of the consuming public; such action may take many forms, including the lowering of rates of interest and taxes, the increase of government expenditure and the distribution of unemployment benefit. There is a special case of mass unemployment which can occur in countries whose prosperity depends largely on foreign trade: the loss of export markets may be severe enough to affect the entire economy; in this case it may be that the only remedy is to conform to the competitive, world price level.

The second type of unemployment is that often described as "frictional". It is ordinarily the result of technological improvements in the methods of production or changes in demand dictated by fashion. It sometimes necessitates, for the worker concerned, a change of occupation and possibly retraining. But, since aggregate demand is not affected, fresh openings are likely to occur fairly soon. This type is a normal and inevitable accompaniment of industrial invention and enterprise.

Seasonal unemployment, the third type, is inherent in certain branches of economic activity—not only in agriculture, but also, for example, fishing and the hotel industry. Persons engaged in these activities are aware that their employment will not outlast the season. Either they are accustomed to seek other work for the rest of the year or they have other means of subsistence and are not seeking jobs.

Unemployment schemes that are financed by contributions and promise definite rates of benefit are equipped to handle frictional unemployment and the temporary slackening of production as a whole; they cannot take care of prolonged mass unemployment, which has been known to affect a quarter or even a third of the labour force. In such circumstances recourse must be had to emergency schemes of assistance and relief works financed by the State. It may probably be assumed that nowadays every government (and not only those which fully control their national economies) will exert itself to the utmost to prevent such a disaster.

The definition of unemployment for the purpose of entitlement to benefit is a complex one, but it is also one that exhibits a close approach to uniformity in the different schemes. This definition has been developed in the British legislation, and has played, in another context, the same role as the German definition of invalidity. Its essential terms were incorporated in the Unemployment Convention, 1934, the Income Security Recommendation, and the Social Security (Minimum Standards) Convention. Each of the components of the definition will readily be seen to be fair as well as practically expedient.

First, unemployment must be involuntary: the worker must not have given up his job in order to look for a better position or have been dismissed for misconduct; on the other hand he may have had reasonable grounds for leaving, such as the fact that his workplace has removed to an excessive distance from his home.

Second, the claimant must be a person whose normal way of earning a living is in paid employment: this condition is tested by the qualifying period, which we shall consider later. Persons who are not employed except on seasonal work will often find themselves excluded from benefit owing to inability to complete the qualifying period.

Third, the claimant must be capable of work, for if not he would claim sickness benefit or an invalidity pension instead of unemployment benefit. In some countries the rates of unemployment and sickness benefits are different, so that individuals whose health is precarious try to obtain whichever benefit is the higher. However, those who have a reduced working capacity but are nevertheless capable of working efficiently in some ordinary employment must not be refused unemploy-

ment benefit: refusal would be tantamount to the certification of total incapacity. Evidently a close co-ordination of unemployment schemes with sickness, invalidity and employment-injury schemes is indispensable in this connection.

Fourth, the claimant must be available for whole-time employment: he must be not only in need of a job but also free to take it. He must not, for example, be currently occupied as an independent worker, or out of reach in some remote place, or have only a few hours a day to spare for employment.

Fifth, he must be willing to accept any "suitable employment". The question of what employment is suitable in particular cases is perhaps the most delicate problem in the administration of unemployment schemes. Generally speaking an employment is suitable if it corresponds to the individual's occupational qualifications and physical capacity and is remunerated at a wage that is not below what is usual for the job in question. Nevertheless, in a case where it becomes apparent that a vacancy in the claimant's previous occupation is not likely to occur in the near future, an employment of a different, or even inferior, kind may be deemed to be suitable. Negatively defined, an employment is not suitable if the workplace is distant from the claimant's home and accommodation is not obtainable in the new district, or the employment service will not assist in covering the cost of removal. Again, it is not suitable if the vacancy arises in consequence of an industrial dispute.

### *Functions of Employment Service*

The employment service, like a medical service, has to restore its clients' ability to be self-supporting. Before an unemployed person can draw his cash benefit he must report to the local employment office, giving details of his occupational history. The office compares his qualifications with the vacancies reported to it by employers, and, as soon as a vacancy that seems suitable occurs, it sends the claimant to the employer for an interview. The claimant must attend at the office at frequent intervals in order to learn whether a suitable job has become available, and incidentally to prove that he has not in the meantime found employment for himself. It is the office that certifies from time to time that the claimant is unemployed for the purpose of obtaining benefit or continuing to receive it.

A well-developed employment service enjoys the confidence of employers generally, who regularly inform it of their labour requirements. It keeps itself informed of the vacancies in different parts of the country and is able to advise claimants on their prospects of finding work in their

usual or similar occupations. It may maintain special departments for juveniles, women and handicapped individuals, and for vocational guidance as well as placement. It needs to operate, or have access to, an organisation affording training to claimants who have no chance of finding work again in their previous occupation. Claimants have to be maintained during retraining, and for this purpose a cash benefit, which will usually be the unemployment benefit itself, must be provided. They may also need help if they have to change their place of residence.

### *Rate of Benefit and Eligibility*

The cash benefit paid by unemployment schemes, the qualifying and waiting periods, and the maximum duration of the benefit, have much in common with their counterparts in sickness schemes. However, the moral hazard represented by the propensity to prefer idleness to work is thought to be more serious and more difficult to control in unemployment than in sickness.

All unemployment schemes of an insurance character and all but a very few of the assistance schemes require the claimant to have completed a qualifying period of employment. Evidently, it is only an employee who can lose his employment; but it has also been found necessary, as a test of the will and capacity of the individual to work steadily, to insist that this employment shall have lasted for a substantial time. This requirement incidentally eliminates independent workers or shopkeepers who have ceased to earn their living and widows who are not pensionable, though these may, in many cases, need help and perhaps training in order to enable them to find a place in the labour force; such situations are covered only by the few assistance schemes that impose no qualifying period.

The length of the qualifying period is, typically, six months of employment in the course of the 12 months preceding the claim. One or two schemes shorten this period for juveniles; a few impose a longer period, such as 52 weeks in the previous 104.

Waiting periods are commonly longer for unemployment benefit than for sickness benefit. There are various reasons which may explain this difference. The moral hazard to which we have just alluded is perhaps the chief reason. There is also the fact that the processing of a claim to unemployment benefit is more elaborate and therefore more costly; if, therefore, as may often occur, a job is found for the claimant within a few days of his reporting to the employment office, this processing operation will be unnecessary.

On the other hand a longer waiting period may discourage a claimant from seeking a temporary engagement, on the termination of which

the waiting period will have to be served again. Consequently under most schemes which set the period at as much as seven days the condition is not reimposed if unemployment recurs within a few months or even in the course of a year. The Social Security (Minimum Standards) Convention, which permits a waiting period of seven days, provides that days before and after a short engagement shall be treated as part of the same spell of unemployment.

A review of the rates of unemployment benefit in the score of countries which have unemployment schemes reveals that they vary in the great majority of cases according to the family responsibilities of the beneficiary. This is due to the fact that unemployment schemes are found only in industrialised countries, all but a few of which have instituted family allowances. Under some schemes the general family allowance is replaced by a dependant's supplement to the unemployment benefit, payable at a higher rate. Most schemes increase the benefit, not only on account of the children but also on account of the housewife. In about a third of the countries the rate of unemployment benefit is identical with that of sickness benefit. Several schemes provide a benefit proportional to the basic wage, but the proportion (leaving aside dependants' supplements) decreases as that wage increases; this arrangement, which necessitates the grouping of the insured persons into wage classes, represents a compromise between the uniform subsistence benefit and the benefit which is a uniform percentage of the individual's previous wage.

The nominal rates of unemployment benefit, viz. the rates payable on the basis of wages not exceeding the prescribed maximum, are in most cases 50 or 60 per cent. for a person without dependants. But where provision is made for the percentage to decrease as the basic wage increases, the benefit for such a person may be as low as 35 per cent. of the basic wage for the highest wage class. The Social Security (Minimum Standards) Convention stipulates a total benefit equal to at least 45 per cent. of the individual's previous income, including family allowances, or a similar proportion of the unskilled worker's wage where the benefit is uniform for all persons with given family responsibilities. As we noticed in connection with sickness benefit, this standard is decidedly low, particularly when applied to industrialised countries.

It is in the fixing of the maximum duration of unemployment benefit that we find the widest variations from one country to another. About one-third of the schemes will pay benefit for about six months in the course of 12 months, the qualifying period being similarly six months in the course of the 12 months preceding the claim; thus it is possible to draw benefit for the whole of the second half of each year if one has



worked for the first half. On the other hand a small number of schemes, including some of an insurance character, pay benefit without limit of time. Several countries, where the normal agency for providing unemployment benefit is an insurance scheme, possess also an assistance scheme which continues the payment of benefit subject to a means test.

The Social Security (Minimum Standards) Convention sets, as the minimum standard, 13 weeks of benefit in the course of a year for insurance schemes, or 26 weeks for assistance schemes. The Income Security Recommendation, however, proposed that there should be no limitation on the duration of benefit even under insurance schemes, but it did allow benefit to be suspended if the beneficiary refused the offer of an employment of which he was capable at a wage lower than that which he previously received, though not less than the current rate for the employment in question.

Unemployment schemes, indeed, cannot be considered to be performing their function properly unless they guarantee maintenance to all persons able and willing to work. This seems to be a condition that social justice requires national economies of all types to fulfil. But a six months' period of benefit is ample for the great majority of cases unless a severe depression sets in. Moreover, we may be sure that in such an emergency the machinery by which unemployment insurance ascertains the genuineness of the individual's unemployment will be overwhelmed, and an assistance scheme, if not already in being, will have to be improvised.

### Questions

1. *Do you think it desirable to pay higher rates of benefit where sickness, invalidity and death are caused by employment injury than in other cases?*
  2. *Permanent incapacity pensions are supposed to correspond to the reduction in the pensioner's earning capacity. How, in reality, is the reduction assessed?*
  3. *Characterise the different types of unemployment.*
  4. *State, in a few words for each, the five conditions that enter into the definition of unemployment for the purpose of claiming benefit.*
  5. *Do you see any sufficient reason why the qualifying period, waiting period, benefit rate and maximum duration of benefit should not be the same for unemployment as for sickness?*
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## **EIGHTH LESSON**

### **THE FINANCING OF SOCIAL SECURITY SCHEMES**

In this lesson we shall consider the frequency and duration of the benefits to which the respective contingencies give rise and, in the next lesson, the methods of distributing the resultant charge over periods and among different sectors of the population.

This is the domain of the statistician, the actuary and the economist, a domain which the layman enters at his peril, since it is full of pitfalls for the unskilled and unwary. Social security schemes (especially those promising pensions) which have been established without actuarial preparation or for demagogical motives with deliberate disregard of actuarial exigencies, have, in the long run, disappointed their expectant beneficiaries; moreover, even a scheme established on a sound actuarial basis may be rendered ineffective by an inflation which the actuary cannot foresee. For this reason the Social Security (Minimum Standards) Convention requires governments to evaluate periodically the assets and liabilities of social security schemes in order to maintain their solvency and to fix benefits and contributions on the basis of actuarial estimates.

Nevertheless, the layman who finds himself responsibly implicated in the planning or reform of social security schemes or in their everyday administration should be able to appreciate the order of magnitude of the factors that determine the cost of social security and to understand the conditions that affect the distribution of that cost at present and in the future.

Benefits that are defined in similar terms in the schemes of different countries will not necessarily cost the same in proportion to the respective levels of wages; their frequency and duration will be influenced by circumstances such as the health of the population and its age structure, the regularity of employment, the safety of workplaces and the liberality or strictness of the social security administration.

#### **FREQUENCY AND DURATION OF BENEFITS**

What do we mean by the "cost of social security" ? The answer that occurs to us at once is: "the amount that is needed to pay for the

benefits and the expenses of administration." This amount will vary from year to year, the expenditure on pensions being calculated to rise fairly regularly over a considerable period and the expenditure on most other benefits moving up and down within narrow limits, provided that there is no major change in the value of money. In the next lesson we shall see how the income of social security schemes is calculated to cover the probable average expenditure over a series of years that may be short or long. In this lesson we shall consider the basic realities that underlie the different contingencies which give rise to benefits, and shall illustrate the frequency and duration of benefits by statistical examples taken from the I.L.O. *Year Book of Labour Statistics* and occasionally from other sources.

### *Family Allowances*

The annual charge represented by family allowances can be calculated by multiplying the number of individuals in each category of dependants for which allowances are payable by the annual rate of the allowance for each category. For the sake of simplicity we will consider here only the allowances paid to children under the age of 15.

The proportion of children in a given community in a given year depends on the birth rate and the death rate among children during that year and the preceding 14 years. The number of children will, of course, tend to be smaller where the birth rate is lower, and conversely.

An estimate made by the I.L.O. suggested that in the economically developed countries the ratio of children to the economically active population varied between 0.445 and 0.785 to 1. Owing to the generally small size of families it was calculated that, if the allowance was not payable for the first child in a family, the cost would be reduced by nearly half. In underdeveloped countries, notably in Central America, the ratio of children to persons of working age was much higher—sometimes 100 per cent. higher—than in Europe generally; moreover, it is reasonably certain that fewer women are gainfully occupied, so that the earners who can contribute to the cost form a smaller proportion of the population of working age.

From data published in the I.L.O. *Year Book of Labour Statistics*, 1956, we may calculate the following examples of the ratio of child beneficiaries (the normal age limit is 15 or 16) to the economically active population or the insured population, according to whether the scheme is of universal scope or limited to certain classes:

*A. Universal Schemes.*

## 1. Allowances paid for all children :

|                                  |         |
|----------------------------------|---------|
| Canada and New Zealand . . . . . | 1.0 : 1 |
| Australia . . . . .              | 0.8 : 1 |
| Finland . . . . .                | 0.7 : 1 |
| Sweden . . . . .                 | 0.6 : 1 |

## 2. Allowances paid for the second and following children :

|                          |          |
|--------------------------|----------|
| Norway. . . . .          | 0.35 : 1 |
| United Kingdom . . . . . | 0.25 : 1 |

*B. Insurance Schemes.*

## Allowances paid for all children:

|                             |          |
|-----------------------------|----------|
| Algeria . . . . .           | 1.15 : 1 |
| Belgium and Italy . . . . . | 0.6 : 1  |

The low ratio in the United Kingdom is due equally to the lower birth rate and to the higher proportion of the economically active.

*Sickness Benefit*

Most cases of sickness are naturally of short duration. The experience of a large English friendly society (The Independent Order of Oddfellows, Manchester Unity), on which the actuarial estimates of the British sickness insurance scheme were founded at the end of the nineteenth century, showed that cases lasting up to 13 weeks account for 81 per cent. of all days of sickness (where the maximum duration of the benefit is 26 weeks). Cases that last beyond 26 weeks are likely to continue very much longer, and this is an important reason for transferring them from sickness insurance to invalidity insurance. Considering the progress of medicine, one would have expected to find a very gradual fall in the frequency of sickness cases, but this expectation has not been fulfilled. It is interesting to bear in mind in this connection that the notion of "sickness" is elastic and capable of administrative control. The medical supervisors of a scheme tend to have a certain conception of the normal sickness rate ; they will strive to keep the certification habits of doctors in line with this, but are unlikely to try to reduce the rate below its traditional level. Also, people today are much more aware of the possibility that they may be suffering from illness than their fathers were and are more conscious of the fact that their health is an asset to be preserved.

In the I.L.O. *Year Book of Labour Statistics, 1956*, and other sources we find the following examples, all of which relate to schemes prescribing a waiting period of three days and a maximum benefit period which is normally 26 weeks (table IV).

TABLE IV. FREQUENCY AND DURATION OF SICKNESS BENEFIT

| Country               | Number of cases<br>per 100<br>insured persons | Average number<br>of days per<br>case | Number of days<br>per insured<br>person |
|-----------------------|---|---------------------------------------|---|
| Austria . . . . .     | 64  | 23                                    | 15                                      |
| Germany (Fed. Rep.) . | 65  | 19                                    | 12                                      |
| Turkey . . . . .      | 41  | 20                                    | 8                                       |
| Venezuela . . . . .   | 25  | 24                                    | 6                                       |

The lower sickness rate per 100 insured persons experienced in the last two schemes may be partly due to the lower average age of the workers in countries where industry is new and the birth rate is high : British experience shows that a man of 45 is likely to be sick for 50 per cent. more days per year than a man of 30.

### *Maternity Benefit*

The cash benefits on account of pregnancy and confinement and their consequences always include "maternity benefit", viz. an allowance to the insured woman payable for periods before and after her confinement. But many schemes provide in addition either a nursing allowance or a layette grant, or both, and these are as a rule available to the wives of insured men as well as to insured women.

The cost of maternity benefit per insured person evidently varies with the birth rate among insured women and the ratio of insured women to the insured population. From the I.L.O. *Year Book of Labour Statistics* and other sources, it appears that the annual number of births giving rise to the payment of maternity benefit represented the following percentages of the insured population : France 1.8, Venezuela 1.7, Germany (Fed. Rep.) 1.4, Belgium 1.1.

As regards nursing allowances the following figures for Germany (Fed. Rep.) may serve as an example. The allowance is payable both to insured women and to the wives of insured men for an average of 14 weeks per case: for the former the rate is a minimum of 25 per cent. of the wage and for the latter a smaller sum. The total duration of these allowances in 1955 corresponded to 3.4 days per insured person.

### *Invalidity Pensions*

The incidence of invalidity in a working population can be estimated, in advance of national experience, only within wide limits. But, given an actuarial figure to work on, the administrators of an invalidity scheme may be able to exert some pressure on those responsible for certifying cases of invalidity so that the number of awards is kept within that figure.

Invalidity pensions are granted, not only to individuals who are certainly incurable, but also to those whose sickness has lasted beyond the maximum period for which sickness benefit is payable, and for whom invalidity insurance can provide extended curative treatment. For the former group the pension is, in principle, permanent, while nevertheless remaining subject to review until the age for the award of an old-age pension is reached; but for the latter group the pension is a merely provisional allowance, pending the medical verdict after the termination of the treatment or rehabilitation process.

The medical certifying authority has indeed a delicate task. It has to decide whether there is any suitable work which the claimant could perform and, if so, how much he could earn. In times when unemployment is severe in countries where unemployment schemes have not been established, the certifying authority may be tempted to apply its rules of assessment less strictly. On the other hand, in a prosperous period the proportion of physically handicapped persons who can be placed in employment will of course increase, and the criteria may be applied more strictly.

The probability of invalidity rises rapidly with age: it may treble between 16 and 40, and again between 40 and 60. Consequently, insured populations whose average age is high are likely to experience more invalidity. Table V gives some figures regarding a few schemes that have been in operation for several decades. The figures given for the upper-age limit indicate the age when the invalidity pension is converted into an old-age pension; it should be mentioned that the Swedish scheme covers, as from age 16, invalidity contracted in childhood.

TABLE V. PROPORTION OF INVALIDS TO INSURED POPULATION <sup>1</sup>

| Country           | Year | Invalids as per cent. of insured population | Upper age limit |
|-------------------|------|---|-----------------|
| Denmark . . . . . | 1953 | 1.5   | 60              |
| France . . . . .  | 1955 | 2.4   | 60              |
| Sweden . . . . .  | 1954 | 2.9   | 67              |

<sup>1</sup> Calculated from figures published in the I.L.O. *Year Book of Labour Statistics*.

*Old-age Pensions*

The demographic situation and prospects of the country determine, as regards a general scheme for employees or a universal scheme, the number of pensioners for a given pensionable age, and the number of persons of working age from whom the economically active population is drawn. In most of Europe and in the English-speaking world the ratio of old people to those of working age has been growing for the last half-century, and the process is expected to continue for some decades at least. It is true that simultaneously the proportion of children in the majority of these countries tends to decline, so that the ratio of the total number of dependants, old and young, shows little change. But, of course, an old-age pensioner costs several times as much as a child to maintain. Table VI contains a few census figures and forecasts illustrating these trends:

TABLE VI. PERSONS OF DIFFERENT AGES IN EACH 1,000 OF THE POPULATION

| Category                                  | United Kingdom |      | Portugal |      | Central America |      |
|---|----------------|------|----------|------|-----------------|------|
|   | 1951           | 1971 | 1951     | 1971 | 1951            | 1971 |
| Children under 15 . . . . .               | 224            | 198  | 295      | 281  | 428             | 406  |
| Men under 65 and women under 60 . . . . . | 641            | 625  | 616      | 614  | 532             | 549  |
| Old persons . . . . .                     | 135            | 177  | 89       | 105  | 40              | 45   |

The raising or lowering of the pensionable age has a greater effect on the cost of pensions than the layman would perhaps expect.<sup>1</sup> If the age is raised, not only will there be fewer old-age pensioners, but also the number of contributors will be larger, and the contribution will be reduced on both counts; on the other hand, the number of invalidity pensioners will rise. If the age is lowered, converse effects will be produced. In the imaginary example given on page 91 (table VII) we can see these effects in a body of 1,000 contributors and pensioners.

Although a country's income per head may be increasing by a small percentage each year—and is so increasing in the industrialised countries—its ability to lower the pensionable age is counterbalanced by the growth of the population surviving beyond that age as the consequence of the improved health services of recent decades, which have somewhat lengthened the expectation of life. In these circumstances we do not now witness any tendency to lower the pensionable age. However, the

<sup>1</sup> Even apart from the effect of compound interest under schemes which accumulate contributions.

TABLE VII. PENSIONABLE AGE AND NUMBER OF PENSIONERS  
(Per 1,000 contributors and pensioners)

| Pensionable age | Number of pensioners |                                    | Number of contributors | Total pensioners as percentage of contributors |
|-----------------|----------------------|------------------------------------|------------------------|--|
|                 | Old-age              | Invalidity (under pensionable age) |                        |  |
| 50 . . . . .    | 333                  | 15                                 | 652                    | 53   |
| 55 . . . . .    | 255                  | 23                                 | 722                    | 39   |
| 60 . . . . .    | 183                  | 35                                 | 782                    | 28   |
| 65 . . . . .    | 121                  | 56                                 | 823                    | 22   |
| 70 . . . . .    | 70                   | 80                                 | 850                    | 18   |

longer expectation of life—an extension of, say, 20 per cent. at 65 during the last half-century in the advanced countries—is equivalent to a reduction of the pensionable age by a couple of years in the course of that period. At the present time a person who takes his pension at 60 has, in Europe and America, the probability of enjoying it for 12 to 15 years, or, if he is pensioned at 65, for 10 to 14 years. More women than men reach the ages of 60 or 65, and their expectation of life thereafter is one or two years more.

### *Widows' and Orphans' Pensions*

The bases for the estimation of the number of widows and orphans that will be left by insured persons are the national census and statistics of births, marriages and deaths. In countries where formal marriage is unusual and concubinage takes its place the number of relicts is very difficult to forecast.

The 1938 German statistics yield a figure of 3.6 per cent. of the insured population for widows over 65 or invalid; this had been expected to rise to 5 per cent. by 1955. In France in 1955 the same categories of widows represented 3.7 per cent. of the insured population. In Belgium, where all widows of insured persons receive pensions, the figure for 1955 was 8.5 per cent. In Great Britain, as regards the widows receiving pensions under the post-war Acts (but not those still receiving under earlier Acts), we find the following distribution of pensioned widows as percentages of the insured population:

|  | Per cent.  |
|--|------------|
| Widows over 60 . . . . .               | 5.3        |
| Widows under 60:                       |            |
| (a) having a dependent child . . . . . | 0.4        |
| (b) over 40 or invalid . . . . .       | 0.8        |
| Total . . . . .                        | <u>6.5</u> |



It is clear from all these figures that the great majority of pensioned widows are comprised in the aged population.

For a few countries, in all of which the birth rate happens to be low, we give the proportion of pensioned children having lost father or both parents as a percentage of the respective insured populations : Great Britain (1936) 1.5, Germany (1938) 1.6, Switzerland (1954) 2.0.

### *Employment-Injury Benefits*

Employment-injury insurance, as explained earlier, is really a special scheme of sickness, invalidity and survivors' insurance dealing with a very small volume of contingencies as compared with the general schemes but providing benefits which are usually on a more generous scale. These benefits, we may recall, are of four types: temporary-incapacity allowance; permanent-incapacity pension; survivors' pensions; medical benefit.

The risk of employment injury varies enormously as between different occupations, and between different branches of economic activity according to the extent to which dangerous occupations predominate in them; in Italy, for instance, the premium schedule in 1954 contained 657 rates, ranging from 0.5 per cent. of the wages bill to 23.1 per cent. Consequently, the frequency and severity of incapacity and the frequency of fatal cases vary, from country to country, with the proportions in which the different branches of economic activity are represented in the insured population. They vary also from country to country for the same branch, according to the type of mechanical equipment, and the safety precautions, prevalent in that branch. Finally, they vary from country to country according to the quality of the medical care provided by the scheme and the strictness of medical supervision.

In the I.L.O. *Year Book of Labour Statistics* and—for Mexico and Switzerland—other sources, we find data indicating that the total premiums in 1953 or 1954 were the following percentages of the average basic earnings of insured persons :

|                            | Per cent. |
|----------------------------|-----------|
| Belgium . . . . .          | 2.6       |
| Switzerland . . . . .      | 2.1       |
| Mexico . . . . .           | 1.85      |
| Netherlands . . . . .      | 1.5       |
| Japan . . . . .            | 1.1       |
| Canada (Ontario) . . . . . | 1.0       |

The undertakings covered by these schemes are sufficiently varied to be fairly representative of economic activities in urban areas, if not of industry as a whole. But, whereas in the first four countries the benefit

rates range from 75 to 100 per cent. of the basic wage in case of total incapacity and there is no waiting period, in the last two the benefit rate is lower and there is a waiting period of seven days.

The imposition of a waiting period reduces sharply the number of cases in which cash benefit is payable. In Ontario, for instance, the number of cases lasting less than seven days is two-and-a-half times the number of all other cases requiring medical benefit; in Switzerland cases lasting less than three days are one-and-a-third times as numerous as all others.

The frequency of cases in which temporary-incapacity allowances are payable after a waiting period of three to seven days seems to be about five per 100 insured persons; and the average duration of payment, taking into account cases in which permanent incapacity supervenes, seems to be typically about three weeks. Where there is no waiting period, the frequency being higher, the average duration is shorter.

The investigation of the comparative frequency and severity of permanent incapacity meets with a difficulty similar to that which we have just noted in connection with temporary incapacity; there are a great many cases of slight, though permanent, injury, and practice varies from country to country with respect to the minimum degree that entails the award of a pension or even of a lump sum. Here, for two schemes which set no minimum degree, is the distribution of permanent-incapacity cases by severity.

TABLE VIII. DISTRIBUTION OF PERMANENT-INCAPACITY CASES BY SEVERITY

| Degree of incapacity<br>(per cent.) | Percentage of all cases<br>of permanent incapacity |                     |
|-------------------------------------|--|---------------------|
|                                     | Great Britain                                      | Canada<br>(Ontario) |
| 0-19 . . . . .                      | 54.3   | 86.0                |
| 20-39 . . . . .                     | 32.8   | 6.1                 |
| 40-59 . . . . .                     | 7.8  | 2.3                 |
| 60-79 . . . . .                     | 2.6  | 1.6                 |
| 80-99 . . . . .                     | 0.8  | 0.5                 |
| 100 . . . . .                       | 1.7  | 3.5                 |
|                                     | 100.0  | 100.0               |

These figures illustrate not only the predominance of slight cases but also the difference in the criteria applied in assessing the degree of incapacity. In Great Britain, indeed, what is compensated is not loss of earning capacity but impairment of physical integrity; a supplemen-

tary benefit is payable if the injury causes the victim to become unemployed.

The frequency of fatal cases per 100 insured persons varies from country to country to a surprising extent: for example, between 0.01 (one death among 10,000 insured persons) and 0.035, under European schemes covering all employees in 1954 or 1955.

Finally, we must mention the medical benefit, which is an important item in the expenses of employment-injury schemes. The following are some examples of the percentage of premium income expended on medical benefit in 1954 or 1955:

|                            | Per cent. |
|----------------------------|-----------|
| Canada (Ontario) . . . . . | 20        |
| Switzerland . . . . .      | 16        |
| France . . . . .           | 16        |
| Netherlands . . . . .      | 13        |
| Belgium . . . . .          | 11        |

It may be noted that the highest percentage pertains to the scheme with the lowest premium rate<sup>1</sup>, and conversely; it would be instructive to explore the reason for this.

### *Unemployment Benefit*

Unemployment, unlike the biological contingencies, has not been characterised by a statistical regularity such that, with minor deviations, its incidence can be foreseen for years ahead. It is true that there must always exist an irreducible minimum of frictional unemployment, but, if that were all, there would be no point in setting up an unemployment-insurance scheme. In pre-war days unemployment was enormously swollen from time to time as the accompaniment of generalised economic depressions. But, just as plagues are no longer taken into account in planning sickness insurance because the public health authorities prevent them, so, perhaps, governments which do not manage production may learn to check the onset of depressions by remedies that the parties will accept.

The irreducible minimum of unemployment, supposing a stable currency, may be estimated at 2 per cent. of the labour force. A rate in excess of 5 per cent., however, should be regarded as calling for remedial measures.

Despite actuarial hesitations, unemployment-insurance schemes have nevertheless come into existence, and their authors had to commit themselves to at least a provisional assumption about the volume of the

<sup>1</sup> See p. 92.

risk to be covered. That such schemes should be fairly viable seems to be explained largely by the way in which the unemployment covered by a scheme of very wide scope is distributed among branches of economic activity and individuals. In this connection the detailed statistical investigations of the British experience in the inter-war years is instructive.

In 1932, when the depression was at its worst, 23 per cent. of the insured population were unemployed, the rates of unemployment in the main branches of the economy being as follows: mining: 40 per cent., manufacture: 30 per cent., transport: 20 per cent., shopkeeping: 10 per cent., other commerce and banking: 5 per cent.

The concentration of demand for unemployment benefit in certain branches meant that there were numerous cases in which the insured person exhausted his right to benefit and, being unable to requalify, ceased to be protected. In the more favoured branches, on the other hand, there were many individuals who remained in steady employment. Thus the insurance scheme eliminated from its body the worst risks, retaining only those of moderate degree. The unevenness of the distribution of unemployment during a depression as between industry and commerce has been typical of the experience of industrialised countries. It is this phenomenon that helps to explain how unemployment insurance can remain solvent: by leaving the chronic cases to assistance schemes or poor relief.

The duration pattern of unemployment resembles, but in an exaggerated form, that of sickness, while protracted unemployment is akin—not only by analogy, but also because of the influence of personal defects on employability—to invalidity. In a period of two-and-a-half years when unemployment averaged 10 per cent. (viz. five weeks in the year) only 30 per cent. of the insured population claimed any benefit at all, and of these only a quarter drew benefit for more than a total of 100 days. In 1928, when the unemployment rate was also 10 per cent., the distribution among recipients of benefit (not the insured population as a whole) was as follows:

| Duration<br>of unemployment  | Men          | Women        |
|------------------------------|--------------|--------------|
| Less than 3 months . . . . . | 31.1         | 50.5         |
| 3-6       "       . . . . .  | 28.8         | 30.5         |
| 6-9       "       . . . . .  | 19.7         | 12.0         |
| 9-12     "       . . . . .   | 14.9         | 5.8          |
| 12 months and over . . . . . | 5.5          | 1.2          |
|                              | <u>100.0</u> | <u>100.0</u> |

The number of spells of unemployment per head was: men, 2.4; women 2.0.

*Medical Benefit*

The frequency of the contingency which gives rise to medical benefit is in practice largely dependent on the attitude of the individuals entitled to claim it. As a rule, every person protected may visit his doctor as often as he likes and other claims on his time allow; the doctor for his part is free to decide whether any treatment is needed, but it is natural that he will in the great majority of cases diagnose some ailment and prescribe some medicine. Hence the frequency of consultations with doctors and the frequency of prescriptions are closely correlated and are substantially affected by the manner in which the persons protected judge the state of their health in the country concerned. Once the diagnosis is made, however, the kind and duration of the treatment are determined mainly by the doctor, and his decisions will be influenced by a variety of considerations: not only what the case ideally requires, but also what the scheme is materially able to supply, having regard to its financial resources and the availability of hospital accommodation.

The fragmentary statistics in table IX have been culled here and there in order to show the varied demands of different insured populations as regards medical benefits.

TABLE IX. FREQUENCY AND DURATION OF MEDICAL BENEFITS

| Country                   | Year | No. of medical consultations per person protected | No. of cases of hospitalisation per 100 insured persons | Average duration of hospitalisation (in days) | No. of pharmaceutical prescriptions per person protected |
|---------------------------|------|---|---|---|--|
| Germany (Fed. Rep.):      | 1955 |   |   |   |  |
| insured persons . . . . . |      | —   | 9.55  | 24  | —  |
| dependants . . . . .      |      | —   | 9.2   | 20  | —  |
| Great Britain . . . . .   | 1950 | 5.5   | —   | —   | 5.3  |
| Italy . . . . .           | 1952 | 2.8   | 4.9   | 12.5  | 3.2  |
| Mexico . . . . .          | 1952 | 5.5   | 4.8   | —   | —  |
| Peru . . . . .            | 1953 | 4.5   | 7.0   | 20  | 7.5  |
| Yugoslavia:               | 1953 |   |   |   |  |
| insured persons . . . . . |      | } 2.5   | 28.3  | 14.4  | } 2.9  |
| dependants . . . . .      |      |   | 4.0   | 15.0  |  |

The annual cost of medical benefit under social security schemes, and under sickness insurance in particular, can be found by calculating how much of the income of the scheme, i.e. insurance contributions and state subsidies, has been spent on the provision of benefit. But this disregards the fact that in many countries sickness insurance enjoys a concealed subsidy: it hospitalises its patients, not in establishments

of its own, but in those of public authorities, paying only a fraction of the cost of building and operating them. Also, in a few European countries, part of the cost of certain services is charged to the recipient of benefit, in addition to the contribution he has paid as an insured person. In general his total share is small, e.g. a portion of the cost of dentures, spectacles or artificial limbs, but in Belgium, France, Germany (Fed. Rep.) and the United Kingdom, the patient pays 20 per cent. to 25 per cent. of the cost of medicine (in the first two countries he pays also about the same fraction of the doctor's bill).

The accounts of sickness-insurance schemes, of course, show only the expenditure out of their own revenue. From the I.L.O. *Year Book of Labour Statistics* and from other sources we have calculated (table X) what proportion of the basic wages on which contributions were payable was applied to financing medical benefit under a number of schemes in 1954 or 1955. Under all these schemes the dependants of the insured person are protected, though sometimes not quite so extensively as he is himself; the number of dependants per insured person therefore affects the cost under the respective scheme.

TABLE X. COST OF MEDICAL BENEFIT AS PERCENTAGE OF BASIC WAGE <sup>1</sup>

| Country                   | Cost per insured person | Cost per person protected (insured persons and dependants) |
|---------------------------|-------------------------|--|
| Mexico . . . . .          | 7.4                     | 2.7  |
| France . . . . .          | 6.3                     | 2.5  |
| Belgium . . . . .         | 4.7                     | 2.0  |
| Japan . . . . .           | 4.7                     | 1.3  |
| Germany (Fed. Rep.) . . . | 3.6                     | 2.0  |

<sup>1</sup> Including obstetrical benefit.

In England and Wales the cost of the national health service may be expressed as a percentage of the national income as distributed per head of the economically active population, which may be regarded as equivalent to the insured population in other countries. This percentage in 1954 was 3.4 and, since there was about one dependant per economically active person, this meant that the cost per person protected was about 1.7 per cent. of that income. It is interesting to compare this cost with the contribution that would have been needed if the scheme had been on an insurance basis; the total cost of the scheme in the financial year 1952-53 was 7.7 per cent. of the estimated total earnings of employees and self-employed persons.

Mexico is one of the few countries in which sickness insurance meets the entire cost of medical care for insured persons and their dependants. As regards hospital care, the French scheme covers practically the full cost, while the schemes of Belgium and Germany (Fed. Rep.) pay only about two-thirds.

Details of expenditure on the various items of medical benefit are not presented in comparable form in national statistics. But the I.L.O. investigated the 1951 expenditure of several European countries on the kinds of medical and maternity care specified in the Social Security (Minimum Standards) Convention. It found that the distribution of the cost among the different items was roughly as follows:

|  | Per cent.  |
|--|------------|
| General practitioner care and specialist<br>care outside hospitals . . . . . | 27         |
| Hospital care . . . . .  | 41         |
| Pharmaceutical supplies . . . . .  | 18         |
| Conservative dental care . . . . .   | 9          |
| Maternity care . . . . .   | 5          |
|  | <u>100</u> |

### Questions

1. *Classify the contingencies covered by social security schemes according as the actuary can, or cannot, make a reliable estimate of their incidence in advance of experience in the working of the scheme.*

2. *What conclusions may be drawn from the fact that the average number of days of sickness per insured person does not diminish in the course of decades, despite the progress of medicine ?*

3. *Why is it that the cost of old-age pensions at a given rate rises so steeply as the pensionable age is lowered ?*

## NINTH LESSON

### THE FINANCING OF SOCIAL SECURITY SCHEMES

*(continued)*

#### PERIODICAL DISTRIBUTION OF COST

A social security scheme will not deserve its name unless there is reasonable certainty that the benefits promised by it will be paid as they fall due. It is not enough that a government should declare that, whatever the cost may prove to be, it (or rather its successors) will guarantee the solvency of the scheme. There are practical limits to the sums that can be extracted from the economically active population in order to finance benefits for the remainder, and, when the limit is reached, the benefits will be cut down either in nominal value or by inflation. Therefore the problem of financing a proposed benefit must always be thoroughly studied, and a viable solution found before the scheme is made law. As we mentioned in the previous lesson, the Social Security (Minimum Standards) Convention is insistent on this point.

Whether insured persons, employers, or taxpayers are in question, they want to know, at least approximately, how much of their income is to be taken up by obligatory charges for social security, because a sudden substantial rise will disturb the conduct of their affairs. Inevitably, when a social insurance scheme is put into force, this salutary operation occasions a shock to the contributors. But this can be, and often is, minimised by establishing the different branches one at a time. The financing of social insurance schemes ought, then, to be designed in such a way that the contribution rate is constant, or, if it is to rise in the course of time, that it will do so only in proportion to the prospective increase of the national wealth, or perhaps a little more.

A social security scheme which is financed from general tax revenue faces technical and psychological problems substantially different from those which must be solved by one which relies largely on contributions. In the following discussion we shall be concerned for the most part with the latter.

In all branches of social insurance, plans for maintaining a constant contribution rate encounter the hard fact that neither income nor expenditure will turn out to be exactly as foreseen: there will always be



deviations in one direction or the other. To take one example, an increase of unemployment will diminish the contribution income of all branches immediately, but the expenditure only later. Every scheme must therefore build up a reserve against an unforeseeable rise of expenditure or fall of income. Normally, this reserve will be formed by setting aside a small portion of the contribution; when the reserve is sufficient, and while it remains so, this portion can be diverted to the improvement of benefits. Just because the deviations are unforeseeable it is impossible, in advance of experience, to tell how large the reserve should be; a few months' contributions may suffice in sickness insurance, but an unemployment fund will not feel secure without a much larger amount to fall back upon.

Some of the contingencies covered by social security schemes are by nature highly regular in their incidence, though a slow change may become apparent over several years. These are the events recorded in vital statistics, namely births and deaths. Hence the actuary can forecast within close limits the annual number of confinements, and the numbers of dependent children, persons of pensionable age, widows and orphans alive in successive years.

Similarly, sickness and invalidity, like death, possess a natural regularity of incidence. But the recognition of a particular case as justifying the award of benefit depends on the judgment of the medical certifying authority, whose criteria are to some extent elastic. This elasticity may, on the one hand, be turned to account in order to force the number of awards into closer conformity with what the actuary foresaw or, on the other hand, facilitate generosity.

The incidence of sickness, invalidity and death due to employment injuries varies enormously from one occupation to another, though the figures for employment as a whole are stable enough from one year to the next.

Unemployment resembles sickness and invalidity in that the decision to award or withhold benefit involves some degree of subjective appreciation, but this affects only to a minor extent the volume of benefits. Under an economic system where private capitalism predominates, or in any country (whatever the system) where foreign trade is important, big fluctuations in the benefit load are possible. In the case of assistance schemes the full force of severe unemployment is felt, but insurance schemes shield themselves from the worst consequences by the built-in defence to which we referred in the previous lesson.

The cost of benefits will naturally depend in practice, not on the number of persons in the insured population (or their dependants) who are incapable of work, aged or unemployed, but on the number of such

persons who have been awarded benefits as well as on the average rate of benefit.

A scheme that is universal in its scope will, by definition, grant benefits to all individuals affected by the contingency which it is intended to cover. In Sweden, for example, the family-allowance scheme applied immediately to all existing children, and pensions became payable to all the existing invalids and aged as soon as the respective scheme came into force.

But where a scheme is of an insurance character the imposition of a qualifying period, which is usual in all branches except employment-injury insurance, keeps down the number of benefit recipients, at least at first. Thus no person who is sick or unemployed at the date when contributions begin to be collected will obtain any benefit on account of that spell of absence from work; and no person who is already an invalid, a widow or an orphan will ever receive benefit, though an aged person who can carry on his job for a few more years may be able to acquire a pension.

The effect of a qualifying period in delaying, and in some degree limiting, the growth of the number of benefit recipients varies of course according to its length. Short periods are connected with temporary allowances, long periods with pensions, except that under the transitional provisions of pension schemes it is usual to shorten the period very much for persons already elderly when the scheme is put into force. Once a scheme has been in force for the length of the qualifying period, the initial entrants who thereafter are affected by the contingency can obtain the benefit. Except as regards family-allowance insurance, the time that will then elapse before the number of benefit recipients from an insured population of constant size and composition attains its permanent level depends on the maximum duration of the benefit.

Family-allowance insurance pays benefits to insured persons having completed the qualifying period (usually very short) in respect of their dependent children, whether then alive or born subsequently. Therefore the number of benefit recipients and children reaches its normal figure a few months after the scheme has started.

In sickness and unemployment insurance the maximum duration of a spell of benefit is usually six months; when benefit has been drawn for so long, the qualifying period must be repeated. In the first half of any year there will always be a small number (which we may assume constant) of persons on the benefit roll who have been carried over from the latter half of the previous year, but allowance can be made for this by calculating an annual average on two consecutive years. This level of the number of recipients of sickness and unemployment benefits found

in the second year from the inception of the scheme will not be subsequently affected by the age of the scheme.

In pension insurance, on the other hand, the number of pensioners continues to grow for many years after the qualifying period has elapsed. Every year yields its crop of pensioners, each of whom (orphans excepted) is likely to draw his pension for the rest of his life.

Taking first the simplest case, that of an old-age pensioner, we may suppose that some members of each annual crop will die each year, the last one doing so after 20 years. The following figures have been deliberately simplified but give some indication of the process. If there are 100 pensioners in the first year, there may be (say) 196 in the second, 288 in the third, 800 in the tenth, and there will be 1,000 in the twentieth year. From this rough illustration it can be seen that the number almost doubles annually at the start, and increases thereafter ever more slowly, to reach after some 20 years a maximum of ten times the initial figure.

The curve of the number of invalidity pensioners, beginning perhaps earlier because of a shorter qualifying period, follows a similar course for, though they claim their pensions on the average in late middle life, their expectation of life is no longer than that of a person of 65. The number of widows' pensions being paid develops in a like manner in so far as these pensions relate to invalids or elderly women.

If the size of the insured population increases as the result of additions to its younger age groups, the proportion of pensioners in the whole insured population will grow more slowly. Conversely, a reduction in the number of young recruits will accelerate the rise in the proportion of pensioners; this is an aspect of the aging of the population, which is causing disquiet in some developed countries.

Employment-injury benefits comprise both short-term allowances and pensions. The former will behave statistically very much like sickness benefits, the annual load of temporary-incapacity cases showing little variation. The number of pensions, on the other hand, will grow from year to year until the members of the first crop of pensioners die. Since accidents are distributed fairly evenly over all age groups, the average age of these pensioners is lower than that of benefit recipients under pension insurance (invalidity, old-age and survivors' insurance schemes). Also, accidental injuries are less likely to reduce the expectation of life than the constitutional diseases which bulk largely among the causes of invalidity. For these reasons one may assume that the number of the permanent-incapacity pensions from employment-injury insurance will continue to increase for a longer period than that of the recipients of benefit from pension insurance.

We pass now to the consideration of the effect of the benefit rate or formula on the development of the benefit load. This aspect, as will be readily understood, is significant only in connection with pensions. All benefits of a temporary character are either uniform in amount or, as is most frequent, proportionate to the basic wage which the insured person has recently been earning, so that the annual contribution rate can, in principle, be kept constant, the occasional deficits being covered by the reserve fund.

Evidently, if the pension is at a uniform rate for all pensioners, the pension load will grow at the same pace as the number of pensioners, and in 20 years or so will attain a constant level. But if, as is the case under most pension-insurance schemes, the pension rate, apart from its minimum component, increases in proportion to the number and amount of the contributions paid for the individual, the average rate of the pensions being paid will rise from year to year. The period which will elapse before the pension load reaches its constant level will be prolonged far beyond 20 years. Indeed, if contributions begin to be paid at the age of 15 and the pensionable age is 65, 50 years will pass before the youngest members of the initially insured population claim their pensions (which we assume to be at the maximum rate), and another 20 before the last of them dies and is replaced by a successor with an equal pension. So only after 70 years will the pension load attain its maximum and constant level.

No pension-insurance scheme has existed for as long as 70 years, and it is unrealistic to suppose that any scheme could endure for a lifetime without being adapted to changed economic and social conditions. This does not render vain or useless actuarial projections into so distant a future, for every scheme has to preserve a certain continuity, notably as regards the rights in course of acquisition by its older members. The German scheme, which started in 1891, was substantially amended in 1911 and, after two reconstructions following the two World Wars, has retained a recognisable identity.

Thus, it will nevertheless be instructive to consider the following example of how a pension might develop during 70 years in a stable environment. Starting from the figures of actual expenditure of the German scheme from 1891 to 1899, estimates of expenditure were made for the period 1900 to 1960, after which latter date the figure was expected to become constant. The insured population averaged about 12 million during the first nine years and was assumed to remain at 12,650,000 during the subsequent period; the level of wages was assumed to be constant throughout. There was a uniform state subsidy to each pension, and the remainder of the pension was proportionate to the total of

the wages earned by the insured person. The former element was not included in the estimates of annual expenditure, reproduced below.

| Year           | Annual expenditure<br>per insured person<br>(in marks) | Year           | Annual expenditure<br>per insured person<br>(in marks) |
|----------------|--|----------------|--|
| 1891 . . . . . | 0.8  | 1930 . . . . . | 12.3   |
| 1900 . . . . . | 5.0  | 1940 . . . . . | 13.2   |
| 1910 . . . . . | 8.8  | 1950 . . . . . | 13.7   |
| 1920 . . . . . | 11.0   | 1960 . . . . . | 14.0   |

The above figures illustrate vividly the problem of devising a means of regularising the contribution rate in pension insurance.

At the beginning of this lesson the reasons for endeavouring to keep the contribution rate constant were pointed out; the need to avoid too great a shock when a contribution is first levied was also noted. In financing pension insurance it is necessary therefore to look for a method of regulating the contribution rate which reconciles these two factors: a rate that is not necessarily constant but is never absurdly low or intolerably high.

There can, of course, be no question of raising the contribution each year to meet such a rapid increase in the current expenditure as we have just seen in the above example. A very low initial rate in the early years would create in the minds of the contributors a false idea of the financial implications of the scheme. At a certain point resistance would surely be offered to the very heavy contribution that would be called for, and the scheme would become unable to meet its commitments. Those who would suffer most would be the younger members of the initially insured population, who would have contributed for many years and paid for their elders' pensions, only to find themselves cheated of their rights when their turn arrived.

There are broadly two methods of financing pension insurance which result in an equilibrium between a constant or slowly rising income and a quickly rising expenditure. The essence of the first is to cover the whole future cost of each year's crop of pensions in the year of their award. The second method, which admits of several variants, relies on the accumulation of capital the interest on which will cover the future deficit of contribution income.

The first method consists in equating each year's income to the capital value of the pensions awarded in the year. Thus, supposing that the capital value of a pension is ten times its annual value, the contribution rate for a given year will be the same multiple of the sum of the annual rates of the pensions awarded in that year. Unless there is an increase in the number of new pensions awarded each year, the contribution rate will not rise unless there is an increase in the average rate of the

pensions awarded. If the average pension rate doubles in 50 years, so also will the contribution rate. Such a slow increase in the charge need not be felt as intolerable since it may well be that the income per head of the population concerned will more than keep pace with it.

This method in its simplest form, implying as it does annual increases in the contribution rate, seems never to have been used for any general scheme of pension insurance ; but if the period of account is lengthened from one to five or ten years, it may in some circumstances be considered acceptable. In employment-injury insurance, on the other hand, it has been, and still is, the typical technique for covering pension liabilities. Here the rate of the pension is not affected by the length of the individual's participation in the scheme : if the number of accidents and the general level of wages remained constant from year to year, so would the amount of the contribution. In most countries the cost of employment-injury benefits is apportioned among employers according to the comparative dangerousness of the industries in which they are engaged. Industries thrive and decay : they cannot be made to cover their respective liabilities except by charging them immediately with the capital value of the pensions awarded to their workers.

So far as pension insurance (old age, survivors, invalidity insurance) is concerned, the second method—namely, that which accumulates capital, not to be expended, but for the sake of the interest it yields—has, at least until recently, been widely favoured. It makes use of the fact that a compulsory insurance scheme is sure of recruiting every year a supply of young members to replace the annual crop of pensioners. Since the scheme will never be liquidated, it need not accumulate, as must a life-insurance company, the capital value of the benefit rights which the insured persons, as individuals, are in the process of acquiring. In practice, therefore, the scheme has only to arrange that contribution income plus interest will cover current expenditure at all times ; and this is compatible with a contribution rate constant from the outset. First, a calculation is made of the annual expenditure that will be attained when, after 70 years for example, most of the pensioners are drawing pensions at the maximum rate. Then the contribution rate must be fixed at such a level that, after meeting the current expenditure on pensions and administration, it will leave a surplus, high at first and diminishing ultimately to zero, from which the necessary capital is constituted.

One of the advantages of this method is that it offers an acceptable solution for the problem of financing the privileges which are usually granted to the elder members of the initially insured population, securing to them a minimum pension, not balanced by their contributions, after a short qualifying period. It would be inequitable to charge the cost of

these privileges only to the younger members of the initial population. By this method the charge is distributed over that population and the unlimited series of its successors as well. Under some schemes the State assumes, as its contribution, the liability arising from the grant of these privileges, paying to the pension fund the interest on the capital that would have been accumulated in respect of the older members if they had entered the scheme in their youth.

Although this method is comparatively economical of capital, it nevertheless calls for an enormous amount; for example, under the original German scheme the capital was intended to reach ultimately seven times the annual expenditure. The investment of so huge a sum, if this figure were ever attained, might encounter unexpected difficulties in countries where productive activities are the domain of private enterprise, and financial participation in them forbidden to social insurance institutions. The autonomous institutions of pension insurance, like life-insurance companies, have always been obliged, as trustees of their members' savings, to invest in bonds guaranteed by the State or in mortgages, that is, in securities yielding a fixed interest that can be relied upon to keep its nominal value.

A considerable portion of the capital of many institutions has been used in this way to finance programmes of public housing and of other constructional work of public utility: thus a real addition has been made to the national wealth, whether ultimately profitable to the institution or not. Too often, however, these big accumulations have been misused and dissipated, for they offer extraordinary temptations. A government that is preparing for war may spend them on armaments; one that irresponsibly courts popularity may draw on them rather than increase taxation, or liquidate them in the form of higher benefits.

The extension of pension insurance in the developed countries to embrace the great majority of the economically active population has caused the policy of accumulating capital to appear in a new perspective. While the scheme was of moderate size it could reasonably plan to buttress its future solvency by accumulating credits with the nation as a whole. But when its scope became practically co-extensive with the nation's breadwinners the contributors were seen to be lending to themselves, and being taxed to pay the interest on the loan! Also, in so far as the utilisation of the loan to improve the nation's productivity was not assured, the money would perhaps be more profitably employed if it remained at the disposal of its producers.

These, it seems, were the considerations that decided Great Britain, as long ago as 1925, to introduce a general scheme of pension insurance that operates without accumulating any permanent capital. The contri-

bution was maintained at a moderate level, and the annually increasing deficit was covered by taxation. Similar policies have been forced on countries which have seen the capital of their general schemes reduced to insignificance by the inflation that accompanied and followed the Second World War (the German scheme experienced the same disaster after the First World War also, but the lesson was not then learned). In these circumstances the finance of social security schemes is becoming an aspect of public finance.

Nevertheless, we must not conclude that the method of accumulating capital has been, or ought to be, abandoned. Especially where pensions are to be provided through insurance schemes of limited scope or of voluntary character, and where state subsidies are not to be had for the asking, recourse to this method of regularising contributions will still be expedient. These situations are found mostly in underdeveloped countries. Here capital accumulation is an evident choice, not only for technical reasons, but also as being highly beneficial to the national economy. The essential problem then passes from the hands of the actuary to those of the political economist, for it involves finding outlets for investment that will yield dividends geared to the current level of prices. This should not prove difficult, since there are vast possibilities for public-utility undertakings of different sorts, which are able to compensate for inflation by adjusting their prices.

To conclude, it is now becoming widely understood that the ability of a country to pay for social security depends on the productivity of its inhabitants. If benefits outgrow production, they are likely sooner or later to be reduced. On the other hand there is no insoluble financial problem if these two quantities keep pace with each other.

#### DISTRIBUTION OF COST AMONG POPULATION SECTORS

Social security schemes necessarily involve the transfer of income from the economically active or richer sectors of the population to the individuals affected by the contingencies covered. Necessarily also, the transfer must be performed by means of taxes or charges akin to them, namely contributions. Given a schedule of benefits and their estimated cost, it has to be decided on which sectors of the population the charges are to be laid and in what respective proportions. The amount of guesswork involved in forecasting the incidence of taxes and of contributions in particular seems at first to invest this decision with an air of make-believe. The juridical status of contributions—whether they are more in the nature of insurance premiums or in that of taxes—is usually left undefined in the law, perhaps deliberately, and



this adds to the difficulty of rational discussion. The decision must nevertheless be taken, and, because it is always hard to collect money, considerations of justice will often have to yield to those of practicability, although the appearance of justice is surely an advantage. In the choice of a solution attention should be given to its possible long-term effects on the national economy as well as to its immediate repercussions. Generally speaking, that solution is to be preferred which causes least disturbance to living habits and business, but nevertheless keeps actual and potential beneficiaries realistically aware of the cost of the scheme.

We said in the first of these lessons that Bismarck's social insurance programme was made possible by the invention of the joint contribution of insured person (in this case the employee) and employer, eked out by a state subsidy. This eminently practical arrangement acquired great prestige and has been adopted in many countries as the mechanism for financing the social insurance system. The International Labour Conference has repeatedly approved the policy of financing social insurance on a tripartite basis. Certain arguments which have become traditional are invoked in order to justify recourse to each of the three factors and, however economists may assess them, these arguments continue to appeal to common sense as being, on balance, sound and fair.

The insured person's contribution clearly represents the sum that he could be expected to save or pay to a mutual benefit society or insurance company. Its psychological import is considerable: it sustains the sense of responsibility of the contributor and the dignity of the beneficiary, supplying the visible and most convincing evidence of the right to benefit and to have a voice in the management of the scheme.

Employers as a class derive advantages from social insurance. It is certain that, in developed countries and, in so far as the working class has the means of expressing its will, in underdeveloped countries also, social insurance helps to maintain industrial peace and the stability of the social order, while its medical benefits conserve the employees' productive capacity; industry would be less prosperous without it. The fact that, in the absence of state action, enlightened employers who have the ability are accustomed to initiate and subsidise welfare measures of every kind for their workpeople seems to show their sense of social responsibility and their awareness that generosity on their part brings, as it should, a reward.

The citizen is interested in the general welfare of the population. Even if he is an individualist he believes that poor relief is necessary as a police measure for his health and safety. If he has a social conscience he will understand the moral significance of social security programmes

and be willing, according to his ability, to subsidise what is in effect a mutual-benefit society on the national scale.

It is instructive to view the employee's and the employer's contributions in their aspects of alternative and complementary resources, remembering that the employee's remuneration must suffice to cover his needs, not only while he is earning, but also while he is unable to earn, and that social insurance is the mechanism by which his remuneration is distributed in a positive and rational manner between these two alternative situations.

If the employee is indeed earning a fair share of what he produces he is receiving already his entire remuneration, and so there is no surplus at the employer's disposal from which to pay a contribution. It seems then that the employee should pay the whole cost of his protection, as he does when he joins a mutual-benefit society or takes out an insurance policy. Starting when he is young and healthy, he will be able to spare from his earnings the premiums required to insure the payment of benefits that are substantial in relation to his wages in sickness and old age and at death. But social insurance is compulsory, embracing good and bad risks together, and particularly the old as well as the young; are the good risks to take upon themselves the additional premium that the bad risks demand? Surely this is a charge to be distributed in the name of social solidarity as widely as possible according to taxable capacity. Employers are generally better off than their workpeople, and are naturally eligible, in the first line at least, to supply this additional premium.

However, the assumption that the employee is receiving his fair and entire remuneration is a notional one that is made for the sake of argument: what that remuneration may be is a matter of opinion, not of fact. It is certain, nevertheless, that as the result of inflation or otherwise, businessmen may be able to obtain for a time exorbitant profits. If, in such a situation, a social insurance scheme is promptly introduced, it is feasible to place the whole charge on the employers.

In imposing a contribution, whether on employees or on employers, it is only the initial step itself which is difficult; it is an old saying that an old tax is no tax. Once the contribution has been introduced, the contributors will find ways of adapting themselves to it. Except in an economy that is entirely controlled by the government, however, it is virtually impossible to predict or keep track of the actual incidence of the contribution amid the welter of changing wages, profits and prices: the process continues indefinitely, spreading in ever-widening circles and reversing occasionally its direction. So, while liability for paying the contribution rests where the law placed it, the charge may be transferred back and forth between employees and employers as the result of

collective bargaining on wages. The employees indeed have no other means of transferring their charge. The employers, on the other hand, will include their contribution in the cost of production and thus, in so far as the customer will tolerate it, in prices. To the extent that the goods are bought, the higher prices will be paid by the consumers, including the participants in the scheme as well as the rest of the population, which is thus taxed on behalf of the insured class.

Nevertheless, for an industry exposed to foreign competition it is not a matter of indifference in the short run (and runs are apt to be short in a dynamic economy) where the legal liability for the contribution is placed. This was neatly demonstrated in the following example taken from an I.L.O. report on the financing of social security, submitted to the I.L.O. European Regional Conference in 1955.

Let us take three instances in which the same social security system is financed in three different ways :

in industry A the gross wage is 100 units and the social security contribution (shared equally between the employer and the worker) 20;

in industry B the gross wage is 110 units and the contribution (paid entirely by the worker) 20;

in industry C the gross wage is 90 units and the contribution (paid entirely by the employer) 20.

Some of the economic aspects of social security in these three industries are identical; the net wages and labour costs are the same in all of them. But if for some reason social security contributions are increased from 20 to 30 units the situation will be completely changed. In industry A the net wage will be reduced by 5 units and labour costs will increase by 5; in industry B the net wage will decrease 10 units and labour costs will remain unchanged, while in industry C net wages will remain unchanged, but labour costs will increase 10 units. Thus the entire structure of wages and labour costs will be seriously distorted, and in particular the relative competitive strength of the three industries may be modified considerably.

The effect of the State's assumption of liability for subsidising a social security scheme of any kind is sometimes even more difficult to trace than the incidence of contributions. This is the case where the subsidy is paid out of general tax revenue. This does not apply, however, where the charge is covered by the yield of a special income tax or, for instance, a tax on alcohol or tobacco.

From this part of our discussion we may conclude that each source of revenue has advantages and disadvantages, and the incidence of the charges cannot as a rule be determined. Prudence therefore suggests that misjudgments and shock will be minimised if, in the social security system as a whole, each of the sources is drawn upon in moderation.

The Social Security (Minimum Standards) Convention has laid down the following general principles (Article 71) :

The cost of the benefits provided in compliance with this Convention and the cost of the administration of such benefits shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the Member and of the classes of persons protected.<sup>1</sup>

The Convention has also set a maximum limit for the contributions of employees as a class :

The total of the insurance contributions borne by the employees protected shall not exceed 50 per cent. of the total of the financial resources allocated to the protection of employees and their wives and children. For the purpose of ascertaining whether this condition is fulfilled, all the benefits provided by the Member in compliance with this Convention, except family benefit and, if provided by a special branch, employment injury benefit, may be taken together.<sup>2</sup>

It was not necessary to indicate a limit for the employers' contributions or the state subsidy, since the cost of the minimum benefits specified in the Convention cannot exceed a moderate figure and, given the limit on the insured persons' contributions, the remainder must be met by their employers or the State.

The rule that the employees collectively shall not pay by way of insurance contributions more than 50 per cent. of the total cost of sickness, pension, and unemployment insurance is probably satisfied in all countries where these three branches are in operation; it is probably satisfied also, with very few exceptions, as regards each of these branches taken separately. For at least half, and usually more, of the cost is paid by the employers, or by the employers and the State together.

Family allowances are provided either under a universal scheme financed by taxation or under an insurance scheme to which the employers are, in almost all cases, the sole contributors. The cost of employment-injury benefits is borne, in the great majority of countries, by the employers alone. The United Kingdom is one of the very few countries which finance the cash benefits of employment-injury insurance on a tripartite basis; but several countries charge the cost of the temporary-incapacity and medical benefits to sickness insurance.

In the U.S.S.R. and the People's Democracies the employee pays no contribution, the entire cost of the social security system being borne by the employers and the State, at least so far as the workpeople in state-owned undertakings are concerned.

The juridical status of contributions and its implications for the insured person, and the employee in particular, form an obscure but not unimportant subject. There are two main theories.

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<sup>1</sup> Article 71, paragraph (1).

<sup>2</sup> *Ibid.*, paragraph (2).

The earlier theory is that the joint contribution constitutes a premium paid on behalf of the insured individual, similar in its nature and effects to that payable to an insurance company, except that the insurance is compulsory and the terms of the policy are laid down by law. This opinion inspired the drafting of the older schemes, where the benefit was uniformly proportional to the contributions paid. For example, under the British sickness and invalidity insurance scheme of 1911 the uniform joint contribution was calculated to finance the uniform benefit for an employee becoming insured at age 16, the additional liability incurred on behalf of the elder members of the initial insured population being carried by the State; if the employer failed to pay the joint contribution no benefit was due from the insurance fund, but the claimant could sue the employer for it. Under this theory no preferential treatment is, in principle, given to low-wage earners or breadwinners.

The later theory maintains that the contribution is a tax for a special purpose. The right to benefit does not rest on a reciprocal contract but simply on the fulfilment of the conditions specified in the law as currently in force. There is an obligation to contribute and a right to benefit, but there is no necessary connection between them. This is the situation where the law defines the qualifying period in terms, not of contributions paid, but of the duration of insurable employment; the difference in the definition is rather artificial, however, since in practice the insurance institution looks at the claimant's contribution record in order to ascertain how long he has been insured. This doctrine finds expression in such leading social security laws as those of France, the U.S.S.R. and the United States.

The two theories are each of them ambivalent in their effects on the social security of the persons protected. The first is likely to be invoked in parliament and by constitutional lawyers to prevent a reduction of acquired rights to benefit, but it is also an obstacle to any redistribution of the joint contribution in favour of the needier groups of the insured population. It could serve as a defence against the appropriation of accumulated contributions by the government for purposes foreign to those for which they were originally intended. The second theory emphasises the dependence of the insured person on the State: the claim of the individual is weakened, but the security of the insured population may be strengthened. The government need not scruple to modify the benefit schedule in favour of one group or another as the interest of the State appears to recommend. The State's liability being entire, a deficiency of contribution revenue is not in itself an excuse for reducing benefits. Everybody will have his own opinion on the net advantages

of these two theories. Perhaps the best compromise consists in treating the employee's contribution as being in the nature of a premium, and the employer's as in the nature of a tax.

Nevertheless, benefit schedules based on either of these theories are likely to afford certain groups of the insured population supplementary advantages not warranted by the contributions paid on account of those groups, whether jointly by employee and employer or by the latter only.

Except in employment-injury insurance and a few other cases the contribution is calculated on the same scale for all persons insured with the same institution. Where, as under most schemes, the benefit is at least in part proportional to the individual's basic wage, the contribution also is proportional to that wage; and where the benefit is on the subsistence level, the contribution is a uniform periodical amount. The benefit schedule, however, is not symmetrically related to the contribution scale but is modified, often considerably, in order to fulfil the specifically social functions of the scheme. Thus the cost of the important series of family and survivors' benefits is shared per head among insured persons without regard to their sex or marital or parental status. Again, the same medical benefit is available to all persons insured under a sickness-insurance scheme, although the contribution is a uniform proportion of the wage. Sometimes the cash benefit is a higher percentage of the basic wage for low-wage earners than for high-wage earners.

Even where the joint contribution is treated as being essentially a premium, these inequalities of benefit in return for equal contributions can be seen as intelligible and equitable. For social security should be regarded as what in fact it is, a whole-life policy which is adapted to the successive stages of an average life—singleness, marriage, parenthood and the rest—and to the vicissitudes of wages, and takes account of the fair probability that an insured girl will marry an insured man. But such a viewpoint has nowadays a merely theoretical interest. The great extension of benefits for families and the replacement of the interest-income lost by inflation have been mainly financed by raising the employer's contribution or the state subsidy.

Whereas before the Second World War the typical relation between the employee's and the employer's contributions was that of equality, now it is not unusual for the employer to pay twice as much as the employee. Such is the case notably in countries where the government finds it difficult to collect taxes. Since, as we have stated earlier, the basic wage for the calculation of contributions is, under most schemes, subject to an upper limit which approximates to the wage of a skilled manual worker, the excess earnings escape assessment for social security purposes.

A more equitable distribution of the charges that particularly interest the welfare of the nation can be obtained by recourse to state subsidies from revenue largely derived from income tax and luxury taxes. Hence governments that possess an efficient revenue department and do not have a large farming community to contend with may prefer to leave the two contributions more or less equal and greatly increase the state subsidy. They will have considered that the employer's contribution should be kept at a moderate level since, after all, it is a tax on employment and may be an impediment in competition on foreign markets.

The state subsidy takes different forms: for instance, a fixed sum embodied in each pension, an allocation proportional to the contribution revenue, a fixed annuity, or simply what is needed to cover any deficit that occurs. It is especially justified as a compensation for the depreciation of the interest on loans which the State had guaranteed. It may be afforded indirectly, as when sickness-insurance schemes avail themselves of public hospitals and pay much less than the actual cost of the care given to their patients. But the State in some countries assumes all or the greater part of the charge for certain benefits which are considered peculiarly conducive to social welfare, such as family allowances or a national health service.

A word remains to be said regarding the resources of employment-injury insurance, which are of an exceptional character. In the great majority of countries, the whole cost is borne by the employer, who pays premiums calculated according to the average risk of the class to which his undertaking belongs; as we noted in an earlier lesson, this average risk varies enormously, being determined by the nature of the operations involved in the activity concerned. As the premium is incorporated in the cost of the product, the consumer has to pay higher prices for articles whose production involves more danger to the workpeople, and will tend to look for a cheaper substitute produced by safer methods. Many schemes offer a reduction in the premium to employers whose undertakings have been shown by experience to be less costly in benefits than the average undertaking in their class, or may be expected to be so by reason of the accident-prevention measures introduced. Though the reduction can hardly be large, it serves, like a prize, as an aim to be attained and as a focus for propaganda. On the other hand, a few schemes of employment-injury insurance have been introduced in recent years, which provide for tripartite financing on a uniform scale.

To conclude this lesson a brief analysis of the income of selected social security systems according to origin is given below in tabular form. The figures in table XI are derived from statistics collected by the

I.L.O. in the course of its continuous study of the cost of social security systems. They include the income, not only of social insurance and family allowance schemes, but also of public health services, public assistance schemes and the benefit schemes for public servants and for war victims. Although data have been extracted for only a dozen countries, these are sufficient to show how widely different are the financial policies followed and how unimportant the income from accumulated capital has now become in certain countries. It seems quite clear that financial policies are governed much more by considerations of practicability than by any abstract principles.

TABLE XI. DISTRIBUTION OF 1951 RECEIPTS OF SOCIAL SECURITY SYSTEMS OF SELECTED COUNTRIES ACCORDING TO ORIGIN AND AS PERCENTAGES OF NATIONAL INCOME

| Country                      | Contributions   |           | Taxes | Income from capital and other receipts | Total receipts as percent. of national income |
|------------------------------|-----------------|-----------|-------|--|---|
|                              | Insured persons | Employers |       |  |   |
| Belgium . . . . .            | 19.1            | 40.1      | 37.3  | 3.5                                    | 12.5  |
| Chile <sup>1</sup> . . . . . | 17.1            | 55.9      | 16.4  | 10.6                                   | 11.3  |
| Denmark . . . . .            | 11.9            | 11.9      | 75.6  | 0.6                                    | 9.3   |
| France . . . . .             | 14.8            | 65.6      | 18.7  | 0.9                                    | 16.5  |
| Germany (Fed. Rep.) . . .    | 21.6            | 37.1      | 36.3  | 5.0                                    | 20.0  |
| Italy . . . . .              | 5.6             | 70.2      | 21.1  | 3.1                                    | 11.3  |
| Japan . . . . .              | 28.1            | 28.6      | 36.5  | 6.8                                    | 4.2   |
| New Zealand . . . . .        | 43.6            | 4.4       | 51.0  | 1.0                                    | 12.6  |
| Poland . . . . .             | 0.0             | 68.0      | 30.4  | 1.6                                    | —   |
| Sweden . . . . .             | 9.2             | 11.2      | 77.4  | 2.2                                    | 9.0   |
| United Kingdom . . . . .     | 16.9            | 15.1      | 61.3  | 6.7                                    | 11.0  |
| United States . . . . .      | 28.4            | 62.1      | 2.3   | 7.2                                    | 6.0   |

<sup>1</sup> 1950 figures.

### Questions

1. Why is it that the expenditure of pension-insurance schemes increases annually for many years?
2. What is the usual way of financing pensions awarded in case of employment injury?
3. Indicate circumstances in which you (a) would, (b) would not, recommend a pension-insurance scheme to accumulate a large amount of capital.
4. State the arguments in favour of: (a) employee's; (b) employer's contributions, and give your opinion on them.
5. For what purposes are state subsidies to social security especially justified?



## TENTH LESSON

### ADMINISTRATION OF SOCIAL SECURITY SCHEMES

A social security scheme creates an array of legal rights and obligations. The law and regulations have to be drafted, and then sanctioned by the appropriate authorities or agencies. To give effect to them administrative routines must be invented, presumably by civil servants. Whether a benefit right or an obligation to contribute is concerned, a routine conforming to the legislation is necessary, since arbitrary discrimination must be excluded. But a routine is a mechanism, and, like any other, must be kept going, and watched and adjusted intelligently. Unforeseen situations will occur, and possibilities of improvement will become apparent. An administrative body or hierarchy of agencies is therefore needed in order to manage the current business of the scheme, and to discuss and formulate policies within the field of competence assigned to it by the law. Disputes will arise on the interpretation of the legislation and on the truth of assertions, so that a judicial organ also is required.

#### ROUTINE FUNCTIONS

The routine functions involved in the administration of a social security scheme are more or less extensive according as the scheme is of an insurance, assistance, or universal character. All schemes have to award and pay benefits, but only insurance schemes have the additional function of collecting contributions and recording them.

#### *Insurance Schemes*

Insurance schemes must identify all persons who are liable to pay contributions directly, that is, employers and other persons who are not employees. They must do the same for employees also, except in the case of a scheme covering employment injury only, for there the employer pays a global contribution proportional to his payroll, and the insurance institution makes contact with the insured person only if an accident occurs.

The insurance institution can learn of the existence of undertakings whose owners are liable to contribute by consulting national and local

taxing authorities, labour inspectorates, and by a variety of other inquiries. The identification particulars regarding each employer are obtained from the information which he supplies on his business; in the case of employment-injury insurance he is also assigned to the appropriate risk class. Identification data for employees are collected through their employer, and include not only name and signature, but also date and place of birth, to which may often be added fingerprints and photograph. Each contributor receives an identification number, which is used in all communications with the insurance institution; preferably some of the digits carry a meaning according to a code so that the numbers can be used for statistical purposes and can be easily reconstructed if lost.

It is necessary to record all contributions paid by employers in respect of their workpeople. The maintenance of a contribution record for each employee, however, is not always indispensable. If entitlement is automatically conferred by the mere existence of a contract of employment at the time when the contingency begins, or there is a qualifying period but it is very short, and if the benefit rate is unaffected by the number of contributions paid, the insured person can prove his right to benefit by presenting a certificate from his employer concerning his employment and recent wages. These conditions are present, not only in all employment-injury schemes, but also in some sickness schemes. On the other hand, where a substantial qualifying period is imposed, as is the case in unemployment and pension schemes, or where evidence of regular employment is required for entitlement to family allowances, a contribution or employment record must be maintained for each employee.

There are two principal methods of collecting contributions: the payroll method and the stamp method. Each has its merits and defects.

In the payroll method the employer pays the total of the joint contributions due for a prescribed period and simultaneously presents a copy of his payroll for the period in the prescribed form, showing the names of all persons employed at any time during the period, their respective earnings and the corresponding contributions. Then, if the scheme provides for a substantial qualifying period, the contribution credited in the payroll to each insured person must be credited likewise in his personal contribution account. This transfer operation is a time-consuming task, since the personal accounts must be assembled and agreed with the payroll; a large institution may, however, be able to afford electric accounting machines, which will perform it expeditiously.

In the stamp method each insured person is issued with a card designed to receive adhesive stamps, which bears his identification

particulars and has a prescribed period of currency, such as six or 12 months. It is illegal to employ a person for whom no card has been obtained. The employer buys from a post office or the insurance institution, from time to time, a supply of special stamps for the cards of all his employees, corresponding to the various amounts of the joint contribution payable in respect of them. A stamp of the correct amount is affixed to the card and cancelled by the employer on each occasion when wages are paid. The card remains with the employer during its currency except when the insured person needs to present it to the insurance institution in order to obtain benefit (e.g. when sick). When it expires it is returned by the employer to the insurance institution, which issues a new one in exchange. The series of stamped cards constitutes the contribution record of the insured person, as also the evidence that his employers have complied with their obligations.

The payroll method is much more convenient than the stamp method if the contribution is a prescribed percentage of the individual's actual earnings or if the insured persons are public servants or employees who remain for a long time in the service of the same undertaking. It is usually preferred by large employers: for the purpose of the business itself and, in many countries, for the purpose of reporting the income tax due from the employees, an elaborate payroll must be prepared, and it is comparatively simple to include a column concerning social security contributions.

The stamp method, which, it seems, was invented by the Germans when planning their general scheme of pension insurance in 1889, is still used by them in special cases. In 1911 it was adopted in Great Britain for the sickness and unemployment schemes, in 1925 for the pension scheme, and in 1946 for the present scheme of national insurance. It is less widely used than the payroll method, but is found today, for instance, in Canada (unemployment insurance), Chile (sickness and pension insurance) and India (sickness and injury insurance). This method is most effective where a scheme involves only a small number of different contribution values (say half-a-dozen); indeed, the intention to use it is the main or sole reason for classifying insured persons in broad wage classes or in classes based on sex and age, neither of which classifications possesses intrinsic merits of importance. The stamp method is superior in cases where the insured person is not an employee, or where, being an employee, he often changes his employer, or where the undertaking is small and its accounting arrangements are primitive, or where the employees of the same undertaking are insured with different institutions. But, especially in developed countries, the increasing size of undertakings and of insurance institutions as the result of amalgamations

or unification have rendered the intensive utilisation of mechanical accounting equipment possible and economical on either hand, and in consequence the simplicity of the stamp method is a less cogent argument in its favour than it was in earlier times. Furthermore, where inflation is a chronic process the wage classes must be frequently altered and new series of stamps issued.

Both methods may profitably be used by the same scheme, each in those cases for which it is the more appropriate: for instance, the payroll method for large undertakings and the stamp method for small ones and for independent workers.

Ancillary to the function of collecting contributions is that of inspecting undertakings. Every insurance institution effects irregular but systematic visits in order to examine wage books and other account books so as to verify that the contribution payments tally with the number and wage rates of the workpeople employed.

If the insured person's account has been duly credited with the contributions paid in respect of him it is a simple task to ascertain that he has completed the qualifying period, and to compute the benefit, when it has been established that a contingency covered by the scheme has occurred. Proof of the occurrence is furnished by the following types of official certificates, produced by the claimant or obtained by agents of the institution:

- certificate of sickness or temporary incapacity, given by an authorised medical attendant;

- certificate of invalidity or permanent incapacity, given by a medical officer or special medical board;

- certificates of birth, marriage and death, given by the competent registrar;

- certificate of unemployment, given by the employment service.

Recourse is had to certificates from the employer concerning the duration of employment and recent wages in cases where the insurance scheme does not possess, or cannot find, these data in its records; in claims for unemployment benefit the employer will be asked why the claimant left his job; and he must report all employment injuries causing incapacity for work (or, in some cases, all which necessitate medical attention).

The payment of cash benefits is effected in various ways. Generally speaking, temporary allowances are paid by the institution to the beneficiary in person; this is certainly the rule as regards unemployment benefit, but sickness benefits must in many cases be paid to the beneficiary's representative, and, especially where the illness is likely to last a

considerable time, are often paid through the mails. Sickness and unemployment benefits are paid weekly, subject to renewal of the certificate. There are alternative ways of effecting payment of family allowances. The older way is for the employer to pay them to the insured person together with wages and to be reimbursed by the insurance institution to the extent that the total of his payments exceed his contributions. The way followed by the more developed schemes of family-allowance insurance is that of monthly payment by postal order or by visiting agents, so that the allowance falls into what are probably the best possible hands, namely those of the mother. Pensions also are paid in two ways: by postal order, or on the pensioner's presentation at a post office of a book of cheques covering a certain number of pension instalments. The common practice is to effect payment monthly in arrear, but in the United Kingdom the use of the book of cheques permits the pensioner to draw his instalments at any interval from a week to three months in arrear.

All insurance institutions have to compile the statistics which the manager, the actuary and (if sickness insurance is concerned) the medical adviser need in order to keep the institution solvent and efficient and to enable them to inform the competent authority when amendments in the law or regulations become advisable. The statistics, which are by-products of the operations of registration, contribution collection and benefit payment, not only serve the purposes of the insurance institution but are also unique sources of up-to-date information on the development of industries in the different regions, the numbers of persons employed and their distribution according to earnings.

### *Assistance and Universal Schemes*

Assistance schemes and universal schemes are not concerned with employees or employers as such, nor do they involve the collection of contributions or the maintenance of any records except of beneficiaries and benefit payments. Contact is made with members of the public only when they seek benefits.

An assistance scheme, by definition, requires the claimant to declare his property and his income from all sources, and the accuracy of his declaration is verified by any investigations that seem called for in the circumstances. The right to pensions of an assistance character is conditional on the completion of a prescribed number of years of residence in the territory whose taxpayers finance the scheme; in this case also the declaration must be corroborated by documentary evidence (for example, the records of the immigration service). Assistance and uni-

versal schemes alike impose, as a rule, a nationality condition, which may, however, take the place of a residence condition; and, of course, the official certificates which we have mentioned in the context of insurance schemes are equally relevant to the others.

### POWERS AND DISPOSITION OF ADMINISTRATIVE ORGANS

The administrative machinery of a social security system is entrusted by law with prescribed functions in one or more branches, and the way in which the functions are distributed between central bodies and local offices is, or should be, determined by considerations of convenience to the persons protected in the first place and of cheapness of operation in the second.

Those branches of the system which frequently come into contact with recipients of benefit must have agencies in all localities where the population protected attains a minimum density. These people prize simplicity and promptness: they find it confusing and irritating to have to run from one office to another without intelligible cause. This is true of all sickness and unemployment schemes; in addition, all of the latter and most of the former must be able to communicate immediately with employers. All medical services require a local and a regional organisation. Family allowance schemes which make the right to the allowance conditional on regularity of employment, or provide welfare services for families, need local offices likewise.

A pension scheme, on the other hand, comes into direct contact with the beneficiary only once in his life and thereafter pays his pension by post. It is therefore uneconomical for it to establish local agencies; a central institution is sufficient.

An employment-injury scheme is partly a sickness scheme and partly a pension scheme. Though personal contact with the recipients of temporary-incapacity benefit is desirable, these are too thinly distributed for it to be economical to establish special local agencies except in cities.

While the organisation of each branch of social security is, in most countries, satisfactory enough from the points of view of convenience and economy, this is too often untrue of the over-all organisation. Valuable advantages can be obtained by establishing common services and by eliminating discontinuities and overlapping in the protection afforded by the several branches.

In countries where the social security system is composed of branches created at different times and on different principles there are often obstacles to a fully rational ordering of the system. The persons concerned in the administration of the branches have acquired, individually

or corporately, interests in maintaining their independence. Even supposing it is politically feasible to overcome this resistance, it may be prudent to hesitate before substituting a theoretically better, but untried, arrangement for one which, despite obvious defects, is acceptable. Rationalisation is likely to mean the establishment of a large administrative structure, with the consequent danger of loss of personal initiative, though this danger may be of little moment where the operations to be rationalised ought to be performed in a uniform and mechanical manner.

Every comprehensive system of social security must provide services for cash benefits, medical benefits and placement respectively; if any benefit is of an insurance character provision must be made for a fourth service which collects the contributions. In theory all these services could be performed by a central institution and its local agencies, but that would mean divorcing medical benefit from the national health department and placement from the labour department. However, the health department may be obliged—or may prefer, on financial or even ideological grounds—to abstain from furnishing medical care except where it must do so in order to prevent epidemics; in that situation the social security system must perforce accept the responsibility. But no instance is known of a labour department which abandoned its function of placement to an institution providing other social security benefits: on the contrary, where unemployment benefit is provided it is, in the majority of countries, paid through the placement service.

We shall not attempt to analyse methodically the numerous ways in which these services are combined or distributed with a view to achieving a more rational organisation: we shall only cite a few examples of social insurance systems in which this aim has been achieved entirely or in a substantial measure.

In Mexico and Paraguay sickness, pension and employment-injury insurance are entrusted to a central autonomous institution with local offices. There is an inclusive contribution for the three branches and a single, complete medical service which is independent of the national health department. In several other Latin American countries sickness and pension insurance are dealt with by a single institution. The Federal Republic of Germany has grafted its new family-allowance scheme to the old-established occupational associations which administer employment-injury insurance.

In England and Wales and in New Zealand the social security system for the population at large is administered by three national departments concerned respectively with cash benefits, the health service and placement, co-ordinated at the ministerial level, and each

possessing its own network of local offices. In the former country the collection of contributions is combined with the cash-benefit service, since the right to these benefits depends on the contribution record.

In the U.S.S.R. and the People's Democracies there are likewise three administrative services for the social insurance of the employees of state-owned undertakings, namely a pension service, which is administered centrally by the government; a national health service; and, in each undertaking, an agency for paying allowances in case of sickness, maternity and temporary incapacity resulting from employment injury as well as for supervising the due payment of contributions by the undertaking.

In France there is a unified system covering all contingencies except unemployment but limited to urban employees. Its peculiarity resides in the ramification of its organs, all of which are autonomous. At the local level are two independent sets of organs; one set pays allowances in case of sickness, maternity, and temporary incapacity resulting from employment injury, refunds medical-care expenses and collects the contributions for sickness, pension and employment-injury insurance; while the other set pays family allowances and collects contributions for them. At the regional level there are also two sets of organs, the one paying old-age pensions, and the other constituting the regional centre for employment-injury insurance and paying the pensions due by that branch. At the summit is a national equalisation fund which shares out the total contribution income among the different organs according to the expenditure incurred by each.

Important gains in convenience and economy can be made, without amalgamating branches, by delegating or transferring certain of the functions of one branch to another. In Austria, Denmark, Germany (Fed. Rep.), Norway and Sweden the sickness scheme provides temporary-incapacity benefit and medical benefit in case of employment injury. In Austria, again, the agencies of the sickness scheme collect the contributions for all the branches, and in several other countries the sickness scheme collects the contributions for the unemployment scheme. In Belgium, where the administration of the system is dispersed among a large number of independent bodies, there has been established a special national agency for collecting most of the different kinds of contributions.

#### *Autonomous Administration*

The Bismarckian social insurance legislation, inspired by the practice of the English mutual-aid societies, provided that the bodies created by it to administer the schemes of sickness and pension insurance should



be managed by the representatives of the contributors. The same principle was followed in the social insurance schemes successively introduced in other countries of Europe, and the tradition so built up has been observed, with variations of detail, in those of later origin elsewhere in the world. The exceptions are a few pension-insurance schemes and the national insurance scheme of Great Britain. On the other hand, understandably enough, assistance schemes and universal schemes are almost all administered by government departments in co-operation with committees of local authorities.

It is in the administration of sickness insurance that representative bodies can be most active and useful, and are also most widespread. By membership of these bodies a multitude of enterprising individuals can obtain training in social responsibility, procedure and debate, which is especially valuable to wage earners. The two international labour Conventions of 1927 on sickness insurance (industry and agriculture) reflected a general conviction in affirming the principle of self-government for this branch and insisting on the participation of insured persons in its management. In pension insurance, too, the German example has been influential in the majority of countries. But the management of big central institutions does not involve that frequent concern with personal and local problems or that flexibility and tact which are required of the smaller institutions that handle sickness insurance. The serious problems in the administration of pension insurance, once the main routines have been satisfactorily established, are those of long-range solvency and of the investment of reserves, on which expert guidance is clearly desirable and likely to predominate. Consequently the I.L.O. Conventions of 1933 on the three forms of pension insurance, being based on the existing experience of a few European countries, specifically mentioned government-managed institutions as an alternative to institutions run by representative bodies comprising insured persons and possibly employers and government delegates, but on condition that insurance funds are kept separate from public funds.

Under the majority of schemes in all branches of social insurance there are equal numbers of insured persons and employers on each representative body, but a trend is observable in recent legislation towards greater representation for the former. The doctrine that representation should be proportional to the contribution has lost ground, even in Germany. In most family-allowance insurance schemes the insured persons have a voice in the management, though they do not contribute. The sickness-insurance schemes of the U.S.S.R. and the People's Democracies are administered by the trade unions but financed by the contributions of the state-owned undertakings. Mutual-aid

societies approved as carriers of compulsory sickness insurance continue to be managed by their members alone, even where, as in Belgium, they receive contributions from the employers.

The representatives on these bodies are either elected or nominated by the larger trade union and employers' organisations; the nomination method is especially preferred where central representative bodies are concerned.

Government delegates occupy about one-third of the seats on the representative bodies of most of the centralised institutions, and in fact the governments contribute to the cost of the schemes which these institutions administer. As a rule, the delegates are high officials—ministers, even—and one of them is ex-officio chairman of the executive body. Not infrequently a place is found also for representatives of the medical profession, in local as well as in central institutions.

Like the English prototype, social insurance institutions usually have two representative bodies: a deliberative assembly and a smaller executive committee elected by the assembly. Meeting perhaps only once a year, the assembly examines the annual report, discusses and decides broad questions of policy, and adopts the budget for the next year. Current affairs are despatched by the executive committee. Provision is sometimes made for a third body—a supervisory committee, with the duty of watching, on behalf of the assembly, the proceedings of the executive committee; it is interesting to note that the Austrian sickness funds give the major representation on the supervisory committee to the employers and on the other bodies to the insured persons. The manager of the institution is appointed by the government or else by the representative bodies: in either case it is the practice in many countries for the conditions of recruitment and service of the staff to provide for appropriate qualifications and stability of employment.

An assessment of the part played by representative bodies in the administration of schemes of social insurance shows it to be a diminishing one, though there are outstanding exceptions. Governments are exercising ever-closer control and accepting correspondingly heavier responsibility. This shift of emphasis has become apparent since the Second World War; it is confined to Europe, since in other regions governments have, in practice, always reserved for themselves a predominant influence in the institutions, which lack the tradition of autonomy peculiar to the mutual-aid movement and are, in most cases, centralised. The Social Security (Minimum Standards) Convention, 1952, allows for this tendency. It lays down only two principles for all branches of social security, contributory and non-contributory. Firstly, the government is responsible for proper administration, as it is also for solvency; and secondly,

the persons protected certainly, and the employers and the government possibly, are to participate in the management, but only in so far as the government itself does not administer the scheme in question directly. Several causes have conspired to create this tendency: the extension of the scope of social insurance until it embraces the mass of the population, and the increasingly close supervision exercised by governments, especially with a view to removing unjustifiable inequalities of treatment among insured persons.

We have mentioned already that assistance schemes and universal schemes are administered by departments of national and local government. This is reasonable, because the persons protected coincide with the parliamentary and local electorates. Where the scope of social insurance has come to include virtually the whole population, it appears admissible likewise to entrust the administration of the system to the government. Nevertheless, in Finland and Iceland the national insurance schemes have executive bodies elected by the parliaments, and in this way two results are obtained; a specialised representative body attends to the interests of the citizen in his capacity of insured person and contributor, and the management of the scheme is shielded from political interference, while remaining periodically amenable to the legislature. Similarly, in Norway and Sweden the committees which administer the local autonomous agencies of the national sickness-insurance scheme are elected by the communes.

In the United Kingdom the only traces of the representative principle in the national insurance system are national and local advisory committees which include persons nominated by trade unions and employers' associations. It is an irony of history that in England, whose mutual-aid movement a century ago enjoyed prestige throughout Europe and had supplied the administrative machinery of the compulsory sickness-insurance scheme, this whole apparatus should have been swept away in 1946 when the Beveridge Plan was implemented. There are special reasons for this revolution. Among them is the contrast between the efficiency of the government-administered schemes of unemployment and pension insurance and the confusing medley of mutual-aid societies which, lacking a territorial basis, had their members disseminated all over the country.

Elsewhere, with few exceptions, the lowest-level agencies of compulsory sickness insurance are of artificial origin, each with its exclusive area, and their individual autonomy (where it exists) extends no further than is compatible with rational administration. Even so, as we are about to explain, the autonomy that such organs may possess is strictly limited.

A corollary of autonomous administration is government supervision. The scheme is sponsored by the government: the benefits promised in return for contributions must be duly paid; the law assumes that, if the autonomous institutions apply its provisions faithfully the contract will be fulfilled. The government is obliged to verify the conformity of the administrative acts with the law. Especially in sickness insurance, it is continually finding imperfections or deviations from the practices which it judges the best and is as continually correcting them and extending the sphere of its regulations. Some institutions are found to be more prosperous than others, not because they are better managed but because their members are predominantly engaged in healthy occupations, suffer less unemployment or earn higher wages. The government, representing the nation, reasons that this good fortune ought not to redound to those particular institutions alone but should be redistributed among all. So contributions are fixed on the same scale for all insured persons and centralised, and a single scale of benefits is guaranteed to all, irrespective of the experience of the institution to which they happen to belong.

The Federal Republic of Germany is one of the few countries where the institutions of compulsory sickness insurance have retained a substantial measure of self-government, each being left to carry the risks that fall to it and adjusting (within limits) contribution rates and benefit schedules as its experience obliges or allows. In Denmark the system of state subsidies leaves the institutions with a useful margin for policy-making. In Yugoslavia, too, where the social insurance system was reorganised in 1952, there seem to be sufficient opportunities for the democratically elected bodies to exercise initiative.

The administrative organisation of social insurance in the U.S.S.R. and the Eastern European countries is of an original character. While pension insurance is government-administered and centralised the payment of short-term cash benefits and the administration of a variety of welfare services are entrusted to the trade unions, whose local organs operate in each undertaking and are managed by committees elected by the workpeople concerned. It is true that the provision of medical care is the responsibility of the national health services, but the trade union organs decide which individuals ought to undergo convalescent treatment at health resorts, and they have wide opportunities in connection with the provision of welfare services for families and with accident prevention. In this way exceptionally large numbers of insured persons are able to take part in the administration of social insurance and related activities.

The foregoing review brings out a familiar dilemma: the choice between regimentation on lines that are considered just and a limited

freedom to make mistakes and abide by their consequences. There is surely a real danger that, once self-government is emptied of its interesting content, the representative bodies will cease to attract persons of ability. The mass of the insured population will become indifferent to the idea of autonomy and content to let the government take full responsibility. Those who dislike this prospect, however, may take comfort from the thought that, provided the government confines itself to guaranteeing a national minimum of social security, there will always remain plenty of scope for the creation of a new set of voluntary institutions.

#### RIGHT OF APPEAL

Disputes on a variety of questions and between a variety of pairs of parties arise in the administration of a social security system. There are questions of law and questions of fact. Where several institutions operate independently, conflicts of jurisdiction occur. Where the scope of an insurance scheme is less than universal, or there are different categories of insured persons and employers, decisions must be taken on borderline cases. Where medical benefit is furnished by means of contracts with medical practitioners, pharmacists and hospitals, allegations of failure to observe the contract must be investigated impartially and sanctions provided for. But the most frequent cause of disputes is the dissatisfaction of a claimant or beneficiary with the treatment of his claim or the amount of his benefit. On questions of law it is imperative to create a unified body of case-law, and therefore to provide for the rulings to be made by a single authority, with a possibility of appeal to a superior court of the ordinary judicial system. Questions of fact, on the other hand, are best settled by local arbitration committees or, where they exist, labour courts.

There can be no social security unless the claimant or beneficiary can appeal against an administrative decision denying him benefit, or awarding him benefit which does not correspond to what he thinks he is legally entitled to; and the appeal must be heard by a judicial body independent of the administrative body concerned. For it must be remembered that social insurance was intended to preserve the worker from the humiliation of having to resort to poor relief which is by nature precarious.

The International Labour Conference has consistently treated the right of appeal in benefit disputes as of vital importance and has included provision for it, in terms more or less insistent and precise, in the standards it has laid down for the different branches of social security, contributory and non-contributory. For example, the international labour Conventions on the different forms of pension insurance, adopted

in 1933, provide that disputes concerning pensions shall be referred to special tribunals which shall include judges, whether professional or not, who are specially cognisant of the purposes of insurance and the needs of insured persons or are assisted by assessors chosen as representative of insured persons and employers respectively.<sup>1</sup>

It is important that the judicial body, whatever its composition, should be not only impartial and well acquainted with the legal and social context in which the dispute arises but should also follow a procedure that is both expeditious and cheap, or even gratuitous, since these attributes are of the essence of practical justice in benefit disputes.

The commonest form of judicial body for a social insurance scheme, especially at the lowest level, is a tripartite one consisting of an independent chairman, an insured person and an employer. In Europe this body is usually outside the administrative hierarchy, but (especially in Latin America) it is sometimes the supreme administrative body of the scheme itself, the tripartite character of which may be deemed to guarantee fair consideration. In the U.S.S.R. and the People's Democracies appeal lies with the higher trade-union organs. In the Federal Republic of Germany benefit disputes are handled by a three-level system of tripartite tribunals. In Great Britain the national assistance scheme is provided with local appeal tribunals which are tripartite in composition—an unusual refinement in schemes of this kind.

Probably the majority of benefit disputes arising in sickness, pension and employment-injury insurance involve the question of the claimant's physical condition and his capacity for work. But though the first decision is made by a medical officer or medical board, the appeal lies, as a rule, to the judicial body dealing with benefit disputes generally. On the other hand, a highly expeditious procedure has much merit where a dispute relates to temporary incapacity for work; in France, for example, this question is settled by a medical arbitrator agreed upon by the doctor attending the claimant and the medical officer of the institution. Again, where the degree of permanent incapacity for the purpose of employment-injury benefit depends solely on the physical consequences of the injury, as is the case in the United Kingdom, medical opinion may properly be accepted as decisive; in that country the organ of first instance is a medical board, and appeal lies to a tribunal comprising a lawyer and two doctors.

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<sup>1</sup> Old-Age Insurance (Industry, etc.) Convention, 1933, Article 11; Old-Age Insurance (Agriculture) Convention, 1933, Article 4; Invalidity Insurance (Industry, etc.) Convention, 1933, Article 12; Invalidity Insurance (Agriculture) Convention, 1933, Article 12. Similar provisions exist in the Survivors' Insurance (Industry, etc.) Convention, 1933, Article 14, and the Survivors' Insurance (Agriculture) Convention, 1933, Article 14, but the text is slightly different.

### Questions

1. *Indicate situations in which the stamp method of collecting contributions may be preferable to the payroll method.*
  2. *What functions do you think could usefully be performed in common by different branches of a social insurance system all of which have the same scope?*
  3. *Can you reconcile the State's guarantee of the payment of the benefits prescribed by law with the delegation of substantial autonomy to insurance institutions?*
  4. *What do you think of the principle that representation of different parties on the administrative bodies of social insurance institutions should depend on whether or not they are contributors?*
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## SUGGESTIONS FOR FURTHER READING

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